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Can Europe Furnish Collateral for Loans?

By WILBERT WARD*
Vice-President, National City Bank of New York

Mr. Ward points out available collateral, even if obtainable, would be small fraction of projected loans. Adds it would be unwise to tie up such assets since they are "the seed-corn of private enterprise" and would cause loss to owners.

The question is here propounded as to whether it would be practicable and desirable for Great Britain and other Western European countries which are expecting to receive grants or loans from us, to pledge as collateral, the holdings of stocks, bonds, and other assets in the United States which they have acquired or can acquire by expropriation from their nationals who presently own them.

Wilbert Ward

It is a fair suggestion that countries which call on use for aid should first make reasonable use of their own realizable assets. Those assets include not only

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*Remarks by Mr. Ward at the International Finance Session of the National Foreign Trade Convention, St. Louis, Mo., Oct. 20, 1947.

The Investment Outlook

By FRANK F. WALKER*
Partner, Dean Witter & Co., San Francisco

Noting growing pessimism regarding European recovery, investment banker points out we must become accustomed for many years to carry on business in disturbed world. Says large backlog of new corporate issues may depress bond prices, but contends stock values have not yet reflected enormous rise in our national income, price and wage levels. Advises combining investment in leading common stocks with government and carefully chosen medium security corporation bonds as protection against either deflation or inflation.

A few months before the outbreak of World War II the distinguished English historian, Arnold J. Toynbee, completed the sixth volume of his monumental work entitled "A Study of History." In the opinion of scholars of history few works of such significance have appeared in recent times.

Frank F. Walker

Spanning the history of humanity from the dawn of the first recorded civilizations in Egypt Mr. Toynbee notes that of the 21 recognized societies or civilizations all but seven have disappeared. In his study of the Western European civilization he inclined to the view that the "rhythm of disintegration," as he termed it, which was so clearly discernible in the closing history of earlier civilizations, was already visible throughout the greater part of Europe. The underlying principle of "challenge and response" which had characterized all growing civilizations was not being affirmatively met

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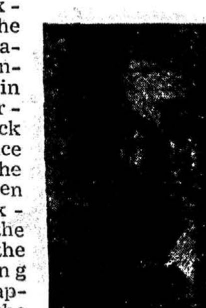
*An address by Mr. Walker before the 21st Regional Conference of the Pacific Coast and Rocky Mountain States, San Francisco, Calif., Oct. 22, 1947.

The Eclipse of Cheap Money in Britain

By HAROLD WINCOTT
Editor, London "Investors' Chronicle"

British financial expert describes development and operation of the Labor Government's cheap money policy and points out its effects in increasing the Government's short-term indebtedness and in enlarging already excessive bank deposits. Says it is leading to "suppressed inflation," and is raising unduly capital values in England, while encouraging unnecessary capital investment. Points to testing time for British Treasury's credit when £1,000 million in railroad investments are paid in Government paper in January.

LONDON, ENGLAND—It may seem extravagant to describe the recent fall in the prices of British Government stocks on the London Stock Exchange as the most sensational happening seen in the international stock markets since the end of the war. But when the background to the fall (and the preceding rise) is appreciated, the justice of the description will probably be conceded.



Harold Wincott

The British Socialist Government was returned to power in 1945 at the precise moment when all the natural economic laws were conspiring against cheap money. Six years of war had brought an immense but dammed-up volume of purchasing power. There were the small savings of the man in the street, aggregating some £6,000

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EDITORIAL

As We See It

A Returning Tide?

Experienced observers will know how to interpret the report of the President's Council of Economic Advisers on the effect of foreign aid upon the economy of the United States. They will, of course, not make the mistake of supposing that the President feels himself bound irrevocably to each and every suggestion contained therein. Neither will they for a moment assume that the President did not know in advance of publication what was contained in the report, or that this document, when finally made available to the public, contained any word or syllable which the President would have preferred to have omitted. Precisely the same can, naturally, be said of the recent report of the Secretary of the Interior relating foreign aid proposals to our national resources. It probably would not be very wide the mark to say much the same thing about the recent report of the so-called Paris Conference. Certainly what the Secretary of State has been saying for the past half year, more or less, on the general subject of aid to foreign peoples must be taken as the official word of the Administration.

Thoughtful students of all these outgivings have

(Continued on page 29)

Origin and Evolution of Our Free Enterprise System

By WALTER E. SPAHR*
Professor of Economics, New York University
Executive Vice-President, Economists' National Committee on Monetary Policy

Dr. Spahr in tracing development of democratic and constitutional government along with free enterprise system points out it was private enterprise and private capitalism that made possible progress of nation. Stresses need of fostering equality of competition as a means of determining proper prices of commodities and services, and contends no government or collection of bureaucrats can compare in efficiency and in intelligence with the masses who are free to vote their dollars as they think best. Concludes we are paying a terrific price for unscientific government and unscientific economics.

On September 17, 1787, one hundred and sixty years ago, all but three delegates to the Constitutional Convention in Philadelphia agreed to, and signed, the new Constitution and transmitted it to the Congress of the Confederation with an explanatory letter and resolution indicating the way in which the proposed govment should be put into operation.

Walter E. Spahr

This new Constitution provided that the ratification by the conventions of nine states should be sufficient for the establishment of the Constitution between the states ratifying it. The ninth state to ratify was New Hampshire, June 21, 1788.

The adoption of this Constitution not only ushered in a new era for the people of this country but it marked, roughly, the beginning of important economic and political changes in Europe as well.

The Industrial Revolution was getting well under way in England. We often date it from 1760. The French political revolution was being fought under the banner of liberty, equality, and fraternity.

The philosophies of liberty, equality, and fraternity, expounded in Europe by Montesquieu, Voltaire, Diderot, and Rousseau, were also preached in this country by leading framers of our Declaration of Independence and Constitution, and by others, as were the economic doctrines advocated by such Physiocratic economists as Quesnay, Turgot, and Adam Smith.

Up to the beginning of the Industrial Revolution and the adoption of our Constitution, economic progress had been relatively slow here and abroad. It was only after the world began to use machines and the capitalistic system that economic progress became rapid. More was accomplished in a decade than in a century in the period preceding the Industrial Revolution. And, as each decade passed, following the adoption of our Constitution, the rate of progress became increasingly rapid. The effects were cumulative.

In short, the 159 years following the adoption of our Constitution have been marked by the greatest economic progress that man has ever seen in any equal period of years in the history of the world. Our ancestors at the time of the American Revolution probably lived much more as men lived in the days of Julius Caesar than as we live today. Transportation in 1787 was little different from the days of Caesar. The sciences of medicine, chemistry, and physics took great leaps forward with the liberation of mankind hastened by

(Continued on page 26)

*An address by Dr. Spahr before the Cluett, Peabody Convocation, Troy, N. Y., Nov. 5, 1947.

Business and Commodity Outlook for 1948

By LEONARD SPANGENBERG*
Vice-President, Business Statistical Organization, Inc.,
Babson Park, Mass.

Dr. Spangenberg, in estimating business volume at 30% above normal, predicts purchasing power will continue high and there will be only slight recession in 1948. Sees national income for year about $190 billions, but warns foreign situation is not reassuring and our dominant role in international drama will require united action of all economic segments to maintain a vigorous and healthy economy.

As the golden harvest time warns of the season's end, once again we turn our thoughts ahead toward a new year. We try to cut through the mist of the future and arrive at a carefully balanced forecast upon which plans for 1948 may be safely constructed. All our citizens, be they rich or poor, farmer or industrialist, employer or employee, old or young—all find themselves either consciously or unconsciously guessing what next year is likely to hold for them.

Dr. L. Spangenberg

The eager young veteran who owns a gas pump in Kalamazoo wonders whether or not it would be wise to take out a GI loan and expand his small but growing business. The investor in his skyscraper office, wonders whether he should pattern his operations for the coming year along bullish or bearish lines. Even the calloused politician in Washington uneasily scans the headlines, and muses that **uncertainty** may very well be the only **certainty** for 1948. It is at such a time that we must dig beneath the headlines of the day to unearth **fundamental** facts and figures—political, economic, and social. Upon these, and upon 40 years of experience in studying and forecasting trends, our predictions for 1948 are based.

1948 Business Volume Lower

First of all, let us examine the prospects for business in general. In any such consideration, it is necessary to realize that activity so far in 1947 has been at stratospheric levels. Even now, the average of business volume throughout the country is a robust 30% above normal. Naturally, such feverish output cannot continue forever. If you have been following your Babsonchart, you have seen the business curve set all kinds of new records. In accordance with the Law of Action and Reaction upon which our forecast theory is based, it would appear that a staggering recession—even amounting to a major depression—is overdue.

The truth is, however, that much of the over-expansion of recent years has been entirely due to war production. Goods and materials coming off the belt-lines have been thrown into the limbo of destruction instead of being distributed to the consumers. Thus, as far as **consumer** production is concerned, we were literally in a **depression** during the war. This means in brief that there is still room for a lot of top-notch business and trade before we must expect a **major** readjustment.

Even if the remarkable rate of activity registered this year is not entirely duplicated in 1948, the average decline should be small. In fact, we expect a 5%

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*An address by Dr. Spangenberg at the Annual Babson Business Conference, New York City, Oct. 28, 1947.

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A Stock Market Forecast

By LEONARD S. HERZIG
Partner, Sartorius & Co.

Mr. Herzig reviews in detail past five years of stock market behavior in relation to business factors. Contends market erred in its precipitous 1946 decline, and argues the resulting price level should soon be corrected by an upswing.

Current Confusion

The financial community and the public at large seem at the present time to be in a state of mental confusion as to why there exists the great differentiation between the actual yields and earnings of common stocks and their apparently low prices. One school of thought obviously believes that this discrepancy can be explained by the fact that these dividends and earnings are transitory—the other that the market will adjust itself to a higher level in recognition of the fact that the present high level of business activity will continue for some time to come.

Leonard S. Herzig

In the midst of this confused thinking and the completely contrary predictions which now emanate from the financial community, it might be well to review the financial and economic history of the last five years during which a great war was fought to a victorious conclusion and at least the beginnings of the readjustments which this great struggle made necessary have been completed.

The bull market that began in 1942 and ended in 1946 was quite unusual in some respects. It was not unusual insofar as its extent and duration were concerned, but it was unusual that it had few reactions of any consequence and because during its life the stocks of the best corporations in America were never overpriced while stocks of those corporations which can be considered as marginal had rises of enormous proportions. The fact that no serious reactions took place was probably due to the strict margin rules, and the fact that the secondary companies did so exceedingly well was due to the wartime economy which practically guaranteed all corporations capacity business. The results of the lack of reaction was that it prevented frightened liquidation on the way up and, therefore, a situation existed at the top of the market where people owned stocks at enormous profits. The result of the tremendous rise in unseasoned issues was that it made for highly unintelligent speculation by an inexperienced group of speculators.

During the first three quarters of 1946, an overbought position prevailed which had to be corrected, but instead of a reaction of secondary proportions, a break of major proportions ensued, due possibly to the fact that people were able to sell at very low prices and still retain part of their profits.

Major breaks in the stock market usually portend a decided worsening of the business picture, and therefore the break was widely heralded as a forerunner of a business recession of considerable proportions. In modern times, and especially since the advent of the Federal Reserve System, the market has been a good forecaster of business changes six months in advance, but no longer. It is scarcely conceivable that the stock market is sufficiently clairvoyant to be able to see beyond that time.

Since the top of the stock market occurred in May, 1946, and the decline was in September-October of the same year, it would be fair to assume that if the stock market were fulfilling its usual barometric purpose, the business picture would certainly have decidedly deteriorated a year after the stock market had made its top.

The Market Anomaly

Instead of a recession, however, we find that from May, 1946 to May, 1947 the Federal Reserve index of business was up about 15%, national income was up 10%, the earnings on stocks in the Dow Jones industrial averages were up over 30% and dividends on these same stocks were up 15%. In other words, for some reason or other, the stock market had a break but without any forecasting value insofar as business is concerned.

In an effort to explain away this rare phenomenon, a most vociferous group of chart readers, business soothsayers, and all manner of observers of psychic phenomena have come into their own and have put to shame the statisticians who, over a year ago, had the misfortune to correctly predict the business trend and the earnings and the dividends which actually developed. Statisticians were proved wrong, not in their prediction of the future, but because, in spite of the correctness of these predictions, the market fell 50 Dow-Jones points. On the other hand, those who predicted lower stock prices were proven to be completely correct even if for the wrong economic reasons. The public, having seen values melt in spite of increased earnings and dividends, has given up all ideas of following values and now thinks only in terms of a possible depression which must be somewhere around the corner.

The only segment of the economy which has suffered in the last year has been those soft goods businesses which supply the retail stores. Retail stores undoubtedly were overstocked in 1946, and especially with ersatz merchandise. Their forward commitments were especially high. This situation was corrected in two stages: First, forward commitments were reduced in late 1946 and, second,

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A Concrete Program for Germany

By LEWIS H. BROWN*
Chairman, Johns-Manville Corporation

Holding that the "Morgenthau-Roosevelt" philosophy, and quadripartite division of Germany are wholly impracticable, Mr. Brown offers following program: (1) Ending reparation of capital goods; (2) curtail de-Nazification; (3) eliminate shackles on German exports; (4) include Germans in Marshall Plan discussions; (5) establish central government for Western Germany; (6) institute Continental type of central banking system; and (7) provide a new currency. Believes France will cooperate.

Not even a beginning can be made to a solution of the problem of Western Europe unless we Americans recognize and admit that the Morgenthau philosophy, as dictated by President Roosevelt in the Quebec, Yalta and Potsdam Agreements, is predicated on fallacies and has made impossible the accomplishment of the very objectives which we all considered imperative.

Lewis H. Brown

We must also recognize that the quadripartite division of Germany, in view of the attitude of Russia, can never succeed. We must therefore accept the present partition of Germany as an accomplished fact at least for the present.

The partition of Germany means that Germany's breadbasket in the east is now in the hands of Poland and the Russians. In the American, British and French zones in Western Germany are 48,000,000 people who cannot possibly provide more than 50% of their food requirements. These people in Western Germany can only provide the other half of their food requirements by manufacturing and exporting goods to the rest of the world. By the end of five years they must export twice as much per capita as before the war. In the meantime, they must be fed primarily from America by loans advanced not as relief, but on a five-year plan under which food will be used as an incentive to get German industry into production so that she can export to buy necessary raw materials and the balance of her food requirements.

If food is merely provided to Germany or Western Europe on a relief basis—if food is not used as an incentive and a means to getting production—then it is merely pouring dollars for relief down a bottomless rathole with no hope of eventually getting either Germany or the other countries off the backs of the American taxpayer.

On the other hand food can be used—if it is used properly—as a means of getting these countries into production, eventually able to stand on their own feet and fully capable of repaying the loans to America providing America will accept repayment in physical goods in the years to come.

In my opinion nothing can be accomplished in either Germany or Western Europe under the Marshall Plan unless we in America announce with the utmost clarity an entirely new policy for the revival of Germany which is at present the cancer in the body-politic of Western Europe.

Four Aspects of Problem

That new policy must deal with four aspects of the problem:

(1) Organization. We must set up an organization to deal with this problem just as we set up an organization under General Eisenhower and SHAEF to deal with the problem of the invasion of Europe.

(2) We must give new hope to Germany and Western Europe.

(3) We must use food in order to force the production of coal in both Great Britain and Germany and use coal as a dynamic means to get industry going so that with exports they can buy raw materials and food.

(4) Repayment. We must provide in advance for a practical means of repayment if we expect to be repaid.

Under such a new policy our first objective should be to prevent the restoration of military power in Germany.

To do this, we must completely abandon the Morgenthau philosophy in favor of a plan that from a practical standpoint can be maintained for 50 years or more. Germany's army, general staff and munitions plants and war materials industries have already been destroyed. Germany should never be permitted to have an army of any kind. Instead, there should be a coordinated army of occupation for Western Germany patterned after the SHAEF organization built by General Eisenhower for the invasion. After five years this army of occupation should be paid for by Germany. Ultimately it should come under the control of the United Nations Organization and be maintained for 50 years.

As part of the duties of the army of occupation there should be an inspection system covering the 10 basic strategic materials necessary for war that would enable the Allies to know at all times that the raw materials and finished products were being used for peacetime purposes and exports and not stockpiled for war.

Once it is determined that we must have an entirely new policy for Western Germany and Western Europe, it will be necessary immediately to visualize a new organization designed to see that the objectives of policy are obtained.

We should begin with Germany as the place to start that new organization. We should ask General Eisenhower before terminating his office as Chief of Staff to return to Germany for a couple of months to reinstate in Germany the pattern of integrated and coordinated organization which was so successfully built under his command for the invasion of Western Europe.

Military Occupation of Western Zones

On the one hand, he should build an integrated and coordinated military organization of occupation for the three Western zones bringing together the military forces of America, Great Britain and France to be supplemented later by additions from other members of the United Nations.

On the other hand, General Eisenhower should use his great prestige in Europe to help bring together an integrated and coordinated civilian economic organization to deal with the economic control of Western Germany under a policy that would place upon the Germans the responsibility for the administration of

(Continued on page 30)

*A summary of a book by Mr. Brown, "A Report on Germany," currently published by Farrar Straus, N. Y., $3.00.

More on Corporate Profits

By ALDEN RICE WELLS
Vice-President and General Manager, J. H. Goddard & Co. Inc.

Following through the subject opened up in a previous article, Mr. Wells comments on corporations' declining cash balances and again contends accountants leave many items of cost off income statements, resulting in inflation of profits. Sees increasing need for new capital to meet both replacement costs and physical expansion. Advises steering clear of bank loans and attacks accounting depreciation rules. Sees need for reform of accounting principles.

Most directors find their corporations' cash balances running down quite alarmingly. They no doubt find small comfort in the size and quality of their fellow sufferers. It is scarcely consoling when they go to their bank for a loan to observe others doing the same thing to the tune of $100 millions weekly. A total of $12.4 billions in bank loans accompanied by rising prices looks too much like 1920 to be comfortable. The negotiation of a bank loan in this atmosphere recalls the aftermath of 1920 when bank loans suddenly changed their character from ordinary business transactions to very burdensome maturities.

Alden R. Wells

History need not repeat if directors will disentangle themselves from the artificial atmosphere of fancy finance and remind themselves that the purpose of their corporation is to produce and sell goods at a profit, and for this they must have in addition to their physical property an adequate amount of cash. From this starting point a few questions directed at the corporation's treasurer will show what steps are necessary to ensure financial strength.

Perhaps the first question should be: "Mr. Treasurer, you report that we had an overabundance of cash resources a year ago; you also report one of the most profitable years in our history; why then don't we have more cash today than ever before?" When this is answered fully the director can then see why playing with bank loans is as safe as playing with dynamite.

Old timers who kept in touch with their business by going through their plants rather than looking at elaborate sets of statistics in an insulated office never bothered about their cash balance so long as it equalled Current Liabilities. When it dropped below, they wanted to know why in a hurry. Careful bankers too were not impressed by 4 to 1 ratios of Current Assets to Current Liabilities unless the cash was there. If they had to supply the cash, they insisted on adequate strings.

When the Treasurer, as he probably would, replied to the first question that prices had gone up so much all their spare cash went into inventories, the Old Man might look at his plant, at his stock-pile, and ask the crucial question: "No change here; what have we to show for this loss of cash?" If he particularly disliked his treasurer he would ask the further question: "What do you mean by telling me our surplus went way up when I know —— well the company is just the same, but we have now run out of cash?"

That ends the questions. The Old Man knew that the net result for the year's operations was a loss. When the treasurer told him a bank loan was needed—he knew it was nonsense. What was needed was new capital to replace the lost.

Sloppy though it may seem, accountants leave many items of cost off Income Statements. With costs understated, profit figures are inflated, and of course capital evaporates. The details of this operation were published in a previous article, but S. Sloan Colt, President of the Bankers Trust Co., has put it quite succinctly:[1]

"One significant factor generally overlooked in the current profit picture is that accepted methods of business accounting result in a substantial overstatement of earnings under present conditions. Thus some of the current profits are quite illusory and really represent the using up of capital."

This past year has demonstrated the damage to business and the contribution to the inflationary spiral of these large fictitious profits. The subject has interesting ramifications, but probably not the kind that labor leaders would care to explore. It might, however, prove a very profitable study for Senator Taft, whose committee on price studies could be of some use.

None of this helps the businessman, however, who discovers that just when his treasurer tells him he is making a good fat profit, Mr. Colt comes along and tells him he is using up his capital, and then he finds Mr. Colt is quite correct because a bank loan is needed.

Realizing that what the treasurer is really asking for is new capital to replace the amounts lost, our hard-boiled executive next begins to find out just how much was lost. If it is not too large, he begins cutting down here and there, liquidating a few unnecessary frills or overstocked items, remarking, "We have less capital. We now will operate on the smaller amount of capital. There will be no bank loans, thank you."

If, however, as is the average case today, he finds very large amounts of capital lost, he will

1 See the "Chronicle," June 5, 1947 and June 26, 1947.

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The State of Trade and Industry

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

The regularity with which most raw materials have been reaching manufacturers generally, made it possible for total production to be maintained at a high level the past week.

Output of industry was moderately above that of the corresponding week of last year and while order backlogs showed a slight decrease in some lines, demand for most goods remained of record size.

Of great interest on Friday of last week was the report released by the Census Bureau which revealed that the number of civilian jobs advanced by 332,000 during October to reach a total of 59,204,000. The bureau commenting on civilian employment stated:

"Employment has never been at a higher point except in the summer months of this year when large numers of seasonal farm workers and students on vacation were in the labor force."

Unemployment declined 225,000, the bureau stated, to a level of 1,687,000, the lowest recorded since November, 1945, just following the ending of the war.

It is also interesting to note that all of the increase in the number of employed occurred in non-farming industries, where the employment total reached a level of 50,500,000 in October. Farm employment, estimated at about 8,600,000 in October, was practically unchanged from that of September.

Prices were of somewhat more than usual interest the past week, since as "Business Week" in its current editorial, "Outlook," points out, it marked the first anniversary following the final removal of OPA ceilings.

Says the editorial, "Over-all wholesale prices have risen 16% in the year. If that seems small to you, remember that this wholesale index includes some 900 commodities and is not a fast mover.

"Products other than farm and foods—mostly industrial—are up 20%. They beat other products because they were up so much less when the lid finally came off. The cost-of-living index has risen from 148½ to above 160. Against these rises, the consumer has added only 6% to his income.

"When prices run away from consumers' incomes, it means either that (1) people have to get more pay, or (2) a lot of them are priced out of the market. And white-collar groups, historically, always fall behind the parade."

Exports continue to intensify the upward pressure on prices, and while they are below their May peak they remain large ranging anywhere from 7% to 15% of our production, according to the magazine. The excess of exports over imports cuts directly into the amount available for domestic use and while no one knows exactly how much they effect prices, the paper concludes, that it may mean the whole difference between catching and not catching home demand.

Turning to retail trade, volume in the week just ended was slightly below the level of the preceding week but remained moderately above that of the corresponding week a year ago. The slight decline in sales was attributed to the unseasonably mild weather which prevailed in many sections of the country. Seasonal promotional sales, it was noted, were on the increase.

The general confidence of retailers was reflected in their buying policies last week. Wholesale volume rose slightly above the level of the previous week and moderately exceeded that of the corresponding week of a year ago. The showings of Spring lines of merchandise were well attended with a large volume of orders placed.

STEEL OPERATIONS SCHEDULED AT 0.9% BELOW PREVIOUS WEEK

Temporarily at least the backbone of the recent scrap price spiral has been broken, according to "The Iron Age," national metalworking weekly. There were no advances this week in the price of scrap at Pittsburgh and Philadelphia and in the Chicago area the price of heavy melting steel reflected an average decline of $3.25 a gross ton.

"The Iron Age" scrap composite price—based on the average heavy melting steel price at Pittsburgh, Philadelphia and Chicago—declined $1.08 a gross ton this week and now stands at $41.50 a gross ton. Out-of-district scrap is still being shipped into Pittsburgh at prices ranging from $45 to $47 a gross ton, while the so-called local market there remains at $40 a gross ton this week. Conditions today in the scrap market are not by any means following the patterns which they have in the past.

Some officials have insisted that they would close down open hearths before they would submit to a "runaway" market, indicating the possibility that steelmakers will win part of their fight against inflationary scrap prices.

It will take at least a few weeks to determine if the withdrawal of consumers from the market or the offering of prices from $3 to $4 below recent highs will have any lasting effect on scrap price trends.

It is possible that steelmakers will not seriously object to the allocation of steel products for export under the Marshall Plan, but

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Observations . . . .

By A. WILFRED MAY

UN-"RESTRAINT"—IN THE REFORM TRADE

Confusion created by lack of monopoly by either the Department of Justice or the SEC in controlling the Investment Bankers

The Government's institution of a suit against 17 of the nation's leading investment bankers and the Association, filed last Thursday by the Department of Justice, although presumably justified on narrow and technical legal grounds, is bewildering and confusing to the lay observer and to the student of regulation. A decade-and-a-half after the dramatized Congressional Hearings(*) which (with a cast headed by J. P. Morgan-cum-monkey) explored every avenue of abuse as the foundation for the ensuing securities laws and the institution of the Securities Exchange Commission and the Division of Security Loans of the Federal Reserve Board as the administrators thereof, and eight years after the extended Temporary National Economic Committee hearings on monopolies,(**) apparently neither the Commission, the Federal legislation, the various state authorities and Blue Sky laws, the Better Business Bureaus, the NASD, nor the tightened Stock Exchange regulations, are deemed to be effective

A. Wilfred May

Irrespective of the truth or falsity of the Attorney-General's charges, the government as such should have avoided the conflict of the present action with the clearly and oft indicated long-term status of the SEC.

In the first place we must remember that the Commission itself was established as an administrative body to administer, with the Federal Reserve Board, the "mandate" of Congress and the people as formally expressed in the rigid legislation. Thus it is vouchsafed wide powers to institute investigations, to issue stop orders, to make rules and regulations including those governing registration and prospectuses, and to conduct exhaustive hearings on procedures.

It appears that not only the investment bankers, but the Commission itself, have been under the impression it has had such authority, or that otherwise it should (as it has) cure abuses through requested additional legislation or its possessed powers.

The SEC's Clearly Stated Position

For example the Commission early this year announced resumption of its war-interrupted program for joint study of the 1933 and 1934 Acts, for which purpose it created its own continuing committee, the "Statutory Revision Committee," to study the need for changes with interested outside persons. Subsequently on June 4 Chairman Caffrey in a letter to the industry and other "interested persons" significantly stated: **"We wish to make it plain that if the Commission determines to make recommendations to the Congress it will be intended as a step in the overall program which may effect, as well, other segments of the Securities Act and the provisions of the Securities Exchange Act."**

Such joint Commission-with-industry work has apparently been satisfactory even as far as the currently complained-of stabilizing and bidding procedures are concerned, for there is no record of a request for further legislation having been made therefor.

As an example of policy statement, Mr. Caffrey at a press conference on Dec. 9, 1946 explained how "thoroughly the Commission has been exploring all forms of new issue distribution, including specifically the allotment of new issues to insiders." And Commissioner Hanrahan only last August before the NSTA re-stated the Commission's functional status thus: "People will not invest in a dishonest market. They want a security whose price is fixed by the untampered influence of supply and demand. They want fair play in the securities field. **It is our job** to see that they get it."

Possibly it did not behoove the Department of Justice to concern itself with the adequacy of the existing statutes and the administration thereof. But the conclusion surely seems warranted that its belief in the adequacy of the law and the wide administrative powers held by the agency (SEC) charged with enforcement by the

(*)Hearings before the Senate Committee on Banking and Currency, 73rd Congress, on S. Res. 56 and S. Res. 97, were held in 1934 "to investigate the matter of banking operations and practices, transactions relating to any sale, exchange, purchase, acquisition, borrowing, lending, financing, issuing, distributing, or other disposition of or dealing in, securities or credit by any person or firm, partnership, association, corporation, or other entity, with a view to recommending necessary legislation, under the taxing power or other Federal powers.."

(**)Cf. for example Part 9 on "Savings and Investment," p. 3815 et seq.

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Corbrey Hallowe'en Party Huge Success

LOS ANGELES, CALIF. — An informal cocktail party held at the Los Angeles offices of Carter H. Corbrey & Co., 650 South Spring Street, on Hallowe'en Oct. 31 was pronounced a huge success. About a thousand brokers and bankers from the financial district attended. The boards groaned with a lavish supply of food and drink; music was also furnished.

A Sound Bank Loan Policy

By W. G. F. PRICE*
Vice-President, American National Bank and Trust Co. of Chicago

Asserting bank loan policy must be tailored to needs of individual bank, Mr. Price points out aim should be to enable bank to carry out the type of borrowing business it wishes to encourage. Outlines four generalizations, viz: (1) bank's personnel should know clearly what is the loan policy; (2) the policy should be subject to periodic review; (3) policy should recognize obligations to customers; and (4) policy should not discriminate against small or new businesses. Warns of perils of declining borrowers' equity and urges keeping loan policy in focus with business prospects.

There is a temptation to define policies in such broad terms as to make them almost meaningless. "Liberal" or "conservative" when used to describe a loaning policy are almost as meaningless as when the same terms are applied to politics. A so-called "liberal" loaning policy may not be liberal at all. It may simply mean a willingness to explore thoroughly all of the facts surrounding an application and hence develop values not readily apparent in a casual analysis. "Conservative" is sometimes, but by no means always, a synonym for unwillingness to develop all of the information necessary to arrive at a decision.

William G. F. Price

Nor does a loaning policy which advocates some such objective as "making all the good loans we can make, and still avoid taking undue losses" seem precise enough to be of great value.

It is obvious that a loaning policy must be tailored to the needs of the individual bank. What is a sound objective for one institution may badly fit the requirements of another. I should like to suggest that the starting point in the formulation of a loaning policy is the relationship between capital funds and the loan portfolio. In this computation I believe we should deduct from capital funds the amount of our fixed assets. The net liquid capital in our business serves the same function as in any other business. It must be in an amount sufficient to thoroughly safeguard our creditors from shrinkage in the value of our assets.

Some interesting movements have taken place in this barometer both over the long pull and recently. Total capital funds are used here since fixed assets are not shown separately in the weekly reports. In October of '29 the relationship of loans to capital was about 4 to 1. What happened in the next five years is still a vivid memory to most of us in this room. On Dec. 31, 1934, the ratio of loans to capital had dropped to a little below 2½ to 1. At year end 1945, shortly after V-J Day, the ratio had moved up slightly to about 3 to 1.

From thereon out, as you know, there has been a rapid and almost uninterrupted expansion of bank credit. By the beginning of this year our barometer had moved up to about 3½ to 1. Today the ratio is about 4 to 1. The fact that the figure happens to be at the 1929 level is so far as I am concerned a coincidence and not a prediction. So far as I know there is no magic number which of itself alone flashes a danger signal.

For any one bank, too many other factors enter into the equation. What are the amount of the hidden and unallocated reserves? Does the bank make it a practice to make regular accruals to a loan reserve, the accruals based either on loan portfolio totals or on loan portfolio income? Of prime importance, what is the quality of the individual items making up the loan total? It is the answer to this question which primarily determines what is an adequate loan to capital relationship. How often does management review the composition of the loan portfolio, both with respect to quality and to diversification of risk? What is the quality of the bond account? What is the practice on amortization of premiums and on taking into earnings profits realized on sales?

The answers to all of these questions, I believe, are necessary before management can intelligently formulate a loaning policy for itself. A few moments ago I made some disparaging comments about the definition of policies in such broad terms as to render them meaningless. Therefore, even before this body of experts let me expose at least one of my chins to outline the terms in which I believe a loaning policy should be stated, after making the type of analysis just suggested.

It should have a more or less definite dollar target, be it up or down from present totals. Loaning policy should be able to state what types of borrowing business the bank wishes to encourage or discourage. By way of illustration I mean not only types of loans such as term loans, installment

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*An address by Mr. Price at the Mid-Western Credit Conference, Chicago, Ill., Oct. 28, 1947.

The Biggest Threat to Prosperity!

By JOHN DUTTON

Noting an accumulated deficit of $125 billion in new capital formation since 1932 and proven value of such investment in pre New Deal days, Mr. Dutton declares not even fraction of the backlog will be forthcoming unless tax atmosphere favorable to risk taking is again restored. Says "soak the rich" tax policy in reality works to detriment of labor, its supposed beneficiaries, and sees nation's prosperity endangered unless immediate steps are taken to remedy present impasse. Cites policies of SEC and NASD as stumbling blocks to free flow of venture capital into productive channels.

The October 30 issue of "The Commercial & Financial Chronicle" carried an article by Don G. Mitchell, President of Sylvania Electric Products Inc., entitled "Capital Formation—Life Line Of Progress". It should be required reading by everyone interested in the future welfare of our country, including of course, investment men and brokers handling securities. Mr. Mitchell says, "In our country, capital formation, is on the one hand, taken for granted, and on the other, caricatured, misunderstood and penalized." AND HE PROVES IT!

He further states that data from the National Bureau of Economic Research and later corroborated by the U. S. Department of Commerce, shows that during the 60-year period between 1869 and 1930 about ONE-FIFTH OF THE NATION'S TOTAL PRODUCTION WAS NEEDED DECADE AFTER DECADE FOR INVESTMENT. Due to this, the output of labor doubled because labor was given better tools and machinery WHICH WAS CREATED BY THE INVESTMENT PUT BEHIND IT AND AT THE SAME TIME LABOR'S REAL WAGES (PURCHASING POWER) WAS DOUBLED. And yet for the past 15 years, ever since Roosevelt introduced slander against business as a means of perpetuating political power in this country, the people have been told BY GOVERNMENT PROPAGANDISTS that investment is some sort of evil thing—that investors who risk capital are the enemies of labor—that speculation is bad and should be restricted by government, and that stock and bond dealers and brokers in general are at best, only a parasitical growth to be tolerated for another few years until the government finances everything.

The New Deal also introduced tax policies which they misrepresented to the majority of our people as a method of soaking the rich which would divert more money into the hands of those who had less of it. But as a result venture capital went into hiding in tax free municipal bonds. For many years the New Dealers tried to get at this money too but it evaded them. As a direct result of these attacks upon the thrifty and industrious members of our nation VENTURE CAPITAL CEASED TO FLOW. Since 1932 there has been an accumulated deficit of new capital formation of $125.000.000,000 (Department of Commerce figures). This is what New Dealism has cost this nation and yet the people don't understand that this shortage of reinvested capital which has accumulated is the reason why we now have an acute deficit of housing, machinery, steel capacity, railroad cars, factories and capital equipment of all sorts. They don't understand that because Wall Street has not been functioning in the same efficient way that it did for 60 years before New Dealism took over that we now have inflation induced shortages, high prices and depreciated money. The New Dealers have put the strangle-hold on Wall Street very effectively during the past 15 years but the wornout, superannuated machinery and tools now needing replacement in this country cries aloud for a change in government's policy toward Wall Street. England today is suffering from obsolete coal mines and broken down industrial equipment and their socialist government will keep them in that condition indefinitely. Our New Deal is gradually forcing this nation into the same abyss.

Mr. Mitchell points out that $36 billion of new capital plus $6 billion to make up past deficits, would mean $42 billion of NEW CAPITAL NEEDED THIS YEAR. Allowing for a 3.8% forward march in production which adequate capital brings about this would necessitate the creation of $48 billion in 1951 and $50 billion in 1956.

Do you think we will be able to raise that much new capital under present tax laws where the rich are soaked until there is no incentive for risk taking? Can the man making $10,000 a year furnish the funds after he pays his high taxes and increased cost of living? Can the insurance companies and banks do it? They don't put up risk money. Can we do it with a SEC and a NASD rigidly confining the investment machinery of this country so that today speculative common stocks are not often handled by underwriters and distributors of securities? Can we do it with 75% margin requirements that has cut stock trading down to 20% of its proper volume considering the growth of the country since the twenties? Can we do it when a political minded Attorney General accuses the major underwriting firms of this country with monopoly when these firms have been doing business under standard rules of trade practice and custom which has been accepted by even the New Deal SEC as proper, and has gone on for the past 50 years? Can we create REAL WEALTH in this country under such conditions?

I say we cannot do so! A re-election of the Truman Administration or any other Democratic, New Deal, coalition of left wingers and believers in socialistic economics will mean a continuation of the disintegration and decay of our productive equipment in this

(Continued under "Security Salesman's Corner" on page 16)

Let's Speed Up Peace Treaties!

By HON. ARTHUR H. VANDERBERG*
U. S. Senator from Michigan

Asserting too much is at stake to surrender to discouragement, Sen. Vandenberg advocates separate peace with Germany and Austria if Russia maintains its obstructive attitude. Says it was understood veto in Security Council was to be used sparingly, and accuses Russia of both making United Nations impotent and of subversive infiltration. Decries Russia's strictures on U. S. and while urging continued United Nations' support, wants a restriction on "veto." Recommends caution in implementing Marshall Plan.

I wish to speak of peace with justice in a sane and liberal world. It is the dream for which we joined in fighting two world wars. Frequently the "dream" becomes a "nightmare." But even "dreams" are not enough. Every prayer in our souls—every resource at our command—must continue to strive toward the reality.

A. H. Vandenberg

We dare not surrender to discouragements. Too much is at stake. Equally we dare not surrender the objectives for which we fought. Science has foreshortened this world to an ominous degree which denies us the luxury of living unto ourselves alone. The "next war" could be relatively a matter of minutes instead of months.

Yet grim reality warns us that Allied unity has split apart. We must face all of these facts. Intelligent American self-interest cautions us to keep our feet upon the ground. Meanwhile intelligent American self-interest equally warns us to keep our eyes on the horizons. We cannot run away from the responsibilities of leadership unless we are ready to accept the dreadful price of its loss.

No Truce With Aggression

It is not leadership for conquest. It is leadership for a just, a permanent and a collective peace. We have no right or wish to dictate the free decisions of others. Our interest, faithful to the universal pledge of the Grand Alliance in the recent victory, is solely that these decisions shall be free. Otherwise there is only another truce with aggression. Otherwise there is no peace.

The reality of peace with justice was hopefully patterned in the Charter of the United Nations. It was built on the assumption of substantial and essential unity between the major powers. Their "veto" in the Security Council was to be "sparingly used"—according to their own textual pledge at the time. Thus they themselves recognized its menace when they created it. It has, indeed, been even less than "sparingly used" — never by us and only twice by others—except by the Soviet Union which, acting strictly within its legal rights, has virtually paralyzed the Security Council by its 20 "vetoes." Any analysis must stem from this current prophetic fact.

There is no "veto" in the General Assembly. Full freedom for this "town meeting of the world" fortunately was preserved at San Francisco. But usually when there are divisions in the General Assembly and in its commissions (which is most of the time) the Soviet Union and its satellites are similarly upon one side and the balance of the world is a heavy majority upon the other. There are occasional refreshing examples to the contrary which suggest the ease with which the world would recuperate without this East-West rift. But the usual division is five or six to one.

Majorities are not necessarily always right. But it is a hard strain upon elementary logic to believe that these heavily preponderant voices from the conscience of the world could always be so continuously and so consistently wrong. I do not believe they are. But it would be an equal denial of logic to ignore the hazard in this persistently significant alignment. The rights of minorities can be faithfully protected without making our peace institutions impotent to function. At some point in every human institution there must be decision.

Communistic Attitude Incompatible With Peace

This poses the basic issue. But it is by no means so simple. The issue is persistently underscored by world-wide Communist attitudes which most of us believe are incompatible with the peace we all solemnly pledged time and time again. On one hand, it involves the subversive infiltration of other nations. On the other hand, it involves the forceful imposition of the rigors of the "police state" wherever Communism gets control. The question here is not what we would like. The question is the right of free self-determination as promised by all of us in every statement of our war aims and our peace purposes.

This East-West cleavage comes home to us in the most amazing anti-American vilification which ever belabored the ears of the world. It is said that we are "Fascists"—we who maintain free speech, free assemblage and free votes even for those who revile us and for whom there is no such "Siberia" here as would swallow comparable critics behind the iron curtain. It is said we are "economic imperialists" — we who lend-leased fabulous billions to our Allies (including, for example, an unsettled net amount of 11 billions to Russia)—we who paid 72% of UNRRA's bounty. We are "economic imperialists"—we who ask not one foot of expanded territory. (Our Pacific islands trusteeship is under the United Nations by unanimous vote including Russia's.) We are "economic aggressors"—we who ask not one penny of reparations and who have voluntarily relinquished our "war booty." We are said to be "economic aggressors" — we who have made vast and usually doubtful loans to our former Allies in response to their desperate petitions.

We are said to be "warmongers"—we who demobilized our war strength faster than any other major power and with a passion for peace which I fear may have been misunderstood by those who still count their armed divisions by the hundred. We are "warmongers"—we who possess atomic bombs and yet beg the world to join us in conclusively outlawing atomic warfare everywhere forever. We are curiously called "Hitlerites" by critics who seem to forget that they, not we, were once in communion with him.

This bitterly illustrates the extent to which suspicion and dis-

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*From an address by Senator Vandenberg at the University of Michigan Convocation marking the centennial of the Dutch colonization of Michigan, Ann Arbor, Mich., Nov. 3, 1947.

"Back of the Boom"

By H. D. EVERETT, JR.*
Director of Marketing Research, Ford Motor Company

Holding magnitude and duration of present boom cannot be attributed to greater severity of World War II compared with World War I, Mr. Everett lays cause to largely increased money supply, resulting from lending and investment operations of commercial banks. Traces growth, velocity, and changes in character of present money supply arising from both government and private borrowing and points to relaxation of bank reserve requirements as factor in its increase. Says banks no longer "snatch back credit umbrella when economic skys darken," and concludes because of this, economic strains and adjustments may be worked out without bringing on serious depression.

First, to dispel any possible confusion, let me say that my talk today, "Back of the Boom," is not a sequel to Dana's "Before the Mast." Nor is it a treatise on the developments in nuclear physics which led to the atomic bomb! The "boom" I have reference to is simply the high level of production, employment, incomes, and prices which our U. S. economy is currently experiencing. Yet this economic boom is not unspectacular in its own right. And its magnitude and duration are certainly of real concern to most of us. So perhaps some time devoted to a study of its background factors, and an appraisal of their probable impact on its future course, will not be entirely wasted.

H. D. Everett, Jr.

If there are any doubts that we are currently enjoying an economic boom of unprecedented dimensions, a few figures should quickly dispel them.

For instance, as measured by the Federal Reserve Board Index, based on the average performance between 1935 and 1939, the physical volume of industrial production is at a level of 185% as compared with 162% in 1941, 113% in 1937, and 110% in legendary 1929.

Or, even after adjusting for the sharp rise in consumer prices, the Gross National Product—the dollar volume of all production—is currently 20% ahead of the 1941 level, 62% ahead of the 1937 level, and 69% ahead of the 1929 level. Or, total disposable personal income of the American people—their income after taxes—is currently running at an annual rate of \$170 billion as against only \$92 billion in 1941 and \$82½ billion in 1929. Of course, the prices of things people buy with this income have risen substantially since before the war, so the increase in real disposable income is not as great as these figures would indicate. However, after adjusting for the increase in the cost of living, the American people currently have available for the purchase of goods and services 24% more real income than they had in 1941, and about 61% more than they had in 1929.

And finally, out of a total civilian labor force of about 62 million persons, approximately 60 million are currently employed. Back in 1941 only 49 million out of 54 million were employed, while in 1929 about 46½ million out of 46 million were employed.

A few weeks ago, I had the pleasure of seeing a special presentation by "Fortune" magazine to a convention of the Association of National Advertisers. In this presentation, "Fortune" first summarized the findings of the Twentieth Century Fund in their recent monumental study, "America's Needs and Resources." This study showed the high levels of production, employment, and incomes which we may expect from the American economy by 1950 and 1960. After summarizing this study, "Fortune" took it upon itself to appraise the current performance of the economy in relation to the future specifications drawn up by the Twentieth Century Fund. The startling result of this appraisal was that our economy is already substantially ahead of the schedule projected by the Twentieth Century Fund. In other words, our production, employment, income, etc., are already surpassing the potentials which the Twentieth Century Fund had postulated for 1950. And, on certain factors we are virtually at the 1960 levels. So the economy is really booming along, and at a rate which already surpasses the initial postwar expectations of many economists!

Durability of the Boom

The boom has not only already achieved higher levels than were expected. It has also exhibited an amazing durability. For, although it didn't achieve spectacular proportions until about 1942, it had its inception way back in 1939, following the sharp depression of 1938.

Its durability has been slightly embarrassing, to say the least, to many economic "crystal gazers." Before the war ended, for instance, many economists predicted a sharp reconversion depression which never arrived. And about a year ago it was hard to find an economist who was not forecasting a recession by spring or summer of 1947. Yet it is now almost certain that 1947 will surpass 1946 in production, employment, and income. And most economists today are decidedly more optimistic over the business outlook than they were a year ago. In short, it is now generally conceded that the boom will roll through its ninth consecutive year without abatement.

Most of the forecasts of recession made since the end of World War II have been based on a comparison of current economic events with those following World War I, when we had a short, sharp depression, in 1921. By superimposing curves of various economic factors since the beginning or end of World War II upon the corresponding ones as of World War I, it was not hard to conclude that economic events would follow the same course this time that they had followed a quarter century ago. That they have followed a significantly different course suggests that certain underlying factors are quite different today than they were before. What these factors are, and how they differ now as compared to their status in the past, is the main theme of my talk today.

It is obvious, of course, that the direct cause of any boom is a strong demand for goods and services relative to supply. It is also obvious that a war enhances the fundamental needs and wants which underlie economic demand, or needs and wants backed up with ability to buy. Wars not only destroy existing wealth—they also curtail the production of new wealth for normal civilian consumption. Hence wars multiply the basic need for goods and services. Yet there was not a significant difference, except as to degree, between World Wars I and II in their effect on human wants and needs, which in total are always virtually insatiable anyway.

In short, the magnitude and duration of the present boom cannot be attributed solely to the fact that World War II was somewhat more severe than World War I. This becomes more clear when we face the fact that large, unsatisfied wants and needs do not necessarily by themselves insure a booming economy. Take, for example, the experience of the 30's, when needs and wants were very great, and yet when the economy operated persistently at far below capacity. To generate a boom, then, needs and wants must be implemented by sufficient money to convert them into effective demand, simply because we operate in an economy in which goods and services are not exchanged directly for one another, but indirectly through the medium of money.

The Money Supply

If this analysis is correct, the real key to our present boom must lie in the money supply situation and the factors which affect it.

What is the economy's money supply? In simplest terms, it is the nation's cash account—money

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*An address by Mr. Everett before the Optimist Club, Detroit, Mich., Nov. 5, 1947.

Public Utility Securities

Consolidated Edison

Consolidated Edison's consolidated earnings report for the 12 months ended Sept. 30 showed $1.61 per share on the common stock compared with $2.25 for the previous period; and for the third quarter 4¢ was earned compared with 23¢ last year. The third quarter is normally a slack period so far as earnings are concerned. The present adverse showing seems due to a combination of factors:

(1) While the company does not publish net earnings for the gas business (which contributes about 15% of gross) it is understood that operations are now running into the red and are an important factor in the recent decline in net income. Gas revenues are not protected against rising coal prices (up about $2.50 a ton), although electric operations (with some lag) recover a good part of the higher fuel costs through automatic rate adjustments. (2) A wage increase of about $10,000,000 per annum became effective in January this year (equivalent to 54¢ a share after tax adjustment). (3) Rate cuts aggregating about $9,000,000 per annum (nearly 50¢ a share) became effective during 1946, the largest reduction ($5,682,000) taking effect Aug. 15. (4) Due to duplicate interest payments, earnings have not yet fully reflected bond refunding savings.

Despite the sharp shrinkage in earnings the company has not reduced the $1.60 dividend rate this year (the usual 40¢ quarterly dividend, payable Dec. 15, was recently declared). The company recently announced an approaching offer of convertible debentures as part of the preferred stock refunding program. The company considers the sale of these convertibles as equity financing (the debentures will probably be initially convertible into common stock at the prevailing price level). Having thus accomplished its equity financing, the company will then be prepared later to issue some $100,000,000 bonds to raise required funds for the $250,000,000 four-year construction program.

Future factors in the earnings picture are as follows: The company has planned since last May to apply for an increase in gas rates (Brooklyn Union has been granted a temporary increase) but its staff has been busy working in the electric rate case (the state commission, in addition to last year's cut, ordered a general investigation of the electric rate structure). An application for an increase will probably be filed in the not too distant future and the company can present a very strong case. As overall earnings are currently only about 5% on the rate base (after write-offs as proposed by the state commission), it appears unlikely that the commission will insist on a further substantial reduction in electric rates, though readjustments may be required.

While New York City may not present opportunities for industrial growth on a par with some other sections of the country, the construction of housing developments, hotels, office buildings, theaters, etc. will probably get under way in the next year or so, and this will furnish a very profitable type of "growth" for Edison. Moreover, with its present low rates, Edison can sell power to big stores and office buildings which formerly had their own plants; this business, while less profitable than residential should increase future net.

For the present the most pressing problem is to get efficient new equipment installed, in order to cut expenses. This will take a little time, and there may be a further interim dip in earnings, especially if a third round of wage increases proves necessary. An increase in gas rates may reasonably be expected but probably not in time to give the company relief during the present heating season. Later if wages and material costs continue to rise with a resulting increase in the general price level, an upward adjustment of electric rates may prove necessary. Eventually Edison, the world's largest operating utility, should be able to restore operations to a more profitable basis in relation to its huge investment.

Minton M. Warren Dead

Minton M. Warren, Director of Research for Van Alstyne, Noel & Co., New York City, died at his home after an illness of three months. He was 59 years old.

Bond Club of Detroit Elects New Officers

DETROIT, MICH.—The Bond Club of Detroit has elected the following new officers: H. Russell Hastings, President; Jones B. Shannon, Miller, Kenower & Co., Vice-President; and Gilbert S. Currie, Crouse & Company, Secretary-Treasurer.

H. Russell Hastings

Jones B. Shannon

Gilbert S. Currie

Directors consist of the officers and Merle J. Bowyer, Paine, Webber, Jackson & Curtis; Douglas H. Campbell, First of Michigan Corporation; Joseph F. Gatz, McDonald-Moore & Co.; and J. William Siler, Siler & Company.

The Club, which is starting its 31st year, will hold a Fall Dinner Party on Nov. 6 at the Hotel Statler, Detroit, at which Howard A. Coffin, Representative of the 13th Congressional District of Michigan, will be speaker on the subject "Behind the Scenes in Washington."

Dealer-Broker Investment Recommendations and Literature

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

Fertilizer Industry—Analysis in the current issue of "Review of Business and Financial Conditions"—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Impact of the Marshall Plan—Discussion of effect on securities markets—Strauss Bros., Inc., 32 Broadway, New York 4, N. Y.

New York Banks and Trust Cos.—62nd consecutive quarterly comparison of leading banks and trust companies of New York—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

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

Steel, The Master Metal—Circular on the industry and stocks of several low-priced speculative steel companies—Mercer Hicks & Co., 150 Broadway, New York 7, N. Y.

"The Marshall Plan"—Analysis explaining concept and scope and singling out American industries likely to be beneficiaries—In "**Securities Outlook**," a monthly discussion of topics of interest to the investor and business executive—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

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Amerex Holding Corp.—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Cities Service Co.—Research memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

Also available are a valuation and appraisal of **Railroad Equipment Certificates** and **Price-Earnings Ratios & Yields on 123 Public Utility Common Stocks.**

Diebold, Inc.—Special report—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available are reports on **Aspinook Corporation** and **Sterling Motor Truck.**

Dresser Industries, Inc.—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Florida Ramie Products, Inc.—Circular—Batkin, Jacobs & Co., Broadway, New York 4, 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.**

Lake Superior District Power Co.—Analysis in the current issue of **"Business and Financial Digest"**—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

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

National City Bank of New York—Special report—Walston, Hoffman & Goodwin, 265 Montgomery Street, San Francisco 4, Calif.

Also available are reports on **Pacific Gamble Robinson Co.** and **Steep Rock Iron Mines, Ltd.**

Ohio Seamless Tube Co.—Memorandum—Bond & Goodwin, Inc., 63 Wall Street, New York 5, N. Y.

Portsmouth Steel Corp.—Data—Buckley Brothers, 1240 Walnut Street, Philadelphia 2, Pa.

Also available is late information on **Beryllium Corp.** and **Gruen Watch.**

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

Smith, Kline & French Laboratories—Study on one of the oldest ethical drug firms in the country—Coffin, Betz & Sullivan, 123 South Broad Street, Philadelphia 9, Pa.

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

N. Y. Security Dealers Dinner Committees

Hanns E. Kuehner, Joyce Kuehner & Co., has been appointed Chairman of the Committee for the 22nd Annual Dinner of the New York Security Dealers Association to be held at the Waldorf Astoria March 5, 1948, according to an announcement today by Clarence E. Unterberg, C. E. Unterberg & Co., President. Bertram Seligman is Vice Chairman of the committee.

Hanns E. Kuehner

John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., and Wellington Hunter, Aetna Securities Co., are Chairmen of the Entertainment and Hotel Reservation Committees, respectively.

Mr. Seligman is also Chairman of the ticket committee. Other members of the committee are Richard M. Barnes, A. M. Kidder & Co.; Herbert D. Knox, H. D. Knox & Co.; Frank H. Koller, Jr., F. H. Koller & Co.; Walter Murphy, Murphy & Durieu; Lee D. Sherman, L. D. Sherman & Co.; Herbert Singer, Luckhurst & Co.; Otto H. Steindecker, New York Hanseatic Corp.; Curtis J. Straus, Heimerdinger & Straus; Abraham Strauss, Strauss Bros.; John H. Valentine, John H. Valentine Co., and Melville S. Wien, M. S. Wien & Co.

Kuhn, Loeb & Co. Offers Gen. Am. Transp. Corp. $4.25 Preferred Stock

A banking group headed by Kuhn, Loeb & Co. is publicly offering today a new issue of 150,000 shares of General American Transportation Corp. $4.25 cumulative preferred stock, series A, without par value, at $98 per share plus accrued dividends. The proceeds will be used in part to repay $5,700,000 in bank loans and the balance initially will be added to working capital.

The new preferred stock will be redeemable at prices ranging from $101.50 per share on or before Dec. 31, 1949, down to $100 per share after Dec. 31, 1957. The stock also may be redeemed through the sinking fund at the price of $100 per share.

Net profit of the corporation and subsidiaries for the six months ended June 30, 1947, amounted to $3,510,822. For the calendar year 1946, net profit aggregated $3,598,870.

COMING EVENTS

In Investment Field

Nov. 21, 1947 (Detroit, Mich.)

Securities Traders Association of Detroit and Michigan Annual Fall Party at the Prince Edward Hotel, Windsor, Ontario, Canada.

Nov. 30-Dec. 5, 1947 (Hollywood, Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

November, 1948 (Dallas, Tex.)

National Security Traders Association Convention.

March 5, 1948 (New York City)

New York Security Dealers Association 22nd Annual Dinner at the Waldorf Astoria.

Commodity Prices

By ROGER W. BABSON

Mr. Babson reviews rise in commodity prices and predicts American housewife will be faced with higher prices in coming year. Urges practice of economy by following simple dietetic rules and curbing inordinate appetite and "second helpings."

Readers recently have been asking me some rather tough questions. To answer all of them, I would have to be an oracle, as well as a statistician. However, I do the best I can. Right now I am deluged with inquiries as to when the peak in wholesale commodity prices will be reached and whether there will be a further rise in the cost of living. Briefly, and with fingers crossed, the wholesale price peak should be seen by the early second quarter of 1948. As to retail prices and the cost of living, a further rise is inevitable.

Roger Babson

A Glance at the Record

To bring you up-to-date on commodity price inflation, I shall risk boring you with a few statistics. The latter, as you know, are much maligned, but do serve a purpose. Since August, 1939, to recent date, the Bureau of Labor's all commodity wholesale price index has advanced 109.5%. Building materials have skipped ahead to the tune of 103.5%, other things have advanced 165.3%. The real culprit, however, is farm products, with a gain of 207.4%. Hence, the unprecedented prosperity in the farm belt, which seems destined to continue for a year or so at least. Merchandisers should keep that fact in mind. Farm areas are a seller's bonanza these days. Farmers should be very careful not to lose their profits by making questionable "investments."

To give you a better idea of what the current commodity price inflation means in terms of dollars and cents, I shall cite a few specific instances. Back in August, 1939, railroads and manufacturers could buy a ton of bituminous coal at the mines for $2.50 to $2.70; today they must pay $4.85 to $5.25 per ton. Southern pine lumber then was selling for $22.35 per M; today it commands $80. A pound of butter in August, 1939, would have cost your market man 24½c; today the price is 68½c. Whereas cocoa then was selling for about 5c a pound, the price now is 49c. This fact bodes no good for the 5c chocolate bar.

Raw Materials Outlook

Raw material prices have increased since August, 1939, about 160% and will go higher. Huge public purchasing power, plus continued high employment at good wages, points to heavy demand for finished goods for some time to come. Steel and certain other raw materials are already scarce. Nylon stockings may soon be scarce again. Rents will be higher. Production costs certainly will not move lower in the months ahead, and might well increase, especially if labor should strike for still higher wages to offset advancing living costs.

It is possible, however, that prices of certain imported raw materials may move lower in the not-too-distant future. Prices of cocoa, burlap, and shellac, are being artificially maintained at exorbitant levels by foreign governments. But it may well be that these governments of producing countries are over-playing their hands.

Farm Price Trend

Farmers, under government tutelage, now know when to hold and when to sell. Under the "parity-price" program, they have little to lose by playing their cards close to their chest. The well-advertised program of foreign aid, with its indicated strain upon the domestic economy, is the farmer's cue for holding his wheat, or other products, for still higher prices.

Under the circumstances, I believe that farm prices will hold up during 1948. This year's short corn crop, plus heavy foreign demand for wheat and other food products, is the pivotal factor. While the food conservation program may tend to ease the overall strain, it will not radically alter the tight supply-demand situation.

Conclusion

While I regret to say it, the average American housewife in the months ahead, will be faced with higher prices in order to fill her market basket. Already, she is paying over double the August, 1939, food prices. My advice is to practice economy by following simple dietetic rules. There are many good substitutes for costly meat, eggs, etc. A few shifts in diet, and a little curbing of inordinate appetite can easily fatten the pocketbook while slimming the figure. The best exercise is to push food away from you! "Second-helping-itis" is the most prevalent American disease.

NYSE Members Approve New Commission Rates

N. Y. Stock Exchange members by overwhelming vote affirm recommendation of Board of Governors for increase in gross commissions of 20%.

The amendment to the Constitution providing for the calculation of commissions on a money-involved basis and an increase of gross commission income by approximately 20%, which was approved by the Board of Governors on Oct. 17 and submitted to the membership for balloting, has been approved by the affirmative vote of a majority of the ballots cast. The vote was 756 approving; 373 disapproving; 2 blank or defective.

The new schedule of commissions, which is the first change in the rates since March, 1942, became effective on Monday, Nov. 3, and the schedules of rates and service charges have been already published and distributed to members.

With Detmer & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Lee M. Jones has become associated with Detmer & Co., 105 South La Salle Street, members of the Chicago Stock Exchange. Mr. Jones was formerly with Dempsey & Co. and Sills, Troxell & Minton, Inc.

Joins Clark Davis Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Victor Clifton has joined the staff of Clark Davis Co., Langford Building.

With Adams & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Elmer E. Swanson has become affiliated wtih Adams & Co., 105 West Adams Street.

Real Estate As An Investment

By THURSTON H. ROSS, Ph.D.*

Beverly Hills, California

Real estate expert holds, despite high values and high taxes, there are some very good investments to be made in residential houses. Says equity returns are increasing due to lower mortgage rates and increased loan ratios. Points out central business property is still a prime investment for institutions, but multiple residential property is becoming more hazardous.

When we examine the integrity of a commercial property, we rely strongly on the capacity of the tenant to produce income. Income of residential investment properties is directly related to the net income producing capacity of the tenants. I say net income, meaning income which belongs to the employee after income taxes.

Dr. Thurston H. Ross

We speak glibly of high wages and high salaries, but sometimes forget to think realistically on the matter of just how little the average residential real estate user has left after income taxes and other essential outlays, with which to pay his rent. The average American worker has more and bigger holes in his pocket today than he has ever had before in the history of this country or of any other country than I know of, yet investors in multiple residential real estate must recapture their capital and accumulate their interest out of this relatively small amount, which the tenant himself has available to spend. If we agree that 20% or not more than 25% of the average man's income should be paid for rent and other occupancy costs or even rent alone, we will have great difficulty reconciling rental rates even in low cost housing projects, with the prospective capacity of the tenants to pay.

I believe that there are some very good investments to be made in residential housing—both new and old properties. Well located houses with modern facilities particularly those in established apartment districts, are likely to continue to show an adequate return on invested capital. On the other hand, jerry-built houses poorly located in districts a long way from work places and without favorable apartment identity present many hazards to sound investment practice.

The aggregate rate of return on real estate investments has remained about level during the last three years, although there is wide deviation from the average return. Commercial occupancies generally have shown increased income because of larger volume of merchandise available and higher prices, producing greater rent under percentage leases. On the other hand, even in view of exhorbitant rents allowed in new houses, reduced residential occupancy net income due to increased operating cost, rather than to vacancy or lower rents, has largely offset the gain in commercial property returns.

Equity returns are increasing due to lower first mortgage rates and increased loan ratios. Twelve typical business property investments a year ago showed a net return of 8.4% or $84 per thousand dollars of investment value; 61% or $610 per thousand of this value was covered by first mortgage at an average rate of 4.35%. The first mortgage cost per $1,000 excluding return of capital was $26.54. Therefore, 39% of the value or the equity of $390 received the difference between the $84 total income and the first mortgage cost of $26.54 or $57.46, which amounts to 14.73% on equity investment.

Today a comparable number of same type of properties show 4.02% average for first mortgage money; 64% loans and an aggregate net of 9.2% on the property as a whole, thus leaving 18.4% on equity. Compare this with 1938 when 60% loans were being made on a 5% basis and the entire investment paying only about 7%, leaving an equity return of 10%. There was some factor of safety in the lower price level at that time also.

This indicates to me that commercial property, from an investment standpoint, is beginning to soften, because equity buyers are demanding a continually increasing share of income. Yet I am not bearish on commercial property from an investment standpoint. There are still many new residential areas poorly supplied with merchandising facilities. Many older districts are inadequately served. However, there has been a great deal of over-expansion of commercial facilities in other places. Central business property has shown less speculative tendency than outlying property, and over a long-time swing, where well located, it has a substantial investment integrity. However, it seems to me that sound financial practice prohibits investment in business property equities in the current market, except under the most unusual circumstances, because at today's prices a rapid swing of the cycle would very likely liquidate a substantial portion of the equity position.

The great pressure or need to invest funds rapidly accumulated in times of great prosperity or in times of inflation such as we are experiencing today is likely to distort one's judgment as to what constitutes an investment and at what point money is being put out on a pure speculation.

I must admit that I am somewhat confused by the new financial terminology, which to me includes a contradiction I cannot reconcile in my own mind. Specifically, the term "equity investment." I believe that it should be well understood that equity purchasing does not involve investment in the true sense of the word. In equity purchasing, if it approaches investment at all, there must be some very material and very substantial additional security than the real estate itself. This security usually is in the form of a lease, signed by gilt-edged tenants.

I would like to call attention also to the fact that in time of inflation many of our equities are paper equities, which have no more substance than the paper profits of stock market of boom days.

Another factor which must be taken into consideration today, when we think of real estate as an investment, is the weight which may be given to comparative prices of real estate sold. Valuation by comparison is always a confusing process, because in depression, prices indicate levels far less than justifiable values. While in times of inflation, such as at present, real estate prices generally indicate an amount far in excess of sound investment value. Let us remember that price is a historical fact, while value is an opinion based on prospects in the future. When thinking of investments, we usually think of a rather long period in the future. We appear to be at a high point in a business cycle today, perhaps not so far as prosperity is concerned, but certainly so far as the price structure is concerned.

In investment in real estate, which has relatively low liquidity, must be made with full consideration of these facts and in anticipation of a long-time holding which is likely to carry us to all the phases of the cycle again and again.

In summary, I believe that the following observations are significant:

(1) Real estate is a good investment, but not up to 100% of its present day market value. Every piece of real estate has its investment band and its speculative band. The latter has tended to broaden because of dollar instability, particularly since the War.

(2) Mutliple residential property is becoming more hazardous, particularly where not well located and attractively built to meet economically a long standing (not an emergency) housing need.

(3) Central business property is still a prime investment for institutions prepared to carry their investments through all phases of the business cycle. Losses on central business property usually occur only on forced liquidation.

(4) Any investment involving responsibility for management presumes obligations which, it seems to me, a financial institution has no business to commit itself. Outright purchase of property or equity investment, if equity can be thought of in any sense as investment, can be justified only when the customary equity obligations are explicitly absorbed by a long-time responsible lessee. Thus a trust is certainly justified in real estate ownership of an industrial or commercial property, which is under lease to a reliable tenant who pays taxes, depreciation, insurance and all other operating costs, leaving the rent a net investment return over a long period of time.

(5) Capacity to produce, to meet an abiding need verified by the existence of an adequate supporting customer market, is the primary test of all commercial property.

(6) Long-time equity investment should be calculated on not less than an annuity basis.

(7) Comparative prices in real estate sales are deceptive in nearly all phases of the business cycle.

Bearing these points in mind, I believe that a financial institution can perform an acceptable service for its clients or its beneficiaries, by the investment of a reasonable proportion of its funds in real estate of income producing type.

*From an address by Dr. Ross at the 21st Regional Trust Conference of the Pacific Coast and Rocky Mountain States, San Francisco, Calif., Oct. 24, 1947.

Pennsylvania Brevities

Production, Profit and Sales Prospects

Scott Paper Co.

Scott Paper Co. last week reported net profit of $2,042,624 for the nine months ended September 27, equivalent to $2.15 per share, compared with $1,354,088, or $1.37, on fewer shares for the like period of 1946. Sales were $41,196,563 against $34,133,833.

Present indications are that sales will exceed $57,000,000 for 1947, with net equivalent to about $2.50 per share, compared with $2.07 per share reported for 1946. Increased sales volume this year is, in part, a reflection of increased prices. The company, however, has raised prices only 26% since 1939.

Demand for Scott Paper's products continues to exceed production capacity. Output of paper towels and toilet tissues has been restricted as the result of an explosion and damage to a paper machine plant at Chester last year, and not yet fully restored. The company has succeeded in increasing its manufacture of facial tissues and wax paper.

* * *

S. S. White Dental Mfg. Co.

According to Fred E. Steen, President, net profit of S. S. White Dental Mfg. Co. for the third quarter is estimated at $220,000, or about 75 cents per share. This would indicate nine months net of about $855,000, or $2.85 per share, against $1,114,860, or $3.73 per share, in the corresponding 1946 period.

A small decline in sales coupled with higher manufacturing costs and increased expenses which have not been entirely compensated for by higher prices are contributing factors. Sizeable backlog of orders for dental equipment and flexible steel shafting are in hand and plants manufacturing these items are operating at an accelerated pace. Flexible steel shafting output is expected to be largest in company's history this year.

Recently retail sales have turned upward and gross for the year may reach $19,500,000, closely approaching last year's record of $19,786,223. Because of higher costs, however, net is not expected to run much above $1,100,000, compared with $1,508,097 for 1946.

* * *

Philadelphia Transportation Co.

Although operating revenues of Philadelphia Transportation Co. for the first nine months were $46,197,523, an increase of $3,042,926 over the first three quarters of 1946, net income dropped to $284,519, down $401,279 from the corresponding 1946 period.

Increased costs of operation together with taxes and other fixed charges took more than 99% out of every dollar of revenue, according to a company spokesman.

Late figures reflect both the fare increases granted last Feb. 18 and the 13-cents-an-hour wage increase which became effective last Feb. 11. Increased material costs were also a factor in the relatively poor showing. The consolidated income account issued last week showed a slight improvement in the third quarter, but results for the year will be substantially below net income reported for 1946.

* * *

Lehigh Coal & Navigation Co.

Despite the close-down of its mines during last February, Lehigh Coal & Navigation Co. is expected to show net income of about $2,500,000 for 1947, compared with the $2,701,535 reported for 1946. Earnings per share on the 1,929,127 shares of common are estimated at $1.30, only about 10 cents per share less than 1946.

* * *

Philco Corp.

Reflecting the continued heavy demand for television, radio, radio-phonograph sets and refrigerators, Philco Corp.'s sales for 1947 are expected to set a new record at something over $200,000,000. This will compare with $77,000,000 in 1941 and $121,600,000 in 1946, and will have been accomplished despite a two-week close-down for vacations, the introduction of many new models in radio and television sets and the disposal last July of its industrial storage battery division.

In the first half of 1947, the company set up a reserve of $2,500,000 for possible inventory adjustments and it is assumed that no further additions to this reserve will be necessary.

* * *

Bayuk Cigars, Inc.

With the fourth quarter normally the best of the year, sales and net earnings of Bayuk Cigars, Inc., for 1947 are likely to be at new high records. Gross revenues of about $35,000,000 are expected to produce $2,300,000 in net, equivalent to better than $3 per share. The company has been able to obtain higher prices for its products without diminishing increased demand. Production has been stepped up, although insufficiently to keep pace with the demand for the popular "Phillies" brand.

* * *

Philadelphia Electric Co.

Although a flattening out is anticipated in the final quarter of the year, due to increasing expenses, Philadelphia Electric Co. is expected to show about $1.80 per share on its common for the year, compared with $1.72 in 1946. Operating revenues will show a substantial gain, but net will be affected by the recent interim freight rate increase of 10 cents a ton on coal and by the higher cost of practically all other materials.

* * *

Lehigh Valley R.R.

Operations of Lehigh Valley R.R. for the year are expected to break about even, according to President C. A. Major. Reflecting the beneficial effects of the recent freight rate increase, October net may exceed $100,000. Mr. Major stated that the company is engaged in a large rehabilitation program and is rebuilding four freight cars a day in its own shops. Philip T. Sharples, President of Sharples Corp., has been elected a director.

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Pittsburgh Plate Glass Co.

H. B. Higgins, President of Pittsburgh Plate Glass Co., states that although third quarter sales hit an all-time high of $67,075,872, higher costs reduced profits 20 cents per share against second period's net.

* * *

E. & G. Brooke Iron Co.

Stockholders of E. & G. Brooke Iron Co., Birdsboro, Penna., will have until 3 p.m., Dec. 1, to accept an offer to sell their shares at $16 per share. The bid is being made by joint agreement by Lukens Steel Co., Worth Steel Co. and Warren Foundry & Pipe Corp. and is for the entire outstanding issue. Distribution of the stock among the three purchasing companies, if the sale is consummated, has not yet been announced. E. & G. Brooke Iron Co., incorporated in 1880, manufacturers basic malleable low-phosphorus foundry and forge pig iron.

* * *

Pennsylvania Railroad

After suffering its first net loss in 100 years in 1946, Pennsylvania Railroad stands a fair chance of ending in the black for 1947. Operating results, however, will not be responsible for the improvement. Norfolk & Western Railway, in which Pennsylvania and its subsidiary, Pennsylvania Co., hold a large stock interest, has declared a $1 extra dividend on its common shares and has placed the stock on a 75-cent quarterly basis.

For the nine months ended Sept. 30, Pennsylvania R.R. reported a net loss of $7,051,372. A further loss of approximately $1,000,000 may be recorded for October because of the lag in the effective date of the interim freight rate increase. However, the system is expected to receive approximately $7,700,000 in dividends including the increase noted above, which with an anticipated improvement in operations, should result in a net profit for the year.

Pittsburgh Rwys. Reorganization Moves Ahead

Pursuing its program of expediting the reorganization of the Pittsburgh Railways Co. system, the U. S. District Court for the Western District of Pennsylvania has set Nov. 12 as the date for two important hearings in the proceedings.

The court has ordered Watson B. Adair, Special Master, to proceed with a hearing on the claims of Philadelphia Company and its affiliated and subsidiary companies to hear and report upon the question whether such claims should be subordinated to claims against Pittsburgh Railways Co. asserted by other parties in interest.

Concurrently, the court has ordered Special Master Adair to conduct a hearing on the Amended Revised Plan of Reorganization and the amendments proposed thereto by W. D. George, Trustee, filed on Aug. 7, 1947. The hearing will include consideration of any objections which may be made, or of such amendments or plans as may be proposed by the debtor or by any creditor or stockholder.

Federal Judge Nelson McVicar previously overruled contentions of the Securities & Exchange Commission that it be granted prior jurisdiction rights in reorganizing the street railway system. Judge McVicar also dismissed the petition of Jules Guggenheim and a group of New York investors asking for a partial distribution to public holders of the system's accumulated cash, reported to be approximately $23,000,000.

Thus it appears that the decks are cleared for all parties in interest to roll up their sleeves and get at the job of evolving a fair and feasible plan of reorganization. Although the SEC has been denied the right to conduct the proceedings, that body will attend and participate in the hearings.

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Correction

In an article which appeared in the "Chronicle" of Sept. 4, on page 10, titled "Trustee Offers New Pittsburgh Railways Plan," it was erroneously stated that the apparent book value of the new Pittsburgh Railways Co. common stock proposed to be issued under the plan was $55 per share.

A recalculation indicates the book value to be approximately $80 per share, arrived at as follows:

PRO FORMA, AS OF DEC. 31, 1946

Total assets of new corporation		$41,607,793
Deduct:		
General mtge. bonds	$10,000,000	
Equipm't trust ctfs.	1,706,000	
Current liabilities	2,989,779	
Unredeemed tickets	501,905	
Deferred credits	1,176	
Reserves	1,605,739	
	$16,804,599	16,804,599
Balance for 303,000 shares common stock		$24,803,194
Indicated book value per share		$81.85

The Pro Forma Balance Sheet appears as Amended Exhibit F in the Trustee's proposed amendments dated Aug. 7, 1947.

C. B. Nelson Now With John G. Kinnard & Co.

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Clifford Braxton Nelson has become associated with John G. Kinnard & Co., Baker Arcade. He was formerly Springfield, Mo., Manager for White & Company of St. Louis. In the past he was with Taussig, Day & Co., Inc.

Joins J. W. Goldsbury

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN.—Richard P. Cogswell has become associated with J. W. Goldsbury & Co., 807 Marquette Avenue.

Holds "Marshall Plan" Not Broad Enough to Maintain U. S. Exports at Recent Level

The "Marshall Plan" for European self-help to be supplemented by American aid is not broad enough to maintain our exports at recent high rates because only 35% to 40% of our foreign trade is transacted with Europe and as yet, at least, there is no "Marshall Plan" for the rest of the world, according to a comprehensive analysis of the plan just completed by David W. McKnight, a partner and director of research of G. H. Walker & Co., 1 Wall Street, New York City, members of the New York Stock Exchange.

David W. McKnight

"During the first half of 1947 our total export volume was at the annual rate of $15.9 billion, but to Europe the rate was only $6.2 billion, of which $5.6 billion went to the 16 nations (plus Western Germany) seeking help under the Marshall proposal," the study points out. "These latter countries are seeking $6 billion in goods for next year, or only slightly more than the rate of shipments of the initial half of 1947. and their requirements will taper to $4.3 billion.

"As a matter of fact, the importance of the Marshall Plan to the domestic economy has been exaggerated in view of the fact that these countries are seeking $5 billion of goods, whereas our gross national production has been running at the annual rate of $225 billion. As the recent report of Secretary Krug strongly emphasizes, it is the record domestic levels of production and consumption rather than exports which are taxing our facilities.

"To translate the Marshall proposal into terms of specific benefits for individual businesses and agriculture is not too difficult. Obviously, for quite some time Europe will need a high volume of our foodstuffs, notably bread cereals, but their 1948 requirements are expected to be less depending, of course, in a considerable measure on crop yields.

"A basic consideration with respect to Europe's food needs is that there has been a serious loss of supplies from non-American sources, notably Eastern Europe and recovery may be slow, resulting in an abnormal dependence on America.

"Turning to industry beneficiaries, it is first necessary to distinguish between those industries whose products will be needed temporarily, namely throughout the balance of this year and 1948 and those for which the demand will be continuing, or relatively constant. In the short-term class we would place the following: Coal, shipping, freight cars, nitrogen fertilizers, medium tractors, light tractors.

"In the longer-term group there should be included: Iron and steel, petroleum, farm machinery, steel plant equipment, electrical equipment, petroleum equipment.

"In the case of mining machinery, the position is an intermediate one in that it remains high the first year but by the fourth year declines by one-half; while in the case of electrical equipment, demand is high in the first three years as the equipment tabulation demonstrates."

Joins Merrill, Turben Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Oscar E. Maukert has become associated with Merrill, Turben & Co., Union Commerce Building, members of the Cleveland Stock Exchange. He was formerly with H. C. Wainwright & Co. and the National City Bank of Cleveland.

Max Jacquin, Jr., To Be Bliss & Stanley Partner

Max Jacquin, Jr., member of the New York Stock Exchange, will become a partner in Bliss & Stanley, 15 East 58th Street, New York City, members of the Exchange, on Nov. 6. Mr. Jacquin retired from partnership in Gruntal & Co. on Oct. 31.

Curb Launches Securities Clearing Corporation

Centralized delivery of securities between member firms of the New York Curb Exchange Securities Clearing Corporation and banks and brokerage houses which are not members of the Curb Exchange was inaugurated on November 1.

The new service, an innovation in Wall Street procedure, is expected to accelerate materially the clearing of security transactions between Curb clearing members and over-the-counter security houses, according to Fred C. Moffatt, President of the Curb Clearing Corporation, who devised the plan in cooperation with the Cashiers' Section of the Association of Stock Exchange Firms.

Clearing members will begin making deliveries of securities to the new delivery department of the Curb Clearing Corporation between 9 and 10:30 a.m. Combined deliveries will then be made to receiving banks and non-member firms during the morning by Curb messengers, who will call for checks drawn to the order of clearing members one hour after each delivery, effecting certification of those in excess of $1,000. Clearing members may pick up their checks at the delivery department in the afternoon.

The possibilities of the new plan as a service to the entire financial community are great, in the opinion of Mr. Moffatt, who described it as an important step in the simplification through centralization of routine procedures in Wall Street.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made Oct. 21 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $20,000,000 1.20% consolidated debentures dated Nov. 1, 1947, and due Aug. 2, 1948. The issue was placed at par. The proceeds, together with cash funds of $22,335,000 were used to retire $42,335,000 of debentures due Nov. 1, 1947. As of Nov. 1, 1947 the total amount of debentures outstanding was $357,220,000.

Prescott, Wright Co. Adds

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Alfred L. Baylies has become connected with Prescott, Wright, Snider Co., 916 Baltimore Avenue.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Fire insurance stocks bought at current levels are buttressed by exceptionally high ratios of liquidating values and invested assets to market price. This condition has been brought about by two contrary movements, viz: a strong upward trend in premium volume the past few years and the two-year downward trend in the market values of fire insurance stocks.

According to Best's "Aggregates and Averages," stock fire companies wrote a net premium volume of $1,640,500,000 in 1946, compared with $1,226,025,000 in 1945, an increase of 33.8%. Yet during 1946 fire insurance stocks, as measured by Standard & Poor's weekly index declined from 135.0 to 119.5, a drop of 11.5%. During the first six months of 1947, net premium volume expanded still further, but Standard & Poor's index has thus far in 1947 declined from 119.5 to 117.9.

Based on 1946 year-end figures of a selected list of 21 leading fire insurance companies, each dollar invested in these stocks today would be protected, on average, by $1.72 of invested assets, comprising approximately $0.70 of bonds, $1 of preferred and common stocks and $0.02 of real estate. It is important to take note, also, that the average ratio of invested assets per share to liquidating value per share is 1.12; thus approximately 90% of invested assets belong to liquidating value or stockholder's equity. Furthermore, since liquidating value is stated very conservatively, inasmuch as only 40% of unearned premium reserves is used in its calculation, it is probably closely true to say that, on average, practically all "invested assets" belong to the stockholders without any offsetting liabilities.

	Invested Assets Per Share 12/31/46	Recent Market (Asked)	Invested Assets Per $ of Mkt.	Bonds Per $ of Mkt.	*Pref. & Com. Stocks Per $ of Mkt.	Ratio Invested Assets to Liq. Value
Aetna Insurance	$94.62	48½	$1.95	$1.05	$0.90	1.21
Agricultural	148.96	68	2.19	0.87	1.32	1.32
Boston Insurance	92.75	65½	1.42	0.55	0.87	1.09
Continental Insurance	74.58	52	1.43	0.48	0.95	1.12
Fidelity-Phenix	83.09	55¼	1.50	0.34	1.16	1.11
Fire Association	117.19	54	2.17	0.68	1.49	1.20
Franklin Fire	42.02	20⅝	2.04	0.92	1.12	1.45
Great American	39.10	30	1.30	0.32	0.98	0.88
Hanover Fire	65.57	27	2.43	1.28	1.15	1.50
Hartford Fire	130.46	108	1.21	0.49	0.72	0.94
Home Insurance	45.51	25⅞	1.76	0.68	1.08	1.20
Ins. Co. of N. A.	114.90	95½	1.20	0.18	1.02	1.06
National Fire	113.64	49	2.32	0.79	1.53	1.25
New Hampshire	68.01	49	1.39	0.66	0.73	1.26
North River	35.82	26¼	1.36	0.75	0.61	1.16
Phoenix Insurance	123.17	84	1.47	0.38	1.09	1.03
Prov. Washington	68.78	33	2.08	0.92	1.16	1.27
St. Paul F. & M.	80.45	74	1.09	0.45	0.64	1.07
Security Insurance	65.09	28	2.32	1.23	1.09	1.27
Springfield F. & M.	86.87	46¾	1.86	0.73	1.13	1.30
U. S. Fire	87.40	53	1.66	1.01	0.65	1.16
Average			$1.72	$0.70	$1.02	1.12

*Includes real estate; approximately 2.3%.

Some very interesting situations are disclosed in this tabulation. For example, more than $2 of invested assets per $1 of market are obtainable in such stocks as Agricultural, Fire Association, Franklin, Hanover, National Fire, Providence Washington and Security of New Haven.

It is also of interest that such stocks as Aetna, Hanover, Security and U. S. Fire provide in excess of $1 of bond investments per $ of market, in addition to their investments in preferred and common stocks. Likewise, such stocks as Agricultural, Fidelity-Phenix, Fire Association, Franklin, Hanover, Home, Insurance of North America, National Fire, Phoenix, Providence Washington, Security and Springfield Fire & Marine, each provide in excess of $1 of preferred and common stocks per $ of market, in addition to their investments in bonds.

Maximum bond value is obtainable in Hanover Fire, and minimum, in Insurance Company of North America; maximum preferred and common stock value is found in National Fire, and minimum in North River.

To this writer these figures are very intriguing. However, appearances may be deceiving. In other words, the stock which looks like the best statistical bargain is not necessarily so, and vice versa. For example, National Fire, with $2.32 of invested assets per $1 of market, has experienced a pronounced downward trend in total net operating earnings since 1935. On the other hand, Insurance of North America, with only $1.20 per $1 of market has achieved a strong upward trend in total net operating earnings since 1930.

The situation as a whole, however, suggests that choice fire insurance stocks may today be purchased at very attractive discounts from both liquidating values and invested assets.

Calif. Group of IBA Elect Crowell Head

LOS ANGELES, CALIF. — At the annual meeting of the California Group of the Investment Bankers Association of America, Warren H. Crowell, Crowell, Weedon & Co., Los Angeles, was elected Chairman. Other officers named were H. P. Schlemmer, Schwabacher & Co., San Francisco, Vice-Chairman, and Bruce McKennan, First California Co., San Francisco, Secretary-Treasurer. Willis H. Durst, Wagenseller & Durst, Inc., Los Angeles; C. Wesley Hall, Wesley Hall & Co., San Diego; George W. Davis, Davis, Skaggs & Co., San Francisco; and Thomas E. Morris, Blyth & Co., Inc., San Francisco, were elected to the executive committee.

Warren H. Crowell

Clifton Smith Elected N. Y. School Bd. Ass'n

Clifton B. Smith of Francis I. duPont & Co., 1 Wall Street, New York City, has been elected President of the New York State School Board Association. Mr. Smith has been a member of the Freeport, L. I. board of education for 11 years. For the past two years he has held the post of Vice-President of the board under Leo F. Giblyn, President. The association represents the villages of New York state.

Clifton B. Smith

Harold Barclay Forming Own Investment Firm

CHICAGO, ILL.—Harold Barclay is forming Barclay Investment Co. with offices at 39 South La Salle Street, to engage in the securities business. Mr. Barclay was formerly in the trading department of Caswell & Co.

Harold Barclay

Anti-Trust Suit Against Banking Concerns Filed

Justice Department charge 17 underwriting firms engage in monopolistic practices. Asks dissolution of Investment Bankers Association, which it accuses of abetting marketing restrictions, and wants injunctions against 16 specific practices which are reputed to be restraints on trade.

As forecast in last week's "Chronicle," the Attorney General of the United States, Tom C. Clark, on Oct. 30 filed a civil suit in the United States District Court for the Southern District of New York, charging 17 banking firms together with the Investment Bankers Association with violation of the anti-trust laws. Mr. Clark told reporters soon after announcement of the suit that action was taken "after an exhaustive inquiry" and it "would be of great help, particularly to small businesses." The firms are accused of "restricting, controlling and fixing the channels and methods, the prices, terms and conditions upon which security issues are merchandised." It is claimed by the Attorney General that the firms involved handled between June 1, 1938 and June 30, 1947 about 69% of new securities issues, aggregating in amount over $14 billion. The Investment Bankers Association was charged with abetting the restrictive practices of the accused firms and as lobbying against regulatory regulation.

Tom C. Clark

The accused firms, constituting 10 co-partnerships and seven corporations, all of which have their main offices in New York City, are Morgan Stanley & Co.; Kuhn, Loeb & Co.; Eastman, Dillon & Co.; Kidder, Peabody & Co.; Lehman Bros.; Smith, Barney & Co.; Glore, Forgan & Co.; White, Weld & Co.; Drexel & Co.; The First Boston Corp.; Dillon, Reed & Co., Inc.; Blyth & Co., Inc.; Harriman, Ripley & Co., Inc.; Stone & Webster Securities Corp.; Harris, Hall & Co., and Union Securities Corporation.

The suit asks restraining orders to force the accused firms to abandon 16 specific business practices which are stated to have been common practice over 30 years, but no criminal charges are made and no penalities are asked to be imposed.

The specific charges in the complaint state that the defendants are under agreement: (1) to eliminate competition among themselves and other investment bankers as well as prospective purchasers of securities; (2) to prevent, restrain, and discredit competitive bidding, private placements, and agency sales in the disposal of securities by issuers; and (3) to circumvent regulatory orders of Federal and State administrative agencies requiring competitive bidding.

Another significant charge is that the accused firms seek to influence and control the management and financial activities of issuing concerns and to preserve this control by acting as financial advisers to those from whom they purchase security issues. They are also charged with utilizing their domination over the securities business and over issuers to encourage and promote consolidations, mergers, expansions, refinancings, and debt refundings in order, among other things, to create an increasing volume of security issues for themselves. Added to all this, the firms are said to conspire among themselves to centralize and concentrate the purchase and distribution of securities in a single market (New York).

The specific relief asked by the Justice Department complaint is:

(1) That each firm be enjoined from occupying the dual function of adviser to an issuer and of purchaser for resale of the securities of the same issuer; that each be required to elect which of these two types of business it will conduct for a particular issuer and to keep out of the business not elected.

(2) That Morgan Stanley & Co., First Boston Corp., Dillon Read & Co., Kuhn Loeb & Co., Blyth & Co., Smith Barney & Co., Lehman Bros., Harriman, Ripley & Co., and Goldman Sachs & Co., be enjoined from participating, directly or indirectly, in any buying group formed to merchandise a security issue in which any other of said defendant banking firms is a participant; and that participation by any of the following defendant banking firms to wit: Glore Forgan & Co., Kidder Peabody & Co., Eastman, Dillon & Co., Union Securities Corp., Stone & Webster Securities Corp., Drexel & Co., White Weld & Co., and Harris, Hall & Co. (Inc.), in buying groups formed to merchadise a security issue, be enjoined in such a manner as the court may deem necessary in order to create actual competition in the investment banking industry.

(3) That each firm be enjoined from placing any officer, director, partner, agent, employee or nominee on the board of directors of any issuer for whom it acts either as financial adviser or as a purchaser of securities.

(4) That each defendant banking firm be enjoined from interfering with the right of any issuer to select both the method by which it will dispose of its securities and the outlet through which the issue will be sold.

(5) That each defendant banking firm be enjoined from interfering with the right of any institutional or other investor from choosing freely both the methods by and the agencies through which it will purchase securities.

(6) That each defendent banking firm be enjoined from refusing to negotiate with or to compete for the purchase of securities of any issuer either because some other investment banker is or has been the traditional banker for such issuer, or because the business of such issuer might be in competition with the business of some issuer for whom one of the defendant firms acts as adviser or has handled security issues.

(7) That each firm be enjoined from asserting any right to deal in the securities of a particular issuer merely because such firm has managed or participated in the merchandising of any security issue emanating previously from such issuer, or from recognizing or deferring to such a claim by any other defendant banking firm.

(8) That each firm be enjoined from creating, managing, or participating as an underwriter in a so-called standby account, that is, a buying group with continuous existence formed to merchandise the security issues of a particular issuer if and when issued.

(9) That each firm be enjoined from participating in any overly-large buying group, that is, a buying group which is larger than necessary to handle a particular security issue.

(10) That each firm be enjoined from acting with any other defendant firm or other concern in the securities business, either to select jointly or to delegate to anyone the selection of the security dealers to participate in sell-

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Monopoly Suit Unfounded, Say Accused Firms

Partners and spokesmen of underwriting concerns issue statements denouncing accusations. Harold Stanley calls charges "utter nonsense." John M. Hancock stresses existence of "sharp competition, operating in 'gold fish' bowl." Charles B. Harding points out methods followed are approved by SEC. J. P. Ripley calls charges "fantastic," and Lloyd S. Gilmour berates proposed restriction against underwriting houses acting as corporate advisers. Kuhn, Loeb says "attacks on Wall Street still appear to be popular" for political reasons and Col. Allan M. Pope scores action as against national interests.

Immediately following the filing of the Justice Department's civil suit against 17 prominent underwriting houses, partners and spokesmen of some of the firms named in the suit issued statements denying in general the charges, and calling attention to implications of the move. The "Chronicle" publishes herewith these statements as they have been issued and received:—

Statement by Harold Stanley of Morgan Stanley & Co.

This civil suit charging us with restraint of trade is utter nonsense. The charges are just not true. I cannot speak for the other firms mentioned. They are competitors of ours, but I can say what Morgan Stanley thinks about it.

Harold Stanley

Our business is the most competitive and the most regulated I know of. Our daily life is full of competition. We compete with other firms in our own industry, including the other firms named in the complaint, also with banks and insurance companies, not to mention government loaning agencies.

Everyone knows that for years our industry has been subject to the most minute regulation and scrutiny by the Securities and Exchange Commission.

It is silly to assert we have any agreement with anyone to restrict competition or that we are part of a monopoly. In selling securities, industrial management has been, and should be, free to choose whether to sell directly to banks or insurance companies, or to sell through investment bankers to the public by negotiation or by competitive bidding. Such freedom of choice is the very basis of competition.

The industrial plant in America is the greatest in the world. Investment bankers have helped provide the funds to make it so. Industrial management is entirely free and able to make and carry through its own decisions as to how and with whom to do business, and to meet its responsibility for results.

The injunctions proposed by the government in pre-suit conferences between the Department and counsel for the defendants were so unrealistic, unworkable, and fantastically discriminatory that our firm was forced to reject them and elect to defend the action in the courts. Other defendants have taken a similar position. The government's proposals, if adopted, would not only seriously handicap the financing of American industry, but would result in a substantial lessening of the present very real competition that exists among investment bankers today. We doubt if any court in the country will permit the Sherman Anti-Trust Act to be used to accomplish such a result.

The suit cannot benefit the investing public or industrial borrowers. Someone, for whatever reasons, has misled the Department.

Statement by John Hancock, Partner of Lehman Brothers

The charges reported in the press as levelled at the investment banking business do not jibe with the facts. Either these charges are based on ignorance of how business is done, or this is another campaign against American business made for purposes that will not stand the light of day.

John M. Hancock

Competition in the investment banking business is as sharp as in any field of American business, and business is widely spread. The 9-months' figures for 1947 show that 62 firms each did more than $10,000,000 of underwriting in that period. In addition, the terms which any investment banker can offer must compete with those offered by commercial bankers who make 'term loans' direct to businesses, and with the 'private placements' of insurance companies and other large institutions, which supply capital direct to corporations. In fact, the competition is so keen that a good half of the time and effort of my partners and myself, helped by a large staff, is devoted seeking opportunities for new business. I observe the same general situation among our competitors.

A successful investment banking business requires good business judgment, integrity and experience. In relation to the importance of the job, the large sums handled, the responsibility assumed, and the heavy risks involved, the profit margins in underwriting security issues are extraordinarily small. The profit margin before deducting expenses on a top grade bond offering sometimes is as low as 45 cents per $100. Moreover, one unsuccessful major deal may wipe out the profit of ten successful ones.

Since the Pecora Investigation about 14 years ago, and the T. N. E. C. hearings, every aspect of the securities business has been thoroughly examined and Congress has passed such laws as it believed necessary. The business of underwriting and wholesaling securities is now done 'in a gold fish bowl'. It is stringently regulated by Federal and State laws and supervised by the Securities and Exchange Commission, which is thoroughly familiar with the methods and practices of all phases of securities financing. Few, if any industries are more stringently regulated than the investment banking business.

Lehman Brothers has always made every effort to comply with every requirement of the law, every regulation of the Federal and State authorities and has always been guided by those professional and ethical principles which have been developed in the business, and which go beyond the mere requirements of law.

The American public knows that the underwriting and wholesaling of securities is an essential

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IBA Blames Suit on Compulsory Bidding Views

Murray Hanson, General Counsel, issues statement claiming organization was made defendant in anti-trust suit because it, together with some individual members, opposed compulsory competitive bidding. Says IBA never interfered with its members or others in bidding on, buying or distributing securities in legal manner. In memorandum to Attorney General Clark, IBA denies accusation of improper "lobbying" and refutes charge it is controlled by 17 accused firms.

Following the filing of the Justice Department's anti-trust suit, in which the Investment Bankers Association was made a defendant along with 17 underwriting concerns, Murray Hanson, General Counsel of the organization, released a memorandum prepared for Attorney General Tom C. Clark, and at the same time issued the following statement protesting against the Justice Department's charges:

Col. Murray Hanson

The charges made against the IBA by the Anti-trust Division are fundamentally an attack upon the members of the Association for having individually and collectively exercised their constitutional rights of petition and of free speech.

It is perfectly clear from the bill of complaint that the IBA has been named as a defendant in this case simply because the Association and certain of its members did the following things:

(1) The Investment Bankers Association and some of its members appeared before the Securities and Exchange Commission and the Interstate Commerce Commission at public hearings and opposed the adoption of regulations requiring certain kinds of securities to be sold under a system of compulsory competitive bidding;

(2) Some officers and members of the Investment Bankers Association told members of Congress that they were opposed to compulsory competitive bidding; and

(3) Certain officers and members of the IBA made speeches and wrote articles criticizing proposals for compulsory competitive bidding.

These activities involved nothing except the expression of opinion; the use in the bill of complaint of such invidious and misleading phrases as "lobbying" and "intense pressure and propaganda" cannot obscure that fact. The IBA has never attempted to prevent any company from selling its securities by competitive bids or by any other method the company deemed desirable.

The IBA has never attempted to prevent any of its members or any other investment banking firm from bidding on, buying, or distributing securities in any way that is consistent with State and Federal laws.

The importance of encouraging citizens to state their views freely on proposed administrative regulations and on legislative questions has been repeatedly recognized by administrative agencies and by Congress. In this case the IBA is now charged with improper "lobbying," despite the fact that it was invited by the SEC and the ICC to appear and to comment on the proposed regulations

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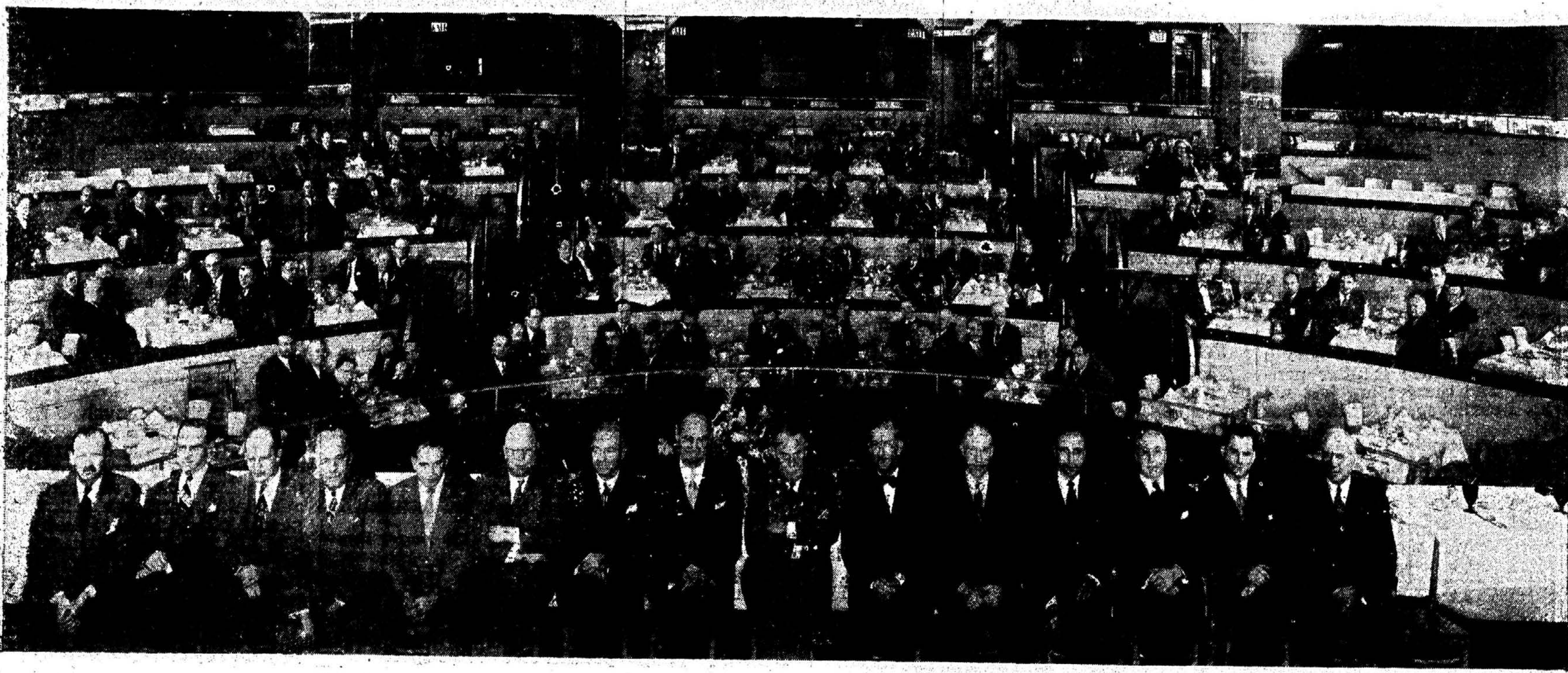
Illinois Security Dealers Association's Annual Dinner
Held at Morrison Hotel, Chicago, Oct. 31, 1947



Railroad Securities

It is not so long ago that a national advertising campaign called the attention of the magazine reading public to the fact that for the hundredth consecutive year Pennsylvania Railroad was paying a dividend to its common stockholders. In 1945, and even well into 1946, the Pennsylvania stock was fairly generally considered as one of the few real investment issues in the rail group. It was too conservative an issue to be a spectacular market performer or a trading favorite but it was widely hailed as an ideal medium for steady income and market stability.

The last two years have witnessed a drastic change in the public attitude towards these shares. It is true that the dividend record going back beyond the middle of the last century remains unbroken and will presumably continue. Nevertheless, even during intermittent periods of general strength in the rail market as a whole the Pennsylvania stock continues almost daily to establish new lows. There is nothing in the current earnings picture that would tend to contradict the market action, and for the most part railroad analysts are not inclined to look for any dramatic change for the better over the visible future. It is not at all difficult to find other securities, particularly outside the rail field, selling in the same general price range but having appreciably better prospects.

What was not recognized during the war boom was that the inflationary spiral of costs had gradually been creeping up on the eastern roads as a whole and that Pennsylvania had not been immune to this general trend. The high level of passenger business during those years and the profits that were coming in from this normally unprofitable end of the business went a long way towards obscuring the real problems with which these roads were confronted. Some of these adverse influences may be corrected in time but others are apparently inherent in the territory served and the type of business handled.

Generally speaking the major traffic centers in the eastern territory are located fairly close together. This makes for a large proportion of short haul business, in the passenger and as well as in car load and l.c.l. freight. Short haul business, unless it consists of the train load movement of bulk goods such as coal and iron ore, is generally expensive to handle. It is obvious that the terminal costs of handling a shipment moving 30 miles are just as heavy as if the shipment were moving 300 miles. There is, however, a vast difference in the amount of revenue received. A large part of the terminal cost consists of labor and fuel, both of which have gone up very sharply.

L.c.l. and passenger business by the very nature of the operations involve relatively heavy labor forces. This situation is particularly acute when the movement is short haul. Moreover, these two types of business do not lend themselves so readily as other phases of railroad operation to mechanization such as would increase the productivity of labor and keep the unit costs under control. Another factor general to railroads operating in the industrial east is that the territory is losing ground to the rest of the country. Population trends and decentralization of industry have naturally worked to the detriment of the mature sections of the country and to the benefit of the south and west. This trend has not as yet run its full course.

Aside from the general factors inherent in the territory served and the type of business conducted, there are some particular conditions affecting Pennsylvania individually. In the course of time these adverse influences may be subject to correction. Up until the current year Pennsylvania has done virtually nothing in the way of dieselization even for switching operations. As a matter of fact, for many years the road has installed very little new motive power of any description. At best it will take a few years to make a significant start at correcting this situation even with the present diesel program and the high hopes held out for the coal-fired gas turbine now in the development stage. Also, it is generally conceded that Pennsylvania's traffic is just too high for the maximum efficiency. The existing facilities are not sufficient to handle the volume expeditiously. The resulting bottlenecks and delays in transit naturally affect the entire operating performance. As with the motive power situation this condition may be corrected in time although this is certainly not in near term prospect. In the meantime, the company will be hard pressed, even with increased dividend income from Norfolk & Western, to show more than nominal earnings on its stock.

Karl J. Panke Joins Lehman Brothers Staff

Lehman Brothers, 1 William Street, New York City, members of the New York Stock Exchange, announce that Karl J. Panke has become associated with the firm in the municipal bond department. A Vice-President in the Boston office of C. F. Childs and Company from 1931 to 1940, Mr. Panke then became Vice-President and Sales Manager of the firm's New York office until 1943. In that year, he joined Harvey Fisk & Sons, Inc., as a dealer in municipal and government bonds. Mr. Panke's duties with Lehman Brothers include coverage of the New England territory.

The Banks Under Federal Deposit Insurance

By H. EARL COOK*

Director, Federal Deposit Insurance Corporation

FDIC head recounts improvement in conditions of banks since Banking Act of 1933, but warns nature of bank problems is changing constantly, and research and planning is essential. Sees no danger in upward trend of risk assets in banks, and points out, in addition to sound credit judgments, banks should maintain and improve internal auditing and controls.

We of the Federal Deposit Insurance Corporation like to think that a new era of banking was ushered in by the Banking Act of 1933. Today there are nearly 13,400 commercial banks and trust companies and 200 mutual savings banks whose deposits are insured by the Federal Deposit Insurance Corporation. These institutions constitute 92% of all the banks in the nation and hold 95% of all the deposits which, as of June 30, 1947, amounted to $155 billion.

H. Earl Cook

As you have heard, we are now well into the fourth year in which there has not been a bank receivership or a loss to a single depositor in this country. This marks an all-time record in the nation's history for bank solvency, stability, and safety.

The fine record of banking in recent years is gratifying to all of us, I am sure, but it would be a mistake for us to rest on our oars. Knowledge of past mistakes, alertness to new developments, and foresighted planning all are necessary if this fine record is to be extended on into the future. We in supervisory capacities are doing all we can in these respects, and we try constantly to encourage bankers to plan for the future and to provide against contingencies.

Research and Planning Essential

The nature of our problems is changing constantly, and it is the very fact of this constant change that makes research and planning so essential. Perhaps I can best illustrate my point by reviewing our own experience in Federal Deposit Insurance Corporation.

Since its inception, Federal Deposit Insurance Corporation has protected 1,319,000 depositors in 401 closed insured banks. Of their $509,000,000 of deposits, 98% were made available immediately without loss to the depositors.

In the nearly 14 years of its operation, the corporation has promptly paid $87,000,000 in the 245 insured banks that have been placed in receivership. More than 330,000 depositors in those institutions were completely protected.

By authorization of the Banking Act of 1935, the Federal Deposit Insurance Corporation exerts every effort to forestall failures by aiding the merger of weak insured banks with stronger institutions. There have been 156 such mergers, with the Federal Deposit Insurance Corporation disbursing some $176,000,000. The advantages of this type of action are that all depositors are fully protected and that there is no interruption to banking service in the community. The successor, or absorbing bank takes over all sound assets of the weak bank. The difference between the amount of these sound assets and the deposit liabilities assumed by the continuing bank is paid promptly in cash by the Federal Deposit Insurance Corporation. The advantages of this latter technique, when it is made more flexible to care for situations where there is only one

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*An address by Mr. Cook before the 23rd Annual Convention of the National Association of Bank Auditors and Comptrollers, Baltimore, Md., Oct. 23, 1947.

The Need for Sound Credit

By KENNETH K. DuVALL*
President, First National Bank, Appleton, Wis.

Asserting change in economic weather is forthcoming, Western banker contends job of granting and administering credit is becoming increasingly vulnerable. Urges careful examination of loan applications and says loan policies must be geared to needs of our economy. Sees possible trouble in behavior of prices and warns marginal business enterprises which are "war babies" may succumb with price declines. Warns against carelessness in consumer credits.

To "keynote" a credit clinic, such as this, your program chairman suggested that I speak on "The need for the extension of sound credit." Now, that title strikes me as being conveniently broad and strictly noncontroversial! Such specialists and experts in the credit field as make up this audience will readily agree to the proposition that there is a need for the sound extension of credit; in fact, there always has been and there always will be.


Kenneth K. Du Vail

However this may be, it is particularly apropos to dwell on the reasons why the need for the extension of sound credit is of overwhelming importance at this particular juncture in history—at this critical time not only in the history of our own United States but also in the history of the world and in the history of those economic and political concepts under which we, in the United States, have dwelt since the beginning of our history. You and I know that the economic and political concepts under which we have grown great are under a withering attack. In all of the world today only in the Western Hemisphere do we find organized society committed to the proposition that the best possible results come from men working out their economic salvation as individuals rather than as pawns in a state-directed and controlled plan of economy.

Capitalism, as we have come to use and understand the term, has been and is being attacked, vilified and wiped out in many sections of the world. Let us ask ourselves—why is this true? Is it not because the economy of free enterprise has had to stand the strain of two devastating world wars—a strain which would have seriously tried — if not wrecked—any economic system? Is it not because a free economy has been taken advantage of and abused on occasion by greedy, short-sighted men? Has the attack not come in part from well meaning dreamers who are blind to the fact that all life is a struggle against an indifferent and, oftentimes, hostile environment? Is it not clear that capitalism, as we have come to know it, never was given a chance in one great section of the world which, emerging from feudalism at the end of the World War I, was led impulsively by a minority that sought overnight to create a world patterned from books written by dissatisfied men who dreamed up a world of their own? In our own United States economic freedom, like political freedom, is one of those blessings which humans are prone to forget until they disappear.

If this be the broad, general background against which we work, what are some of the particulars with which we should be concerned? First and foremost, it seems to me, we should be concerned with the particular phase of the economic cycle in which we seem to be operating at this time. Our enemies are well aware of the cyclical nature of capitalistic economy and they know full well that the tide has been rising these many years and now shows the historical signs of beginning to boil off at the top. Nothing could delight those who wish to see the economy of free enterprise overthrown more than a "bust" in the "boom and bust" conception so widely held. Are we predestined or, shall I say, doomed to follow this "boom and bust" pattern?

Chances Favor Change in Economic Weather

As credit men we know that after more than a decade of increasing prosperity the chances now favor a change in the economic weather. Those among us who have been granting credit since slow recovery got under way in the early thirties know how relatively simple it is to succeed in risk taking when times are good. Those among us who have the job of continuing to grant and administer credit in the years ahead must know that we grow increasingly vulnerable. The wisdom and skill that we bring to bear on credit policies and decisions may well become a determining factor in the prolongation of prosperous conditions or the precipitation of a crippling period of depression.

Fortunately, it seems to me, the statistical position of our banks at this time is so much stronger than in previous boom periods that we shall not find it necessary to adopt the policies of forced liquidation which characterized the short but precipitate setback of 1921-1922 and the almost disastrous depression of the early thirties. By statistical position I refer with emphasis to the relationship between so-called "risk" assets—largely loans today—and capital funds. It astonishes me to find an occasional banker still thinking in terms of a safe relationship between loans and deposits. It would be as logical for a manufacturer to calculate his limits by comparing inventory to current liabilities. With some notable exceptions, the banks of the country have capital funds in strong proportion to loan totals. Despite this, human psychology is such that some bankers may become panicky and force situations that with sound nursing could be brought through a crisis of considerable proportions. Then, again, the attitude of the bank supervisory agencies is a factor of importance over which bankers, as such, have no control. Let us hope that these agencies take a constructive and sound course when readjustment sets in.

In any event, let us realize that with plenty of capital to absorb the shock of possible credit losses when a change in the economic weather comes we can afford to nurse our problem cases and avoid adding the fuel of forced liquidation to the smoldering fires of economic maladjustment. If we are free from depositor pressure we may have the opportunity to show our belief in a cyclical type of economics which promises bet-

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*Keynote address of Mr. DuVall at the Mid-Western Credit Conference, Chicago, Ill., Oct. 28, 1947.

Uncle Sam Looks Abroad

By CHAUNCEY G. PARKER*
Director of Administration,
International Bank for Reconstruction and Development

Asserting International Bank aims at world-wide recovery and stability, its administrative executive describes bank's functions and limitations. Stresses loans must be made for productive purposes related to projects of reconstruction and development and must have sound financial base. Ascribes shortage of labor in Europe to unnecessary employment in governmental and non-productive pursuits, and urges greater mobility of manpower.

When you leave England these days, in the autumn of 1947, the traveler proceeds to Southampton 12 or 24 hours ahead of sailing time, depending upon whether he travels first class, cabin class or tourist. But all classes must undergo a most rigorous though very polite customs examination. Whether British or alien, you may take nothing of value with you unless you have first queued up and obtained an export permit. You have experienced this sort of examination in other countries, but England has always been a world-trading country and you are suddenly impressed with the low state into which world trade has fallen. If you have motored down from London in the evening, as I was lucky enough to do, the Queen Elizabeth, its colossal orange and black funnels floodlighted, looms up while you are still a mile or more from the docks. You proceed through the city, its war wounds healing to a scar, you board the ship, go to bed and the next morning have an experience for which only a month or more on England's austerity diet can prepare you. The breakfast menu handed to you has a dozen or more varieties of fresh fruits and juices, and so on down the line. You have't seen such food for weeks. You feel like the cowboy who, having struck it rich, visited the best hotel in town, tossed the bill of fare aside and ordered $50 worth of ham and eggs.


Chauncey G. Parker

If you are a hotel guest you can eat a lot in England so far as bulk is concerned, but it is like eating spaghetti, without sauce, butter or cheese, so far as tickling your palate is concerned, and like it again because an hour later you feel hungry. It is true that in England or in France you see no starving people, but you see people who are hungry both spiritually and physically, and puzzled as to why things are the way they are.

We had been attending the Second Annual Meeting of the Boards of Governors of the International Bank for Reconstruction and Development and its sister organization, the International Monetary Fund. The chief financial officers of 45 nations, the stockholders of these institutions, were assembled in London. England has just found it impossible to continue sterling dollar convertibility and the conferences on the Marshall plan were culminating in Paris. Representatives of Latin America were protesting that development of underdeveloped areas should receive equal consideration by the Bank with reconstruction. The governments of every country, struggling to remain in power, wondered if they could do so and retain their ideologies and keep the promises they had made to get elected. They were face to face with the curse of bad money and its dreary companions, customs barriers, price-fixing, unbalanced agricultural and industrial production, pendulous bureaucracy, and, worst of all, the inhibiting effect on the hopes and energies of the people.

I heard a highly placed Englishman ask a Belgian diplomat, "To what do you attribute the prosperous and productive times in Belgium?" The Belgian thought a moment and said, "To five things. First, to the liberation of my country by the gallant British and American troops. Second, to the fact that this liberation was swift enough and early enough to prevent destruction of our plants by the enemy. Third, to the fact that the war was still being waged and our people had tremendous incentive to work for victory. Fourth, to the vigorous and really courageous steps taken by our government to put our financial house in order. And, fifth, its intelligent action in releasing consumers' goods to provide incentives for work." In other words, the Belgian Government had succeeded in releasing the energies of the people. Europe's basic problem, the revival of production and the restoration of financial and political stability, had been achieved. An impressive record which is followed with interest by neighbors not so fortunate or perhaps wise. The International

(Continued on page 36)

*An address by Mr. Parker before the Cotton Textile Institute, New York City, Oct. 22, 1947.

NSTA Notes

FLORIDA SECURITY DEALERS ASSOCIATION

At its annual convention, the Florida Security Dealers Association elected T. Nelson O'Rourke, T. Nelson O'Rourke, Inc., Daytona Beach, Fla., President.

Other officers elected were A. M. Seaber, Merrill Lynch, Pierce, Fenner & Beane, Jacksonville, Vice-President; and D. Kirk Gunby, A. M. Kidder & Co., De Land, Fla., Secretary-Treasurer.


T. Nelson O'Rourke


D. Kirk Gunby

In addition to the officers, Thomas S. Pierce, Clyde C. Pierce Corp., St. Petersburg; George M. McCleary, Florida Securities Co., St. Petersburg; F. Boice Miller, B. J. Van Ingen & Co., Miami; and James Cranford, Atlantic National Bank of Jacksonville, make up the Board of Governors.

Securities Salesman's Corner

By JOHN DUTTON

The Biggest Threat to Prosperity?

(Continued from page 6)

nation. Unknown to the people we are traveling the same road as England and France. The only difference is that we started with the finest system of capitalism and productive tools the world ever knew until Roosevelt began to tinker with that system after he eventually took over in 1932. He not only never solved the depression but he prolonged it. The war made it appear on the surface that we recovered but it only got us deeper into the mire. **What we are having now is not true prosperity.** It is a post-war inflationary boom which is based upon a war created shortage of consumer goods, a Roosevelt depression, created shortage of capital goods, combined with an inflationary condition based upon a combination of these factors and depreciated money (which is also a direct result of New Deal monetary policies). Once these war created shortages of consumer goods are made up and the lag in capital goods still remains, and world wide pump priming fails (as it surely will just as it did here in the thirties) we will then have a serious depression.

There are those who prate about human rights being superior to property rights. There are folish people among us who say "if private industry can't do it then the government will have to do it". But property rights and human rights are one and inseparable. Our history is replete with examples that show conclusively that once the state invades the rights of the people and takes over the building of homes, of banking, of manufacturing etc. that the people gradually lose their initiative and are swallowed up by their taskmasters, who also tell them before they take over THAT THE GOVERNMENT WILL BE GOOD AND KIND AND WILL TREAT EVERYONE FAIRLY. In England they are now telling the people just that but at the same time pateralistic government is FORCING MEN TO WORK WHERE THE GOVERNMENT WANTS THEM TO WORK AND WHEN IT WANTS THEM TO WORK. Of course, this is only the beginning of the eventual denial of all civil and religious rights. Big government always takes over GRADUALLY.

If we are to preserve freedom in the United States we must have no compromise with government ownership. We must also eliminate the political party from control of our government which has stifled the flow of venture capital into industry during the past 15 years. Otherwise it will be only a question of time until an economic collapse so complete and all-engulfing will overtake our people that either a dictator of the right or the left (it makes no difference) will take our Constitution and burn it on the White House steps. When, and if this will come about, will depend upon whether or not the people can take back control of their business and banking from the bureaucracy which now exists in Washington.

Blyth & Co. Underwrites Indianapolis Power Common Stock

An investment banking group headed by Blyth & Co., Inc., is underwriting an offering by Indianapolis Power & Light Co. to holders of its common stock whereby the stockholders of record Nov. 5 may subscribe to 214,451 additional shares of common stock of the company at $22 per share at the rate of one share for each four shares held. The subscription warrants will expire on Nov. 19.

During the period of the subscription rights the underwriting group may offer shares of the common stock to the public at a price no lower than the subscription price and no higher than the last sale price on the New York Stock Exchange in the preceding 24-hour period.

Proceeds from the sale of the 214,451 additional shares of common stock will be applied toward the cost of the company's construction program which is estimated to call for expenditures of $35,200,000 over a four-year period beginning Jan. 1, 1947. The balance of funds necessary to finance the construction program will be obtained from the company's treasury, from operating revenues and from the sale of new securities.

One of the principal projects in this program involves the construction of a new generating station to be located on White River, near Indianapolis, at an estimated cost of $13,830,000.

The first 40,000 kw. turbo-generator is scheduled to be completed early in 1949. A second 40,000 kw. turbo-generator is scheduled for completion by the latter part of 1950.

Lehman Group Offers Macy's Debentures

Lehman Brothers and Goldman, Sachs & Co. head an underwriting group that is offeringly publicly today $20,000,000 R. H. Macy & Co., Inc. 25-year 2⅞% sinking fund debentures, due Nov. 1, 1972 at 99½% and accrued interest.

The net proceeds will be applied in part to the payment of $7,000,000 in bank loans currently outstanding, with the balance added to the Company's general funds. The remainder of the proceeds, together with additional funds which may result from depreciation accruals and undistributed earnings, will be used for its improvement and expansion program and for the carrying of increased receivables and inventories which may be necessary in connection with expanded operations. It is estimated, based on present cost levels, that the Corporation's contemplated improvement and expansion program will require approximately $25,000,000 during the next five years.

The debentures will be redeemable at prices ranging from 102% to 100% and through operation of the sinking fund at 100%.

The company's outstanding capitalization after the sale will comprise the $20,000,000 in new debentures; 165,600 shares of cumulative prefererd stock, ($100 par), series A 4¼%; and 1,719,354 shares of common stock.

Net retail sales of the corporation and its subsidiaries for the fiscal year ended Aug. 2, 1947 totaled $285,083,000 while net income amounted to $7,071,000, compared with $255,662,000 and $9,335,000, respectively, in the previous fiscal year.

Implications of the Bill of Rights

By WILLIAM O. DOUGLAS*

Justice of U. S. Supreme Court

Comparing concepts of individual rights under totalitarian system and our own government, Justice Douglas calls for observance of the Constitution's Bill of Rights "even when we deal with a minority that seeks to confuse and divide us." Upholds Justice Brandeis' dictum "greatest dangers to liberty lurk in insidious encroachment by men of zeal, well meaning but without understanding." Says we still have a close identity with socialist democracies of Western Europe and concludes it is the special responsibility of the Bar to make our civil rights an active potent force in our national life.

A Soviet professor of law recently stated, "Man should have no rights that place him in opposition to the community." The idea has ancient lineage. The slogan for centuries under monarchies was similar: "The King can do no wrong." The slogan of every dictator from time immemorial has, indeed, been "I am the State." Mussolini and Hitler are among recent illustrations. Those who control the Communist party are a current example.


William O. Douglas

Totalitarianism has had both varying forms and varying objectives. But the objectives, no matter how venal or how worthy, have invariably been the excuse for suppression of civil rights of the individual.

The technique is not exclusively that of dictators. In the 18th century when democracy was emerging in England, the younger Pitt sought to justify the infamous treason and sedition trials on the ground that they were essential to the defense and welfare of England. Our own record is not without blemish. We cannot view with pride what took place in New England in the cases of Sacco and Vanzetti nor what has happened in the Far West to some Americans of Japanese ancestry. Every lynching is a repudiation of the ideals on which our Republic was founded. And the signs "No Natives Allowed," which until recently hung in the cafes and theatres of Alaska, were a negation of our American ideal. The security of the state or the social welfare was invariably advanced as the justification for each and every lawless act of this character. All of which bears out the observation of Mr. Justice Brandeis that, "Experience should teach us to be most on guard to protect liberty when the government's purposes are beneficent. . . . The greatest dangers to liberty lurk in insidious encroachment by men of zeal, well-meaning but without understanding."

But such episodes did not set the pattern. By the turn of the 19th century England won by supreme advocacy and steadfastness the civil rights which fear of revolution had almost sacrificed. And the instances where civil rights of the individual are sacrificed in our country are, happily, decreasing with the years. Moreover, by reason of freedom of speech and of press, the conscience of the nation can be aroused to prevent any increase or spreading of these noxious practices.

In totalitarian systems, however, sacrifice or obliteration of the civil rights of the individual is prominent and is apparently the universal technique. Freedom of speech and of press would be dangerous to those in power, since they would create doubts and suspicions concerning the invulnerability of the rulers or would generate opposition to them. And full recognition of freedom of religion would cause the masses to realize that there was, indeed, a God higher than any secret police, wiser than any judge, more powerful than any dictator. That, too, would cause a dilution in absolute temporal power which the totalitarian regime demands. These freedoms are, in truth, unruly forces, the source of gravest danger to those who stand in their way.

I mention these obvious matters to emphasize a less obvious point: that the most important difference between the democracies and Nazi Germany and between the democracies and Communist Russia is to be found in the existence of civil rights in the democracies and their absence in totalitarian countries. That difference overshadows even the vital differences in economic and social organization—differences which I in no way intend to belittle. But the latter differences are likewise great when we compare this country with the democratic socialist countries of western Europe. For in the latter, many industries have been socialized and free enterprise, as we know it, has to a degree disappeared. Yet in spite of that great difference, the civil rights of the individual under these socialist regimes have, without exception I think, continued to flourish, political opposition has been unhampered, the press has not been shackled, and the churches have remained open.

Have Close Identity With Socialist Democracies

Yes, in spite of the fact that radically different political and economic programs have emerged in the socialist democracies of western Europe, we in this country have a close identity with them. We have similar traditions of fair play, of due process. Dignity and worth of the individual are first in our scale of values. We respect his rights not only when asserted against his fellow men, but also when asserted against his government. He has, contrary to the totalitarian philosophy, rights which frequently place him in opposition to the community.

I do not emphasize the importance of civil rights in the democratic scheme of things to lecture Russian or other totalitarian regimes on what we deem to be their inadequacies. The peoples of each land are entitled to work out their own destiny. I hope we are always tolerant of their attempts. As measured by the standards of western civilization, some are in their infancy—just beginning to walk, so to speak, after being freed from the chains of a slavery centuries old. These people of the world have different beginnings, different backgrounds, different heritages and traditions. It took English-speaking peoples seven or eight centuries to win their Bill of Rights. Others who are just emerging from serfdom or who are still in slavery would, if given their freedom tomorrow, have a long and painful path to travel before they enjoyed the full blessings of liberty. Traditions or habits of thought cannot

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*An address by Justice Douglas at the Annual Dinner of the Rhode Island Bar Association, Providence, R. I., Oct. 29, 1947.

Economic Advisory Council Reports on Foreign Aid Burden

Holds high exports have added to inflationary pressures, but points out rising domestic production could sustain present heavy export demands, and urges retention of high tax levels to offset fiscal impact. Sees greatest problem in grain and steel shortage.

The Council of Economic Advisers, comprising Edwin G. Nourse, Leon Keyserling and John Davidson Clark, in reporting to the President on the burden which would be imposed on the nation's economy by providing increased foreign aid, has issued the following summary of the investigation:

Edwin G. Nourse

Leon H. Keyserling

Dr. John D. Clark

Scope and Purpose

The principal questions considered in the Report are the extent of the burdens that would be imposed on the economy of the United States by providing further foreign aid during the next few years and the capacity of the economy to support those burdens. Since a companion report prepared under the direction of the Secretary of the Interior deals with national resources and physical capacities, the Council of Economic Advisers centers its attention upon the effect of exports, financed in part with government funds, upon domestic production, consumption, and prices. Burdens are measured first in terms of goods made available abroad and withdrawn from domestic consumers, and second in terms of price effects; then these price impacts are looked at in their relation to the general functioning of the domestic economy; and then the effect on government finance and the tax structure is examined.

The Impact of Past Aid—Size

The effect of the export surplus to date is highly relevant to an inquiry into the general impact of a new foreign aid program because, at the levels of new foreign aid under discussion, the export surplus in the future will be lower than it has been in the recent past, while our total domestic output of goods and services will probably be higher in future years.

The size of the export surplus furnishes a general measure of impact, since it represents the excess of goods and services sent abroad over the goods and services that we import. In 1946, total exports were $15.3 billion and the export was $8.1 billion. In the second quarter of 1947, total exports reached a peak annual rate of $21 billion, imports were about $8 billion, and the export surplus rose to an annual rate of $13 billion, but in the third quarter exports declined to an annual rate of $18.3 billion, and the export surplus to $10.3 billion.

Since the end of the war, government financial aid to European countries has financed about four-fifths of their excess of purchases from us in 1946, and nearly all of it in the second quarter of 1947. The large part of the export surplus financed through our foreign aid program has reflected economic conditions in Europe and the depletion of their buying resources. Since the end of the war, the government has financed about one-third of our exports to the world as a whole, and about two-thirds of our total export surplus. The impact of aid has, therefore, been substantially less than that of the total export surplus.

Effect of Past Aid on Domestic Consumption

The size of the export surplus to date has naturally decreased the amount of goods available for domestic consumption. But it has not, in view of the tremendous increase in American productive capacity during and since the war, prevented the American consumer from enjoying a general standard of living far above any prewar level. Actual domestic consumption of most significant items is now far higher than before the war. For example, per capita consumption of meat has risen from 125 pounds a year in the prewar period to an estimated 155 pounds for 1947. Such shortages of goods as we experience reflect unparalleled levels of domestic demand based on high national income.

Effects on Price Level to Date

The high foreign demand has added to the inflationary pressure on prices, but the much larger domestic demand has been the principal cause of the upward pressure. Prices remained stable during the second quarter of 1947, when the export surplus reached its peak. In the third quarter of this year, although the export demand has been diminishing, it has played an important part in the increases in grain prices, due to high foreign demand for wheat in the face of adverse crop developments. Grain price increases have spread to livestock and other food products. But even for food, the sharp rise stemmed largely from the exceptionally high domestic demand. Looking at the economy generally, price inflation has been caused mainly by domestic factors, but shortages of specific commodities present different problems as will be shown later.

The General Impact of a New Foreign Aid Program

In the absence of a new foreign aid program, it is likely that our export surplus would sink to an annual rate of $4 to $5 billion by next year, contrasted with the $13 billion annual rate in the second quarter of 1947 and an estimated current annual rate of about $10 billion. Assuming that our imports remain at approximately the current level of about $8 billion a year, our total exports during next year would sink to an annual rate of $13 billion or less, compared to an annual rate of $21 billion in the second quarter of 1947 and an estimated current annual rate of about $18 billion. The major reductions would occur in our exports to Europe.

While this rapid reduction in exports would probably not inflict serious short-run damage on our own economy, substantial problems of readjustment would be generated. Moreover, the industrial paralysis which could be expected to result in some other countries would have repercussions of major proportions upon our own economy and upon world stability.

The report assumes for illustrative purposes a foreign aid figure based upon the Paris Conference Report which would reach a maximum annual rate of $8 billion during the first year, including about $1 billion already authorized, and which would produce a maximum export surplus of about $12 billion a year. This would mean total exports at a peak of not more than $20 billion a year, assuming $8 billion of imports. Since these levels are lower than those reached during the second quarter of 1947 and would decline appreciably from year to year, it follows that the export surplus resulting from any future foreign aid program will at no time equal, and for most of the time will be substantially less, than levels which have been reached during the current year.

In view of the long-run prospect for increasing American output if maximum employment and production are maintained, these facts lead to the conclusion that the general impact of a new foreign aid program of the assumed size upon the American economy could be sustained because a larger impact has already been sustained. The report stresses, however, that problems raised by specific commodities in relatively short supply could distort or overturn this generally optimistic picture if not dealt with effectively.

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Economist Forecasts Increased Productivity

Roderick H. Riley of National Planning Association says same kind of spirit in activity following World War I must be expected soon because of current heavy investment. Says problem will be the consumer absorption of expanded output.

The same kind of a spurt, which reflected a postwar increase of productivity as a result of the heavy capital expenditures made in 1919 and 1920, must be expected to result from the current heavy investment, Roderick H. Riley of the National Planning Association stated on Oct. 27 at the meeting of the Washington Control of the Controllers Institute at the Carlton Hotel. Mr. Riley was formerly Director of Research of the Office of Price Administration.

In 1945 and 1946 there was sharp controversy, said Mr. Riley, as to whether industrial productivity had risen during the war sufficiently to make feasible wage increases of the dimensions then demanded. This year with business expenditures on new plant and equipment expected to run about $15 billion, bringing the total since V-J Day to over $30 billion, the only question about productivity is how fast is it rising?

He pointed out that the heavy capital expenditures made in 1919 and 1920 were reflected in a postwar increase of productivity amounting to a full third in three years. The same kind of spurt, he predicted, must be expected to result from the current heavy investment.

Any such rapid growth of productivity will pose major problems, he warned. When American industry is fully tooled up and capital expenditures slacken off, will consumers be ready and able to step into the market and make up the difference, Mr. Riley asked. Will they, in addition, be able to buy the expanded output that our improved plants will be capable of producing? Can Management and Labor agree on the wages and can industry and agriculture find the prices that will help keep the economic machine running at top speed? Or will heavy public spending, whether on public works at home or on relief and reconstruction abroad, again become necessary to absorb the expanded output of American factories and farms?

These problems do not face us today, Mr. Riley concludes. They may not face us in 1948. But sooner or later they will come to the fore and will have to be answered, Mr. Riley cautioned. If we want to prevent the shrinkage of markets for consumption and investment, such as precipitated the crash of 1929, if we want to prevent the need for renewed large-scale government intervention, we must be ready with the right answers, he concluded.

With Wainwright & Co.

(Special to THE FINANCIAL CHRONICLE)

MANCHESTER, N. H.—Clinton W. Jackson has become associated with H. C. Wainwright & Co. of Boston. In the past he was Manchester representative for Tucker, Anthony & Co.

Canadian Securities

By WILLIAM J. McKAY

Slowly but surely Canada is laying an enduring foundation on which Canadian foreign trade and finances can be soundly developed. In spite of manifold pressures to resort to palliatives and hasty expedients the Dominion has wisely decided to concentrate on constructive planning along more independent lines than in the past. Indeed to a great extent Canada is now turning her current difficulties to good account. Although disguised as a result of a consistently favorable overall commercial balance, the Canadian foreign trade position has always been unduly vulnerable to detrimental external influences as the present crisis clearly illustrates.

Now a new pattern is beginning to unfold in accordance with which Canada will shape her future policies in closer cooperation with this country. As far as the long-range aspect is concerned there appears to be little difficulty. Schemes for greater eventual recourse to Canadian resources for the purposes of foreign relief, however, will require considerable time for their actual implementation and in the meantime the Dominion's immediate U. S. dollar problem still remains to be solved. Similarly any U. S.-Canadian trade agreement designed to correct the chronic imbalance of trade between the two countries will not have an immediate effect. Consequently Canada is still obliged to give consideration to unconstructive measures such as restrictions on U. S. imports in order to stem the drain on her existing U. S. dollar reserves.

Any action of this kind is naturally viewed with repugnance in both countries as it would be in direct conflict with the mutual desire to do everything possible to liberalize foreign trade. Consequently it is necessary to find means whereby Canada would have access to U. S. dollar facilities for current needs until such time as the operation of the long-range plans exert their beneficial effect.

Any financial arrangement with Canada devised for this purpose would be entirely distinct from the relief measures which are contemplated for the war-ravaged countries of Europe. Canada has the eventual means of repayment and the object of any extraordinary steps to solve the Dominion's immediate problems would be to relieve the best customer of this country of the necessity to curtail the volume of U. S.-Canadian trade.

The facilities afforded by the International Monetary Fund are too limited in scope, and in view of Canada's special circumstances, which are entirely unlike those of Britain and the countries of Western Europe, there is a clear case for placing the Canadian situation in a special category. From the point of view of this country any measure that will strengthen U. S.-Canadian economic and financial relations will facilitate the general task of European relief. With regard to the Canadian standpoint it is significant that Canada's efforts at Geneva not only heralded the end of the deplorable foreign trade era dominated by the strangling effects of Imperial Preference and the Hawley-Smoot Tariff, but it also constituted a notable step in the direction of a fuller integration of the U. S.-Canadian economies. This objective can not be achieved, however, until the means are found whereby the U. S. and Canadian dollars can be freely exchangeable.

During the week there was little change in the external section of the bond market but the internals were inclined to ease in sympathy with the slightly lower level of free funds. Stocks were irregular with the paper issues lower and junior golds in demand in anticipation of government relief measures for the stimulation of gold production. Oils also were higher following the recent price increase for petroleum products.

Frank B. Cahn to Merge With Merrill Lynch

Winthrop H. Smith, managing partner of Merrill Lynch, Pierce, Fenner & Beane, has announced the consolidation of the business of Frank B. Cahn & Co. with the Baltimore office of Merrill Lynch, effective Dec. 1.

This consolidation brings together the oldest Baltimore member firm of the New York Stock Exchange and one of America's largest securities houses.

Frank B. Cahn will become a limited partner of Merrill Lynch, Pierce, Fenner & Beane.

With DeHaven, Townsend

STAMFORD, CONN.—Lindsay Y. Thompson has become associated with DeHaven & Townsend, Crouter & Bodine, Philadelphia investment firm. Mr. Thompson was formerly associated with the Stamford office of Merrill Lynch, Pierce, Fenner & Beane.

With Dreyfus & Co.

Herbert E. Herrman has become associated with Dreyfus & Co., 61 Broadway, New York City, members of the New York Stock Exchange. Mr. Herrman was previously with Hirsch & Co.

Inquest on Sterling Convertibility

By PAUL EINZIG

In commenting on crisis in sterling convertibility, Dr. Einzig points out grave mistake was made by British Chancellor of the Exchequer Dalton in advancing date of convertibility. Holds Britain's export deficit and Secretary Snyder's interpretation made convertibility impracticable.

LONDON, ENG.—The debate on the economic crisis which is taking place in the House of Commons on its reassembly after the long summer recess has assumed largely the character of an inquest on the convertibility of sterling. And, according to a lobby wit, the verdict will be, or should be "Suicide whilst of unsound mind." The more Mr. Dalton seeks to justify his decision to proceed with the resumption of convertibility the more it becomes evident that the policy pursued on this matter was wholly wrong. In his speech on October 24, Mr. Dalton reaffirmed once more that the adoption of convertibility was the inevitable consequence of the Loan Agreement.

Dr. Paul Einzig

He emphatically denied that the United States Government has ever suggested a postponement of the date. But, then, nobody has ever claimed that such a suggestion was made in a positive sense. All that was stated by Mr. Dalton's critics was that, had he approached Washington with the request of approval for a postponement of convertibility his request would have received sympathetic consideration. He did not deny this, but preferred to ignore the subject. In fact, it is known over here that ever since May, and possibly even earlier, members and high officials of the Washington Administration, in private conversation with journalists, made it plain that their confidence in Britain's ability to resume convertibility at the present stage was none too firm, and that they would not be disinclined to discuss postponement. Quite recently, it has transpired that at an "off the record" conference with London correspondents of the American Press in September, Mr. Snyder reaffirmed this, though of course he and other Americans in official position refrained from stating it in public, for it would have embarrassed the British Government.

Even if Mr. Dalton was never approached by Mr. Snyder with a positive suggestion for discussing a postponement of convertibility it should have been evident to him from obviously inspired statements in responsible American and British newspapers that Britain's difficulties were viewed in official American circles with understanding. It would have been his duty to sound Washington at least informally. This, apparently, he failed to do. On the contrary, he is known to have displayed the utmost confidence in his ability to make convertibility work. Now he claims that he viewed the prospects all along with grave misgivings, but for obvious reasons he did not show his true feelings. This explanation can be accepted as far as his public utterances were concerned. Obviously it would have been wrong to display in public anything but the utmost confidence, once a return to convertibility had been decided upon. But there was no reason for him to conceal his pessimism within the four walls of the United States or British Treasuries, when discussing the matter with American statesmen or officials.

Nor was there any excuse for carrying the pretense so far as to resume convertibility months before the date fixed under the Loan Agreement. This was done for the sole purpose of inspiring confi-which Mr. Dalton, on his own dence in sterling, confidence admission, did not himself possess. In other words, it was sheer bluff, and it cost the loss of many millions of dollars. Had he confined himself to carrying out the letter of the Agreement by resuming convertibility on July 15, any sterling earned by other countries prior to that date would have been "old" sterling and therefore inconvertible. By resuming convertibility earlier, he had to convert a large amount of sterling earned before July 15, so that by that date his dollar position was much weaker than it would have been if he had not been in such a haste in resuming convertibility.

In his speech Mr. Dalton protested against criticising the officials of the Treasury and the Bank of England who have been accused in the Press of having advised him on the matter of convertibility. He very manfully declared that the decision rested with him alone, and any criticism on account of it should be directed against him and nobody else. So far so good. But it would have been even better if he had admitted that some of the officials who have been accused or suspected of having advised him in favor of returning to convertibility had in fact advised him against it. The Bank of England is understood to have been very pessimistic all along. It is true, officials of that Bank had inspired the financial Press with optimistic utterances of a most misleading character. But in doing so they merely obeyed instructions; having registered their objections they had to assist in the execution of the policy that was adopted by the Government in disregard of their protests.

Strangely enough, Mr. Dalton's speech left unanswered precisely those criticisms for which there should have been a perfect answer. He has been criticised on both sides of the Atlantic for the many loopholes through which large amounts of dollars were lost as a result of abuses of the provisions of convertibility. But most of these loopholes were the inevitable consequence of the interpretation of convertibility forced on him by Mr. Snyder. Had the British interpretation been accepted there would have been much fewer loopholes. It would have been possible to continue convertibility some months longer. Even then, however, it would have had to be suspended in all probability before the end of this year, for the gap between British exports and imports was greatly increased by the facilities given to foreign holders of sterling to spend their money in the United States. One of the most remarkable omissions from Mr. Dalton's defense is the absence of any reference to this fateful effect of convertibility.

Had the debate taken place in August, Mr. Dalton would have found it difficult to face the storm of criticisms. As it is, so many things have happened since the suspension of convertibility that the whole disastrous experience is now looked upon as a matter of past history. Also Mr. Dalton's most formidable critic on technical subjects such as convertibility, Colonel Crosthwaite-Eyre, is away in the United States on a lecture tour. So the chances are that Mr. Dalton will be let off comparatively lightly. Even so, his prestige in the country and his popularity in the Labor Party have suffered as a result of the convertibility crisis.

Merrill Foundation to Promote Study of Effect of Taxation on Business

The Merrill Foundation for Advancement of Financial Knowledge, an endowment fund organized to promote study of economic and business problems, was announced yesterday by Winthrop H. Smith, President of the Foundation and managing partner of Merrill Lynch, Pierce, Fenner & Beane.

The announcement of the Merrill Foundation was made in connection with the announcement of a grant of $175,000 to the President and Fellows of Harvard College for a study of the effects of taxation on business. This study, which is expected to extend over the next two years, will be made under the supervision of the Graduate School of Business Administration of Harvard University.

Winthrop H. Smith Chas. E. Merrill

The Merrill Foundation was conceived in 1945 by Charles E. Merrill, directing partner of Merrill Lynch, Pierce, Fenner & Beane. It was organized with an original donation from the firm's partners totaling $1,000,000. Announcement of the Foundation was delayed pending trustee approval of its first major grant.

Mr. Smith, in announcing the educational foundation, quoted as follows from Mr. Merrill's original suggestion to his partners:

"We, in common with most Americans, may have come to take for granted the country's great growth and prosperity which have resulted from our political and economic democracy, just as many of us take for granted our Constitution and Bill of Rights.

"It is but pointing out the obvious to say that the United States is now at one of the major crossroads of its history. Political and economic systems and beliefs which differ profoundly from ours are growing up in other countries throughout the world.

"Coupled with their challenge to our democracy is the need within our own country for a better understanding of the basic principles underlying the American system and an examination of those principles in the light of the current and future problems which we face."

Mr. Smith said that the trustees of the Foundation had examined several dozen proposals during the past two years. "Of all of the suggested studies," Mr. Smith said, "none seemed more vital than a truly objective examination of the effects of taxes on business.

"The trustees of the Merrill Foundation believe that this proposed study, surrounded by every safeguard of complete academic freedom, will produce an unbiased mass of data that should open the door to a new approach to the whole problem of business taxation."

The trustes of the Foundation are: Mr. Merrill, Mr. Smith, Dean Donald K. David of the Harvard Graduate School of Business; Harold F. Johnson, Attorney, Prospect, Ky.; Stanley King, President Emeritus, Amherst College; John J. McCloy, President, International Bank for Reconstruction and Development, Gordon Rentschler, Chairman, National City Bank, and Albert F. Jaeckel of Chadbourne, Hunt, Jaeckel and Brown. Professor Bertrand Fox of Williams College is the Administrator.

Cites Price Effects of Increased Money Supply

NAM, in comprehensive report, traces relationship between trebled money supply and increased physical production of only 70%. Urges management and labor to hold prices and wages down to allow production to approximate demand.

The phenomenal increase in the money supply in this country is a major factor in the current high price structure, the National Association of Manufacturers declares in a comprehensive price investigation report which is being prepared for publication and which seeks to paint its price picture in the proper perspective so that an effective attack can be launched upon high prices.

Pointing out that the money supply has more than trebled since 1939, while physical production has increased only 70%, the NAM says the unprecedented gap between money and production exerts so strong an upward pressure on prices that it is surprising that prices are not even higher than they now are. In general, the NAM continues, the more rapidly the money supply outstrips production, the greater is the pressure on prices.

For this reason, the NAM explains, it has appealed for months to both management and labor to hold prices and wages at then current levels to allow production to increase to a point where supply more closely approximates demand.

"And to prevent further rises in the price level, it is essential to close the gap between the money supply and the production of goods by stepping up production and preventing any further expansion in the money supply," the NAM warns, adding that its study is designed to penetrate the mass of popular misconceptions about prices and to help distinguish between descriptions of *how* prices have risen and *why* they have risen.

The NAM report's statistical analysis, based on United States Treasury Department figures, traces the growth in the money supply since 1912, when it was $11 billion. It increased to $26 billion in 1929, then dropped to $19 billion in 1933—and increased since that date to $33.4 billion in 1939, and to $108.5 billion at present.

"The important thing to remember is that the money supply is not just a statistic," the NAM continues. "It is buying power—actual dollars owned by the people. An increase in the money supply, therefore, inevitably must be reflected in income and in the dollar value (as contrasted with physical units) of production. Thus we find that while the money supply was trebling since 1939, national income—the total of all income from current production—increased from $72.5 billion to $199 billion, and the gross national product—the total monetary value of all goods and services produced—increased from $90.4 billion to $226 billion.

"In other words, since physical production has not increased as rapidly as the money supply, there has had to be an adjustment in money value, or prices. The exact amount of this price adjustment depends upon the rapidity with which the money supply turns over, or is used for purchases. While money supply is a key factor in price developments, this does not mean that the apparent price level is to be explained solely in terms of the money supply."

The NAM's conclusions on the effect of the money supply on prices are part of a continuing investigation into the causes of present prices. The NAM observes that while the money supply is one of the principal factors in the price situation, "there is no single, simple explanation for the price rise in a country so varied in its economic structure as the United States."

Other factors which are being analyzed separately in the NAM price report are food and government policy; wages and productivity; profit margins, and foreign demand.

"The gross national product, which reflects the monetary value of production," the NAM report points out, "is low in relation to the money supply, which would indicate that there is no occasion to fear a collapse of either prices or production, insofar as the volume of buying power in the hands of the public is concerned."

The NAM also observes that the present price level is low in relation to national income, even though figures from the Bureau of Labor Statistics show that since 1939, prices in this country have risen at wholesale by about 100% and at retail (consumer prices) by 61%—through August, 1947. National income rose from $72.5 billion in 1939 to $197.6 billion as of the first quarter of 1947.

The record as a whole since 1939, the NAM says, gives this overall picture:

(1) The money supply has increased 225%.

(2) Physical production of industrial goods has increased 70%.

(3) National income has increased 173%.

(4) Gross national product has increased 150%.

(5) Wholesale prices of all commodities have increased 100%.

"The plain conclusions which follow from these facts are that the increase in the money supply has been so great that the most impressive fact is not that prices have been increased," the report states, "but that the rise has not been substantially greater; that the present price level is low in relation to the national income; that so far as the volume of buying power controlled by the public is concerned, there is little if any danger of a collapse of either prices or production, because the gross national product is low in proportion to the money supply, and that to prevent a further rise in prices, it is essential to step up production, and to prevent any further expansion in the money supply."

Another important fact, the NAM points out, which distinguishes the prices rises here from the inflation of other countries, is that the American public has shown no signs of questioning the integrity of the dollar—on the contrary, all reports show that virtually the entire world is seeking to accumulate dollars.

Also—while it may give small comfort to the housewife when she goes shopping—the United States has fared better than most of the rest of the world in the face of rising prices everywhere.

A survey of the costs of living in 32 countries, compiled by the Statistical Office of the United Nations and covering the ten-year period 1937-1947, shows that only six nations have a better record than the United States in "holding the line" on prices. Of the remaining 25 countries, four are suffering from serious inflation, with China being in a state of "hyper-inflation." Many of the countries which have higher costs of living than the United States are still adhering, at least technically, to price control and rationing, the NAM concludes.

Sidney Jacobs Forms Own Firm in New York

Sidney Jacobs Co. announce the opening of an office at 115 Broadway, New York City to conduct

Sidney Jacobs

a general brokerage business specializing in Unlisted Securities. Sidney Jacobs was formerly with Batkin, Jacobs & Co.

With F. L. Putnam & Co.

PORTLAND, MAINE—Valeda Nadeau has been added to the staff of F. L. Putnam & Co., Inc., 97 Exchange Street. Miss Nadeau was previously with Clifford J. Murphy Co.

"Communists Penetrate Wall Street": Cherne

Research director says even partners in brokerage houses contribute to leftist organizations. Sees Soviet expanding in Europe and says nations there are worse off than under Nazi domination. Holds Truman doctrine is Russia's best asset.

"There is a greater penetration of communists in Wall Street than in all of Hollywood," Leo Cherne, Executive Director of the Research Institute of America, told the New York Society of Security Analysts on Oct. 23. "The Communist-dominated union has had greater success below Fulton Street than above, particularly in banks and insurance companies. Even the partners in some of the brokerage houses have contributed financially to, and sponsored some organizations with obviously Leftist leanings," Mr. Cherne said.

Leo. M. Cherne

Mr. Cherne expressed concern not only with the stupid way in which we are handling the Communists abroad but in this country. On the latter, he pointed specifically to the mismanagement of the House un-American Affairs Committee in setting up Robert Taylor as an authority on communism. The same stupid technique, he said, was being applied by the Committee in billing Larry Parks, in the spotlight with John Howard Lawson, scriptwriter. It is like grouping together a bedraggled Red Army soldier with Vishinsky, and saying they are both communists. Pointed out in the same gesture, the soldier minimizes the threat of Vishinsky.

We are doing the same thing in foreign affairs, he said. Only recently have we become aware that there is any world beyond the oceans other than one which sells French postcards and French wines. We now find ourselves in ultimate contest for power with Russia—two strongly isolationist nations. But we are "raving internationalists" compared with the average citizen of the Soviet. Even many of the Soviet officials, he said, have no concept of actual world affairs beyond Soviet borders, and obviously have no respect for our ability to produce. "This is our ace in the hole," Mr. Cherne stated.

"The Soviet's major assets are chaos, anarchy, starvation, disruption, and political confusion—an easy policy since it is much easier to destroy than to build. Chaos is the basic cornerstone of Soviet postwar policy in Europe. It is no accident that the Soviet has not participated in peace treaties, and that, invited to 19 separate agencies set up since the war, the Soviet did not even reply to half the invitations, declining the others."

Cherne warned that the odds are in Soviet's favor, since chaos always follows war. To restore order in this devastation of ideas, let alone material things, is a gigantic piece of work. But because Soviet policy is one of chaos, ours of necessity must be the contrary.

Continuing, Mr. Cherne remarked as follows:

"All European countries today are worse off than before the war, and what is worse, were better off under Nazi domination. Even France, which has always

(Continued on page 36)

Mutual Funds

By HENRY HUNT

Hold That Line!

"Hold that line" has been the Administration's battle cry against inflation for nearly two years. "Raise wages but keep the cost of living down," say the brain trusters. Bid up the price of wheat to more than $3 a bushel to feed Europe, but don't add a cent to the cost of a loaf of bread is apparently Mr. Truman's conception of an ideal economy.

Prior to the war, business was hamstrung by New Deal ideologies. During the war, industry performed miracles of production—the nation came first and the stockholder took a back seat as the Excess Profits Tax rolled earnings back to the government treasury. During peacetime in a free economy, however, the stockholder rightfully comes first. He is the owner, the employer of the executives who manage his property.

It is becoming increasingly evident that industry is fed up with the Administration's vote-seeking economic platform and will hold the inflation line only to the extent permitted by rising costs. Recent increases in the prices of steel, oil and automobiles indicate that at least these three major industries intend to maintain their profit margins and pass mounting costs on to the consumer. Industrial executives have apparently made up their minds that they owe more allegiance to their stockholders than to partisan politics. This decision is a deeply significant one and perhaps marks the turning point in the fortunes of America's forgotten man—the investor.

A Paris Memory

Some years ago the writer ordered a gin fizz in a Montmartre Cafe. When the garcon failed to understand, your correspondent tried varying pronunciations of "gin fizz" until he saw a gleam of enlightenment in the eyes of the waiter. The latter, with a quick "ah oui!", withdrew but reappeared in a moment with a young woman in tow. To be sure, as ordered—one "Jeune Fille!"

Leverage Explained

The term "leverage," as applied to investment companies, is probably not as well understood as we had thought. We even had to explain it to our secretary — and she's a very well informed girl. Briefly, it involves putting borrowed money to work. It can work for you—or against you. **Lord, Abbett's** new booklet called "An Investment Company with Leverage" describes how it works in two different ways as follows:

"If a man can invest $1,000 at 5%, he will get a return of $50 per year. But if he can borrow an additional $400 at a cost of 2½%, and then invest the $1,400 at 5%, he will get a gross return of $70 and a net return, after interest cost, of $60 per year, or a return on his capital of 6%. This method of increasing income is called 'Income Leverage.'

"When the method is used with the objective of obtaining greater capital appreciation, it is called 'Capital Leverage.' A 25% increase in value of a $1,000 investment is $250; of a $1,400 investment it is $350. Therefore, if the investor with $1,000 had borrowed and invested an additional $400, the percentage gain on his own capital would have been 35% instead of 25%. The investor should, of course, select and time his investment with great care, because a 25% over-all loss would, with the above leverage, become a 35% loss."

Lo, the Poor Bear

C. Norman Stabler, Financial Editor of the New York "Herald Tribune," and one of the more rabid bulls, commented on the market outlook last week as follows:

"Every individual is entitled to his own opinion, and if he thinks that a country that is working at an all-time employment level, an all-time production level, an all-time pay roll level and has the highest living standards in the history of the world, is a short sale, then he is entitled to his opinion, and to our sympathy.

"Most of us would rather play on the team of Olds-Sloan-Wilson, and the many others, who are backing their confidence in the United States with money, by the hundreds of million dollars, trying desperately to catch up with the demand which we lay at the doorsteps of their companies. You can't make a bear market out of unsatisfied demand, full employment, high wages and facilities that, despite their edge over other countries, are still inadequate."

Money at Work

In a recent folder titled "Money at Work" the **George Putnam Fund of Boston** comments as follows: "If there is one basic reason why money is saved and invested it is this . . . with that saving is linked the hope that such money can be safely employed to produce an additional income. And it is likewise true that this money prudently invested should, over the years, bring a good return—not only in dollars but also in that priceless possession of a feeling of satisfaction and security.

"But there are times when investors forget this important fact—that idle money is sterile and unproductive. When the trends of business are uncertain—when investors are confused—apathetic—waiting for an upward (or downward) trend in security prices, they often lose sight of this truth—that only money at work can produce dividends.

"It is only in afterthought they recall—that the quality of an investment, and the continuity of a good income, are facts remembered long after the price is forgotten."

Notes:

The Wellington Fund has issued a new folder called "Why We Recommend Balanced Mutual Funds" which may be mailed by dealers to prospects without an accompanying prospectus.

Distributors Group and **National Securities & Research Corporation** both recommend the purchase of steel, railroad equipment, and building shares in recent folders.

Selected Investments Company has issued a new folder called "Better for the Widow." It points out that during the past eight years, a $100,000 investment in **Selected American Shares** has shown a total gain including capital appreciation and income of $92,500 as compared with an average gain of $58,300 for the eight winning entries in Barron's contest on "How to Invest $100,000 for a Widow With Two Children."

Hugh W. Long has a new folder on **Manhattan Bond Fund** called "An Unusual Investment."

Investors Syndicate of Minneapolis recently sent out incentive pay checks to managers and sales representatives totaling $290,000 and averaging $720 each.

Arthur A. Houghton, Jr., President of the Steuben Glass Company, and a Director of the Corning Glass Works and of the Delaware, Lackawanna & Western Railroad Company, has been elected a Director of **Fundamental Investors, Inc.**

With State Bond & Mtg.

(Special to THE FINANCIAL CHRONICLE)

NEW ULM, MINN.—George C. Webster has been added to the staff of the State Bond & Mortgage Co., 26½ North Minnesota Street.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Eugene W. Darr, Joseph R. Donovan, and Myrtle T. Keas have become associated with Herrick, Waddell & Co., 1012 Baltimore Avenue.

Miss. Valley IBA Group Elects Bert H. Horning

ST. LOUIS, MO.—The Mississippi Valley Group of the Investment Bankers Association of America has elected Bert H. Horning, Stifel, Nicolaus & Company, Inc., Chairman. Walter J. Creely, Goldman, Sachs & Company, was elected Vice-Chairman, and John H. Crago, Smith, Moore & Company, Secretary-Treasurer.

Bert H. Horning

Named to the Executive Committee were: Walter W. Ainsworth, Metropolitan St. Louis Company, ex-officio; E. Kenneth Hagemann, G. H. Walker & Company, ex-officio; Chapin S. Newhard, Newhard, Cook & Co.; Kenneth H. Bitting, Bitting, Jones & Co.; Mel M. Taylor, Semple, Jacobs & Company, Inc.; Fred W. Gardner, Reinholdt & Gardner; George J. Ries, Mississippi Valley Trust Company; Gus B. Walton, Walton & Company, Inc., Little Rock, Arkansas.

The Nominating Commitee presenting the officers to the group was composed of Walter W. Ainsworth; Russell Gardner; John R. Longmire, I. M. Simon & Co.; William P. Sharpe, Mercantile-Commerce Bank & Trust Company; and Garfield J. Taussig, Taussig, Day & Co.

Mich. Group of IBA Elects New Officers

DETROIT, MICH. — The Michigan Group, Investment Bankers Association of America, held its annual meeting and election at the Detroit Club on Monday, Oct. 27.

The following were elected:

Chairman: G. E. Miller, Miller, Kenower & Co.; Vice-Chairman: Oscar L. Buhr, Detroit Trust Co.; Secretary-Treasurer: Joseph F. Gatz, McDonald-Moore & Co.

The Executive Committee is composed of: William M. Adams, Braun, Bosworth & Co.; Palmer Watling, Watling, Lerchen & Co.; and Hale V. Sattley, H. V. Sattley & Co., Inc.

Gustav E. Berlin Dead

CHICAGO—Services were held Monday morning, Nov. 3, at Temple Sholom, 3480 Lake Shore Drive, for Gustav E. Berlin, widely known investment banker and Vice-President of Greenebaum Investment Co. He passed away Friday at St. Luke's Hospital after a brief illness. Mr. Berlin, who was 55 years of age, had been associated with Greenebaum Investment Co. for over 30 years, and was recognized as an authority on real estate and real estate securities.

He is survived by his widow, Anne, 3100 Sheridan Road, and two children, Morton and Mrs. Nancy B. Glick of St. Louis.

Joins Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Bernard E. Mohr is now with Herrick, Waddell & Co., Inc., 418 Locust Street.

With Edward D. Jones Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—David M. Harris has become affiliated with Edward D. Jones & Co., 300 North Fourth Street, members of the New York, St. Louis, and Chicago Stock Exchanges.

High Profits Are Not What They Seem, Says National City Bank of New York

In November "Monthly Bank Letter," issue is taken with statements of Secretary of Labor Schwellenbach that high profits are cause of present price increases.

In an article entitled "Are Profits Too High?" the November issue of the "Monthly Bank Letter," published by the National City Bank of New York, refutes recent statements, particularly those made by Secretary of Labor Schwellenbach, that profits are excessive and that high profits are a cause of rising prices. Quotations from the article follow:

The current figures on corporate profits continue to be a subject of active—at times even bitter — controversy, with criticism ranging all the way from intemperate charges of "extortion" and "robbery" to milder suggestions that business is "making too much money," and ought in the general interest either to cut prices or to raise wages and so help to sustain consumer purchasing power. Among the various pronouncements that have appeared on this matter recently is the following quotation from an address last month by Secretary of Labor Schwellenbach before the American Federation of Labor convention at San Francisco. Discussing the general price rise that has occurred, and referring to the factor of business profits, he said:

"There is another factor which has been, let us conservatively say, submerged so far as the public presentation of the problem is concerned. That is the factor of profits. I accept fully the contention that any manufacturer or any corporation is entitled to make profits. The profit motive is the basis of our whole economy. I would no more favor a general regulation of profits than I would a compulsory arbitration of labor disputes. I also recognize fully the right and need of any corporation to set aside a portion of the profits for future use. Good management demands it.

"I do contend, however, that to the extent that profits result in price increases they cannot be defended in this particular period of our national economy. Corporation managers say quite properly that they must set up reserves against the day when they might be subject to losses. What I do object to is that many of the same people who contend for that right—to make their corporations secure — also contend that the wage earners of America should dip into their savings and let their personal futures take care of themselves. I think the wage earner is as much entitled to get a nestegg of insurance for the future as is a corporation. It is a proved fact that savings by wage earners decreased 45% as between 1945 and 1946. It is a proved fact that the present savings of the great mass of the American people are 30% below what they were on V-J Day.

"I am frank to confess that I don't know, and I don't believe anybody can lay down rules as to just what profits a corporation should make and how much it should retain for reserves. But I do know that for the first quarter of 1947 the profits of corporations were $857,000,000 compared with $323,000,000 for the same period a year ago. Corporations manufacturing automobiles earned almost half as much for the first quarter of 1947 as they did for the entire year 1939."

The foregoing statement by the Secretary is couched in moderate and restrained terms and the questions raised are ones that a great many people are wondering about.

The Secretary evidently is fully aware of the need for reasonable earnings and of the importance of setting up reserves against future losses on inventories and other contingencies. The sole question is one of how much. He lays down the dictum that any profits that result in price increases are, ipso facto, excessive under present conditions; and cites figures to show that while wage earners' savings have been severely curtailed, earnings of corporations have expanded enormously. Yet, with all this, he nevertheless frankly acknowledges that "I don't know, and I don't believe anybody can lay down rules as to just what profits a corporation should make and how much it should retain for reserves."

Profits and Workers' Savings

As to the point about wage earners' savings, it will certainly be agreed that the wage earner has as much right as management to wish and to strive to set aside reserves for a "rainy day." The question, however, of who gets what out of corporate earnings is a matter for mutual agreement and bargaining between the management and workers of the individual industries concerned. We know of no way of laying down hard and fast rules for determining just how much workers shall earn and save, any more than of laying down similar rules for corporations.

As to the significance of the savings decline cited by the Secretary, it should be borne in mind that the rate of savings during wartime was abnormally high, due the great increase in income payments, to the shortage of consumer goods upon which income could be spent, and to the patriotic appeal to save and invest in war bonds. Today workers' incomes are higher than ever before, their savings are still large.

The profit comparisons used by Secretary Schwellenbach are unfortunate in that the period selected—the first quarter of 1947 with the first quarter of 1946—involves a comparison with a period when earnings were severely curtailed as shown by our tables and chart given in the preceding article.

Profits Not All That They Seem

The main point to be made, however, is that the profits themselves are not all that they seem. In the first place, they contain or reflect a substantial measure of inventory profit, which represents a highly illusory gain that can be quickly changed to a loss when prices turn down. According to the Department of Commerce new national income figures, the factor of inventory profits amounted to $4.7 billion or 38% of the estimated total corporate net income in 1946. Whereas the total corporate profits of $12.2 billion in 1946 were widely publicized as the largest on record, if allowance is made for these inventory adjustments the Department of Commerce figures show that the net income from operations was actually lower than in 1945.

Second, there is real question as to the extent to which earnings as currently reported are being overstated because of the fact that depreciation charges are commonly based upon original costs of plant and equipment and thus are wholly inadequate in view of the present level of replacement costs. While some companies have attempted to adjust for this situation by special reserves of one kind or another, this involves complicated accounting and tax questions, which are now being studied by a special committee of the American Institute of Accountants. Treasury Department regulations require that depreciation charges claimed as deductions for tax returns must be based upon original costs.

A recent study by the Machinery & Allied Products Institute of Chicago sets forth several possible ways of dealing with the problem and concludes that: "Since capital investment must be recovered in real purchasing power, not simply in dollars, under-depreciation should be recognized for managerial purposes whether recognized for tax purposes or not." Unless this is done, corporations may be misleading themselves, their shareholders, and the public as to their real earnings.

A sidelight on this question as to whether profits are "too high" is provided by the rapid expansion of bank loans since the end of the war, indicating that for a great many companies the supposedly high earnings are not in the form of available cash but have already been more than absorbed by the increased capital requirements of the business in a period of rising prices. These include both the higher dollar inventories and the resulting larger accounts receivable, and the capital invested in high-cost plant and machinery for reconversion, modernization, and development.

On the latter point, it is to be noted that the steel companies are being called upon to further expand their capacity, and the United States Steel Corporation alone, in its recent quarterly report, announced a program of expending $500,000,000 for this purpose. The same necessities of keeping pace with the growing needs of the American people are facing the petroleum and numerous other industries, including electric light and power, telephones, and railroads.

Profits and National Income

All of this brings us back to what Secretary Schwellenbach said as to the impossibility of knowing just what profits corporations should make and how much they should retain for reserves. The problem is a difficult one, and there are many considerations. In concluding, it seems pertinent to refer to a report entitled "Data on Wages and Profits" prepared early this year by a group of government economists in the Legislative Reference Service, Library of Congress, for the Committee on Labor and Public Welfare of the United States Senate. Pointing out that corporate profits are a resultant of a particular volume of business and of national income levels, the report states:

"We do not pass judgment on whether net corporate profits (in 1946) of $12,000,000,000 are too high on the basis of a national income of $165,000,000,000 even when a fourth to possibly a third of the profits was the result of a favorable tax situation. It is, however, an historical fact that the proportion of the national income going to net corporate profits is lower than in many other periods of high-level production and reasonably full employment."

The real question about whether profits are too high or too low is not a moral question. After all, a corporation is not, except in very limited measure, a group of individuals to whom its gains or losses are personal. The main question is rather the broad economic one of the relation between corporate earnings and the capacity of these enterprises to serve the needs of the country in the way that they must if civilization is to make progress.

Corporations are the principal mechanisms by which the inventions of the scientists and the technicians are turned into the goods and services which have raised the standard of living of our people to the highest level in history. The new discoveries of science, in recent years, together with the greatly increased cost of doing business and turning these inventions into usuable goods and services, call for a lot of new money. The principal source of this money is corporation profits.

Corporations can, it is true, borrow substantial sums from the banks and from the market, but they will go broke if they borrow too much in relation to their net worth.

This point of view needs to be considered in judging today's profits.

Daniel F. McCarthy Dead; Investigate Foul Play

An investigation is being conducted into the death of Daniel F. McCarthy, member of the New York Stock Exchange and partner in Vose & Co., after his battered body had been washed ashore at Leonardo, N. J. Mr. McCarthy had been the object of a wide search since he vanished Oct. 27. Mr. McCarthy had suffered cuts and bruises of the skull, although an autopsy by Monmouth County officials reported that they "were insufficient to cause death." Although the case was listed officially as a drowning, the New Jersey police implied that Mr. McCarthy had met with foul play. There was no indication or apparent motive for suicide, and an audit made of the accounts of Vose & Co. showed that his financial affairs were "in good order."

Hogate Director of NYSE Public Relations

The creation of the position of director of public relations of the New York Stock Exchange and the appointment of Donald D. Hogate to the post, effective Dec. 1, was announced by Emil Schram, President of the Exchange. Eugene Lokey, Vice-President of the Exchange, has been supervising public relations activities, along with other administrative duties. The naming of Mr. Hogate to the newly-established position will enable Mr. Lokey to devote his time to his major duties as Vice-President and Executive Assistant to Mr. Schram and Robert P. Boylan, Chairman of the Exchange's Board of Governors.

Donald D. Hogate

Mr. Hogate has been manager of the Washington editorial office of the McGraw-Hill publications for the last two years. Prior to that, he was with the public relations department of the General Motors Corporation for 10 years, first in Detroit and later on the General Motors war staff in Washington.

Before joining General Motors, Mr. Hogate was engaged in newspaper work in Indianapolis and Chicago. He was born in Danville, Indiana, the son of a country newspaper editor, and was graduated from De Pauw University at Greencastle, Indiana, in 1922. He is a brother of the late Kenneth C. Hogate, who was publisher of The Wall Street Journal.

With Merrill Lynch Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Lester A. King is now associated with Merrill Lynch, Pierce, Fenner & Beane, 10 Post Office Square. He was formerly with Whiting, Weeks & Stubbs and prior thereto with B. F. White & Co. and Blyth & Co., Inc.

With First of Michigan

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH. — McPherson E. Browning is now with First of Michigan Corp., Buhl Building, members of the Detroit Stock Exchange.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Credit restrictive measures, together with more vigorous "Open Mouth" operations that are intended to aid in curbing the inflationary trend of bank loans, are keeping the government securities markets on the anxious seat. . . . Prices of Treasuries continue to drift lower, with new lows being made, although the rate of decline has slowed somewhat. . . . Volume has not been heavy and the market is largely professional. . . . Yields are beginning to look attractive to investors and as a result scale buying of both the eligible and restricted issues is being done. . . . There are no all-out "plunges", but quiet, cautious accumulation of needed obligations. . . .

NEW RATE PATTERN?

New rate patterns are being discussed quite actively now, with indications that a 1⅛% certificate, which is expected very soon, may eventually give way to a 1¼% issue. . . .

This would seem to forecast a yield of about 1.57% for the 2s due Dec. 15, 1952-54 and a return of approximately 2.20% for the eligible 2½s due 1967-72. . . . The longest restricted issue, it is believed, might go to a 2.42% yield basis. . . .

These yields are considered to be about bottom levels, for the transition that is going on. . . . Barring unforeseen developments, it is indicated that the gerater part of the adjustment in yields of Treasury obligations has already taken place. . . .

SELLING BY BANKS

Prices of government securities will continue to be unsettled during the transition period, with psychology playing a very important role. . . . The movement of quotations on the down side, especially the eligible issues, is being aggravated by the credit restrictive policies that are being taken by the authorities in order to halt the upward spiral in bank loans. . . .

Instead of loans being curtailed through the loss of reserves, brought about by the retirement of certificates held by Federal, and smaller offerings of bills, the member banks are selling Treasuries to replenish their reserves, in order to make loans, with larger returns. . . .

Selling of government securities by the deposit banks is one of the important factors contributing to the instability of the Treasury market. . . . So far these sales have been mostly in shorts and intermediates, although there has been some liquidation of longer-term obligations. . . .

WHAT'S AHEAD?

Will the credit restrictive measures of the authorities mean lower prices for government securities and no important curtailment of the loan trend? . . . Apparently the emphasis for the time being is off the government market and its movement of prices, with all sorts of rumors flying about as to what will be done to curb the increase in bank loans. . . . "Open Mouth" operations are going strong as to what is likely to take place in order to bring about a change in the trend of loans. . . . Can prices of government securities be expected to remain stable under such conditions? . . .

If credit restrictions are more vigorous and indications point in that direction, what is to prevent the eligible issues from continuing to move lower? . . . Will not a dropping market for bank obligations have an adverse effect upon the restricted securities? . . . On the other hand, has the present level of prices for Treasuries about discounted the action to be taken by the monetary authorities? . . . These are some of the questions that are puzzling the money markets. . . .

While it is realized that there could be further adjustments in the government market, because of action to be taken by the powers that be, in restraining the loan trend, not all commercial banks are affected by the demand for loans. . . . Therefore, those institutions that are not experiencing an increase in loans will continue to take on needed issues as prices reach levels that they consider attractive. . . . This buying will absorb a substantial amount of the selling and help to keep quotations from getting too far out of line. . . .

While the dollar volume of loans, as was to be expected, has increased most in the New York City area, the largest percentage increase has been in St. Louis, followed by Minneapolis, Atlanta, Kansas City, New York, Cleveland, Boston, Dallas, Chicago, San Francisco, Richmond and Philadelphia. . . . The Federal Reserve districts that have shown the greatest rise in loans also have the largest excess reserves. . . .

CORPORATES AND GOVERNMENTS

The corporate bond market has been fairly stable in the past fortnight although adjustments between the various ratings continue to take place. . . . New issues have made some progress on the up side, with certain of these securities now at premiums over the original offering prices. . . . The fact that corporate bonds have been able to rally somewhat should have an influence upon government securities since the down trend in corporate bonds had an unfavorable effect upon prices of Treasuries. . . . The yield spread between AAA corporates and the longest ineligible issue has narrowed because the return on corporates has declined somewhat, while the yield on the restricted obligation has increased slightly. . . .

If the yield differential between AAA corporates and Treasuries is to be maintained at levels that were considered desirable in the past, it seems as though government obligations should be at a bottom here. . . . Twenty-year AAA corporates now yield only .27 more than the longest tap bond, with the return on 40 year AAA's approximately .58 greater.

Business and Commodity Outlook for 1948

(Continued from page 2)

decline in 1948 business volume from the extremely high 1947 volume. The almost fabulous demand built up during the war is still far from satisfied in many fields. It is safe to say, for example, that even if automobile output continues at current levels through the next 15 months, the pent-up demand will still not be entirely fulfilled. Building, too, will be a bulwark of strength, since there is no apparent end to the number of housing units desired by American families.

Manufacturing Lines To Bulk Good Volume

The prevailing pattern next year throughout manufacturing lines will be for output to march along at approximately the same levels as during 1947. There will of course be variations, but most of these should be slight. Manufactured foodstuffs, now at all-time record highs, will probably not reflect much more expansion, but may very well hold close to present peaks. Consumption of all textile fibres except silk will move slightly off, while boot and shoe production may show small gains over 1947. Cotton textile and rubber manufacturing are expected to register a second year of irregular decline. Needs for new and replacement tires will continue unusually heavy, far above normal, even though unprecedented output has gone far toward satisfying the wartime replacement demands.

The automobile industry will be a pot of gold at the foot of the rainbow next year. We forecast that nearly 6 million cars will be turned out during the 12 months' span. Improving steel supplies will have a favorable impact upon automotive centers, and the Taft-Hartley Act will do its part in promoting labor harmony. As automobile assembly lines hit a stride never before reached during peacetime, back orders will gradually be filled—although it seems possible that even this astounding out-turn may not be able to keep up with wear and tear.

Building Industry In High Gear

The building industry has had a number of false starts since war's end, and it was not until recent months that the cogs in the wheels began to catch hold. Exorbitant labor and materials costs s c a r e d away potential builders of homes and plants. Now, apparently people are tired of waiting for expenses to decline and even afraid that costs will actually climb higher. Therefore, the present building boom may well continue for several years, sustaining many industries closely connected with it.

Continued demand for capital goods will bolster iron and steel requirements. Production of such basic materials should even equal the exaggerated output for 1947. Paper production is now at an extremely high rate, drawing steadily nearer to a normal supply-demand balance. Any decrease will probably hold off until far along in the new year. Printers and publishers will not do so well during 1948. Hard fuels will do well to hold close to prevalent output levels. Crude oil, natural gas, and electrical output should hold up well.

Airlines Up — Railroads Down

The airlines are embarking upon a vast program of cargo expansion. Look for a rapid upswing in air travel during 1948 at the expense of the railroads. Contributing to this will be new and larger planes, better airport facilities, and new equipment which will minimize the dangers arising from erratic weather conditions. Railway freight will suffer serious decreases from 1947 levels as a result of greatly improved air and motor truck movement.

Non-ferrous metals output will probably shade off only slightly. Except in the case of lead, critical shortages are over. Retail trade, if it does no more than hold close to present high levels, will enjoy another year of record activity. We believe that variety chain stores and mail order houses will outshine other retail organizations during 1948. Department store sales may see some measure of readjustment.

Foreign Situation Crucial

While we are definitely optimistic on the domestic situation, international prospects are considerably less reassuring. Even though none of the peoples of the earth will want war during 1948 or any other year, it will take some extremely ingenious maneuvering on the part of diplomatic and statesmen to prevent dangerous d e v e l o p m e n t s. Of course, it is not surprising that 50 different nations, nearly all speaking different languages, are finding it difficult to agree.

Russia has proved herself particularly pig-headed in her determination to run things her own way. 1948 should reveal whether or not she can be forced to back down and come along with the majority of nations on certain important issues. Her continued refusal to compromise could easily lead to an open break between Russia and the Western powers.

National Income $190 Billion

Purchasing power will move along at a very high level. We forecast that the national income for 1948 will equal the $190 billion estimated for 1947. The individual tax bill may be somewhat lower. Therefore, the general picture is one of plentiful buying power for all categories. Farm incomes may possibly suffer some losses but should not fall more than 20% below current levels which are far above parity.

The national budget, barring the ever-present possibility of increasing military requirements, should remain close to a balance. Government methods of financing will continue to be deflationary, even if hostilities were to become more w i d e s p r e a d in Europe. Longer term paper is replacing the inflationary short-term. Control of consumer credit will of course be out the window after November, but late 1948 may witness attempts to control business loans.

For those interested in specific industries, here is a comprehensive list with anticipated rate of production for 1948 compared with 1947. It is well to bear in mind that the percentage comparisons show changes from a year which is still registering historic new highs for practically all forms of enterprise. In other words, there can be during 1948 a marked percentage decline and still leave an industry very close to the highest levels ever recorded.

Expected Output for 1948 Compared to 1947

Industry	Net change from 1947 Average	Industry	Net change from 1947 Average
Manufactured Foodstuffs	*	Anthracite	*
Farm Income	—20%	Crude Petroleum	*
Rayon Output	— 5%	Natural Gas	*
National Income	*	Copper Mining	*
Cotton Consumption	— 5%	Lead & Zinc Output	*
Wool Consumption	— 5%	Building & Construction Activity	+ 5%
Rubber Manufactures	—10%	Electric Power Output	*
Automobile Manufactures	+25%	Airline Passenger Miles	+20%
Iron & Steel Industry	*	Airline Cargo Ton Miles	+200%
Paper Production	— 5%	Railway Freight Ton Miles	—10%
Printing & Publishing	— 5%	Retail Trade—	
Cement	*	Department Stores	—15%
Boot & Shoe Output	+ 5%	Mail Order	— 5%
Tobacco Manufactures	*	Variety Chains	— 5%
Foreign Trade	—20%	Food Chains	—10%
Bituminous Coal	— 5%		

*Unchanged.

Wholesale Commodity Price Outlook For 1948

The inflation spiral in wholesale commodity prices has not yet run its course, but appears to be on the final stretch. Current indications are that the peak will be reached by mid-winter or the early second quarter of 1948. This year's short U. S. corn crop already is reflected in sharply higher prices for livestock, meats, butter, cheese, eggs, and poultry.

Unfavorable feed ratios, plus attractive prices, are spurring marketings of cattle and hogs, even of breeding stock, which should result in some seasonal weakness this fall and early winter, and a temporary increase in meat supplies. This situation points to still higher prices for livestock in the late winter and early spring, but to smaller supplies of meat. Thus, the trend of food prices is likely to continue upward probably for six to eight months longer.

In this connection, however, there is a possibility that our shipments of foodstuffs to co-operating nations in Europe may be less next year than currently indicated. There is a growing feeling in responsible circles, and among the people of this country generally, that the bottom of the European "gimmee" (aid) barrel is full of holes that might well be plugged—with a little more hard work and self-reliance—by the European p e o p l e s themselves. Trying to stave off the spread of Communism with good American dollars is proving more and more expensive with each passing day.

There is talk of wheat prices going to $3.50, or even to $5.00 a bushel. In fact, there is nothing to keep them from hitting $10, if the farmers continue to hold for still higher prices, and the government is willing to pay any price (with the people's money, of course) for the bread grain for shipment to Europe. We hope that the aid program, under the so-called "Marshall plan" will be held within reasonable bounds. Should this prove to be the case, and should Europe and the U. S. harvest good crops next year, then lower food prices would appear inevitable perhaps long before 1948 harvests are in.

Industrial Commodity Prices

Pressure on industrial commodity prices also should continue upward for some months longer. Here's why: A record domestic employment level, at high wages, spells continued large public purchasing power, despite inflated prices. Production costs are unlikely to drop, and probably will advance further, should labor make a successful bid for increased wages as a result of advancing living costs. These major factors point to still higher prices for the industrial category.

It is only a question of time, however, until deflationary forces will make themselves unmistakably felt. Chief among the latter is unprecedented peacetime production, which is pouring a vast torrent of goods into distributing and consuming channels. Reservoirs are filling up in many cases, and here and there some backwash is noted.

Furthermore, inventory building is largely over in most instances, and competition is about to enter the picture with a vengence. These restraining forces should prevent industrial wholesale commodity prices from getting out of hand in the months ahead, and result in somewhat lower levels before early spring.

Third Round For Labor

Labor leaders will have two primary aims next year. The first will be to obtain a **third round** of wage increases to offset advances in the cost of living. During the early months of 1948 a great many union contracts will expire and many others will reach the wage reopening phase. Before the third quarter of 1948 is reached, organized workers of the nation may have added another 10% to their takehome pay.

Labor's second aim will be of a political nature,—namely, to dislodge from Congress those who failed to fight against enactment of the Taft-Hartley Act. The outlines of the Presidential campaign are not yet clear, but union members are likely to vote for their favorites without any special regard for the sacred advice handed down by their labor lords. The average of employment may next year approximate that of 1947. One new feature, however, will be the occasional scares as layoffs spring up in certain lines. Despite these, employment totals will probably not drop far below the 60 million level recently reached.

Conclusion

In closing, I would like to strike a note of basic confidence in the future of our nation. In 1948 America's role in the international drama will become more significant, more colorful, more dominant than ever before. The hungry peoples of the world will continue to look to us for help. The weak will depend upon our strength. Management and labor, radicals and conservatives, farmers and industrialists, Republicans and Democrats,—all must join forces to secure and maintain a vigorous, healthy economy. As long as this nation enjoys good health and harmony, it will serve as a symbol of the independence and personal courage which are the trademarks of democracy and of freedom.

With Griffin & Vaden

(Special to THE FINANCIAL CHRONICLE)

WASHINGTON, N. C.—Harvey C. Elliott has become associated with Griffin & Vaden, Inc., of Raleigh. He was formerly with Southeastern Securities and the Carolina Securities Corp.

Joins Thomas Hundley

(Special to THE FINANCIAL CHRONICLE)

GREEN BAY, WIS.—Arthur H. A. Du Chateau has become associated with Thomas Hundley, 306 Cherry Street. Mr. Du Chateau was formerly with The Milwaukee Co. and Edgar, Ricker & Co.

Leopold Co. to Admit

On Nov. 15, James Humphry, Jr., will become a general partner and Frank B. Hall a limited partner in James M. Leopold & Co., 527 Fifth Avenue, New York City, members of the New York Stock Exchange.

Bond Club of New York To Hear Carl Whitmore

The Bond Club of New York, at its luncheon meeting to be held Nov. 10 at the Bankers Club, will hear an address by Carl Whitmore, President of the New York Telephone Co.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Nov. 3 marked the 130th anniversary of the founding of the **Bank of Montreal**—the first permanent bank to be established in Canada. It was the Bank of Montreal that gave Canada its first domestic currency and originated the Canadian system of branch banking. Tied closely to the early financial and industrial development of the country, the bank has a long record of pioneering service in the Dominion. Up to 1817, the year of the bank's founding, Canada had no currency of her own. Her scant half million inhabitants carried on trade by barter, with a hodge-podge of American, British, French, Spanish and Portuguese money. It was this difficulty, more than any other, which it is said prompted nine Montreal merchants to organize the bank. The paper money and copper tokens they issued became Canada's first real money. Not only did this money gain immediate acceptance by the people, but it became the official currency of the government of the day.

Branches of the bank were established as rapidly as the growth in population merited, and today the bank has more than 500 branches from coast to coast in Canada, and also maintains offices in Newfoundland, the United States and Britain. An agency was opened in New York as early as 1859, with other offices opened in Chicago and San Francisco in 1861 and 1864, respectively.

The Canadian branch bank system, introduced by the Bank of Montreal has been cited for its strength and flexibility and has long been regarded as eminently well adapted to a country such as Canada that is thinly populated, yet vast in area.

Today, the bank has capital and reserves of $78,000,000, and resources of almost $2 billion. Depositors today number a million and a half.

* * *

The **National City Bank of New York** has re-established its branch in Osaka, Japan. The branch will be located in the same building it occupied before the war. Operating under regulations established by the Supreme Commander for the Allied forces, Osaka Branch is conveniently located for the service of the occupation forces and their dependents in the Central Japan area.

* * *

The **Chase National Bank of New York** has announced plans for the establishment of a new branch at the southeast corner of First Avenue and 23rd Street in Peter Cooper Village, one of the Metropolitan Life Insurance Company's housing developments. The new branch will occupy a one-story limestone building. It is expected that the branch—27th in the bank's branch system in New York City—will be ready for opening next summer.

* * *

Frank O. Roe, honorary First Vice-President and a trustee of the **Irving Savings Bank of New York City** at 115 Chambers Street, died on Oct. 25 at the age of 83 years. Mr. Roe began his banking career in 1899, and in 1904 became Cashier for the **Machanics and Metals National Bank** of which he later became Vice President. After the Mechanics and Metals National Bank merged with the **Chase National Bank** in 1926, he continued in this capacity until his retirement in 1934.

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Arthur S. Kleeman, President of **Colonial Trust Company of New York,** announced on Oct. 29 the appointment of Frank Momot and Lehr Pitts as Trust Officers of the institution.

* * *

Harry W. Golding, President of Golding Bros. Company, textile manufacturers and converters of 241 Church Street, New York, has been elected to the board of directors of **Sterling National Bank and Trust Company of New York.** Mr. Golding is also President of Southbridge Finishing Company, Southbridge, Mass.

* * *

Incident to the first anniversary on Nov. 18 of the opening the Wakefield Office of **The North Side Savings Bank of New York** at 233rd Street and White Plains Ave., the bank is seeking to find a boy and girl, born in the vicinity of the branch about the time banking quarters were opened. "Open house" is scheduled for all day, Nov. 18, at the Wakefield Office and both the children "Mr. and Miss Wakefield" will be enthroned for the official celebration proceedings. Savings bank accounts for each child are included among the birthday presents they may expect. Fred Berry is President of The North Side Savings Bank, the main office of which is at 3230 Third Avenue.

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Franklin W. H. Becker, associated with the **Western Savings Bank of Buffalo, N. Y.** for 60 years, until his retirement in 1944, died on Oct. 29. Mr. Becker who was 87 years of age, had served as Secretary of the bank for 60 years, according to the Buffalo "Evening News" which also noted that he had served on the Executive Committee of the Savings Banks Association of the State of New York and was chairman of its Group 1. He was a charter member of the Mutual Savings Banks of America.

* * *

Herbert E. Curtis, founder and President for the past 28 years of the **Quincy Trust Company of Quincy, Mass.,** died on Oct. 29.

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Harold S. Overholt, Assistant Vice President of the **Mellon National Bank and Trust Company of Pittsburgh,** in charge of the investment division of the personal trust department has been elected a Vice President, it was stated in the Pittsburgh "Post Gazette" of Oct. 24. The same advices also said: Frank R. Denton, Vice Chairman, also announced that Alan S. Christner, Trust Officer in charge of the real estate division of the personal trust department, has been made an Assistant Vice President. Henry Cooper was named an Assistant Vice President and Kenneth C. Hewitt, an investment officer of the personal trust department. William D. Clifford and Alvin G. Keller have been appointed Assistant Cashiers of the banking department and Ralph F. Sprowls, Assistant Cashier of the operating department of the bank.

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The election of three new Vice Presidents of the **Peoples First National Bank & Trust Company of Pittsburgh, Pa.,** was announced on Oct. 23 by Robert C. Downie, President. Reporting this the Pittsburgh "Post Gazette" added: Charles R. Webb, manager of the Squirrel Hill office since 1937, was elected Vice President. Fred W. Cotton was elected Vice President of the Oakland office where he has been manager since 1940. William D. Teuteberg, who was elected Vice President of the East End office, became manager there a few months ago, having served as manager at Etna since 1944.

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The **Wheeling Dollar Savings & Trust Co. of Wheeling, W. Va.** announces the death on Oct. 13 of Sherman C. Shull, Vice President and Comptroller of the bank.

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Three promotions in the staff of **Chicago Title and Trust Company of Chicago, Ill.,** effective Nov. 1, were announced on Oct. 31 by Holman D. Pettibone, President. These are Joseph C. Gross, named Assistant Trust Officer; Alice M. Smith, Assistant Secretary; Leonard Higley, Attorney.

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The Dakota National Bank of Fargo, N. D. has increased its common capital stock effective Oct. 14 from $168,000 to $175,000 by a stock dividend of $7,000.

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The officers and directors of the **City National Bank and Trust Company of Kansas City, Mo.** announce that its new quarters at Tenth Street and Grand Avenue will open on Nov. 10. The new quarters of the bank were referred to in our issue of Oct. 30, page 24.

* * *

John J. Noone, Vice-President of the **Inter-State National Bank of Kansas City, Mo.,** died on Oct. 18. He was 58 years of age. He joined the bank in 1920, and according to the Kansas City "Star" was elected Associated Cashier in 1921; he became a director in 1926, and in 1939 became Vice-President.

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The Board of Directors of **The First National Bank of Beaumont at Beaumont, Texas** announced on Oct. 14 the election of L. Paul Tullos, President.

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J. Lewell Lafferty will assume his duties as a Vice-President of the **Republic National Bank of Dallas, Texas** on Nov. 17, Fred F. Florence, President has announced. Mr. Lafferty's election to the office of Vice President was announced in October. He is a former President of the Financial Public Relations Association; he was a founder of the annual banking school at the University of Texas, and is widely known in correspondent bank circles.

Holdings of Hard Currencies Requisitioned by Sweden

Foreign Exchange Office orders that private holdings of American dollars, Swiss francs and Argentine pesos be offered to Bank of Sweden for redemption.

In order to meet the increasing shortage of dollars and other foreign exchange, the Swedish authorities have now been forced to take new measures. After having restricted imports and cut the sums allowed for travel abroad, the Foreign Exchange Office has decided to call in for redemption private holdings of so-called hard currencies, such as dollars, Swiss francs, and Argentine pesos. The Foreign Exchange Office was granted permission by the Riksdag to take this step as early as last July. Since then Sweden's foreign exchange reserves have further declined.

The new measure orders all Swedes possessing, in bills, coins, checks, or drafts, at least 50 American dollars, 200 Swiss francs or 200 Argentine pesos, to offer them to the Bank of Sweden for redemption before Nov. 15. Swedes who reside abroad are not included in this edict.

One reason for Sweden's foreign exchange difficulties is that the major part of the income from its traditional export markets, such as Great Britain, cannot be utilized for purchases in the hard currency areas. At the same time, Sweden has become more dependent than ever on this area for its supply of vitally needed goods. On Jan. 1, this year, Sweden's reserves of gold and hard currencies amounted to 1,600 million kronor, while they have now shrunk to 375 millions.

Sweden Has Not Raised Loans Abroad

It has been known for some time that private holdings of hard currencies would have to be requisitioned. The step was taken in order to make it possible for Sweden to pay for its imports from the U. S., well-informed circles point out. They also call attention to the fact that since the end of the war Sweden, unlike some other European countries, has not raised any loans abroad.

In an interview published in the Stockholm daily "Dagens Nyheter," Dr. Benjamin H. Beckhart, Director of Research of The Chase National Bank, said: "What has happened is, in my opinion, a sign of a temporary crisis. If we take a long-range view, the confidence in Sweden's ability to reestablish its economy remains unshaken."

With Southeastern Secs.

(Special to THE FINANCIAL CHRONICLE)

JACKSONVILLE, FLA.—A. Lee French has become affiliated with Southeastern Securities Corp., 304 West Adams Street. In the past he was with the Florida Bond & Share Co.

Buyers Exercising Caution, Report Purchasing Agents

Business Survey Committee of the National Association of Purchasing Agents, headed by Robert C. Swanton, say sales, production and shipments are high, but despite optimistic trend, buyers are exercising extreme caution.

The Business Survey Committee of the National Association of Purchasing Agents, whose chairman is Robert C. Swanton, Director of Purchases, Winchester Repeating Arms Corporation, New Haven, Conn., reports as of Nov. 2, that despite optimistic trend of business there is extreme caution by buyers, and purchasing agents are watching closely for the decisions of the special session of Congress, says the report:

Robert C. Swanton

"Sales, production and shipments continued their strong upward trend in October, with no sign of letdown for the immediate future, only 3% of the reports showing lower business—the smallest number so reporting this year — while the greatest number, 43%, report increased business continuing the upswing noted in August and September. Many more indicate backlog of orders building up and forecast good volume well over the year end.

"Despite this optimistic trend, buyers are exercising extreme caution, for aid to Europe can affect the domestic use of critical materials such as steel, the present bottleneck in durable goods production. The diversion to Europe of steel now allotted to domestic durable goods would have an impact on demand for other materials going into such assemblies. Purchasing agents will watch closely the decisions of the special session of Congress.

"Industrial building expansion and home building are reported on the increase in all areas.

Commodity Prices

"The trend of prices is slightly up, but the indications are for leveling off. Most of the increases are reported due to freight boosts passed on to the buyer. Competition continues to grow. Believing that part of the answer to lower prices lies in increased worker productivity, purchasing agents gave it particular attention this month. While there is no yardstick to measure the degree of increased worker production, 53% of those reporting indicate better, compared with 10% showing lower. Where wage incentive systems are used, productivity is on the increase.

Inventories

"With production at new highs, industrial inventories show a slight tendency to increase. The majority, however, show a leveling off after months of reducing and balancing effort. There is no evidence of stock-piling to beat the possible imposition of a priority or allotment system. As a whole, inventories appear to be at near-minimum operating requirements.

"The exceptions continue a reducing policy. A few of these report difficulty in disposing of surplus at break-even prices.

Buying Policy

"The predominant bracket is 30-to-90 day commitments, where goods can be procured within these limits. However, some commodities which have been available in 30 to 60 days are extended into 90 days and over. The influx of new business is resulting in a little longer-range view of commitments. Some revival of escalators is noted. Others have abandoned them. Regardless of the longer coverages reported, the general cautious policy of buying for definite production schedules continues.

Specific Commodity Changes

"Many commodities are reported higher this month, the causes falling into three general categories: late adjustments on steel products; freight rate increase; effect of government buying on sensitive commodities.

"The increases include abrasive materials, industrial alcohol, alkalies, bolts, castings, cement, heavy chemicals, cocoa bean, corn products, cotton goods, dyestuffs, forgings, fuel oil, grains, leather, linseed oil, some lumber, menthol, nitrate ammonia, oxygen, plywood, rosins, rubber, soaps, soybean oil. Aluminum is on longer delivery. Boxes are tight, as are small chain and some plastics.

"On the down side, fruit, quicksilver, spices, tires, fabricated parts. Glass containers are easier —copper products short delivery.

Employment

"The trend reported in September appeared to taper off. The October reports show a resumption of the upward climb, with 29% showing increased employment, 62% maintaining previously reported high pay rolls. Technical, skilled and unskilled labor, both male and female, reported short.

"As an over all picture, fewer strikes, better labor-management relations. Comment: There is a job for anyone who wants to work.

Canada

"General business remains about the same as last month—on a high plane. Prices are up sharply in some lines, following price decontrol. Inventories static, with some trend to reduce. Employment increasing. Buying policy remains generally on three-months' coverage."

Hermann F. Clarke Dead

Hermann F. Clarke, partner in Estabrook & Co., Boston, and for six years a governor of the National Association of Securities Dealers, Inc., died at the age of 65.

William R. Britton Dies

William R. Britton, senior partner of W. R. Britton & Co. of New York City, died at his home at the age of 70.

Good Things in Threes

Hector W. Bohnert of the Bankers Bond Co., Louisville, Ky., is the proud father of a 7¼-pound boy, Hector W. Bohnert III. The family now has the necessary quota for a brothers' trio, or one-third of a baseball team.

E. M. Phillips Now With Merrill Lynch, Pierce Co.

BEVERLY HILLS, CALIF.—Edgar M. Phillips has become associated with Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive.

F. S. Moseley Adds

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Henry J. Goelzer has been added to the staff of F. S. Moseley & Co., Circle Tower.

Monopoly Suit Unfounded, Say Accused Firms

(Continued from page 13)

cog in the effective working of the American economy. The investment banking business furnishes the channel between capital that is available for investment and those businesses that need capital to expand production and thereby create new jobs. One authority estimates the capital needs of American industry at about $60 billion over a five-year period. If this flow of needed capital into industry is obstructed, production of goods will not meet America's needs, unemployment will result, and inflation will be inevitable.

A very effective way to destroy the free enterprise system in our country would be to cripple or put out of business that part of the free enterprise system which for years has successfully and efficiently helped to furnish capital to American industry. Only one part of a machine has to be destroyed to keep it from working.

Note: Mr. Hancock, a partner of Lehman Brothers, was a member of the U. S. Delegation to the United Nations Atomic Energy Commission. He was co-author with Mr. Bernard M. Baruch of the Baruch-Hancock Report on postwar reconversion problems. He was also Chairman of the Joint Contract Termination Board which developed the legislation for the settlement of war contracts and has contributed his services to many other public bodies. He is Chairman of the Board of the American Management Association.

* * *

A Statement by Charles B. Harding, Senior Partner of Smith, Barney & Co.

The Anti-Trust Division of the Justice Department charges that Smith, Barney & Co. and 16 other investment banking firms have conspired with each other, with their customers, and with insurance companies to monopolize the investment banking business.

Charles B. Harding

Smith, Barney as an individual firm denies this charge. We consider the suit unwarranted on the basis of the facts which the Anti-Trust Division undoubtedly learned during its investigations. We have never conspired with any investment banker, issuer or insurance company to monopolize the investment banking business nor to restrain competition. Our business is openly and fairly conducted. This is a highly competitive business in which fights are more common than cooperation.

The Anti-Trust Division does not agree with us that publicly-known methods approved by the Securities and Exchange Commission are basic to the job of providing the money necessary for American industry to grow and create jobs. The Division claims that these particular 17 bankers should not cooperate with each other in underwriting stocks and bond issues to raise capital for American industries and municipalities. It claims that these underwriters should not cooperate with each other to spread the great risks they undertake in order to obtain wide distribution of new securities so that anyone in the country may become a stockholder.

Single issues of new securities are sometimes as large as $100 million. However, only eight firms have capital as much as one-tenth of this amount, and most of them have much less. It is obvious that unless these bankers can join together in underwriting, the money needs of many industrial companies could not be met.

All of our procedures are fairly and openly conducted. They are necessary if we are to continue to do our job of raising capital for growing American business. For many years they have been recognized by government agencies that regulated the security business.

Newspaper writers who have studied the case have been, for the most part, favorable towards the investment bankers. This does not make us welcome a suit filed against us. However, we must agree with a comment in the New York "Times" that "A frank disclosure would be the best publicity yet devised to blast many of the hallucinations long a cloud over the workings of Wall Street."

We would like to know how the Anti-Trust Division arrived at the selective list of 17 firms named in its complaint. Our lawyers have said that to their knowledge the only thing they have in common is some measure of success. It will be interesting reading if the press reports how the list of 17 firms was selected from a total of over 700 in the investment banking business.

Although we are obliged to save specific defense for court, I should like to make several observations today:

(1) We find ourselves charged with price fixing because we have fully complied with the price stabilizing and other regulations of the Security and Exchange Commission, the government organization that regulates the securities business.

(2) We find ourselves charged with having conspired to split up issues of stocks and bonds with large insurance companies as a result of attending a public meeting called by the Superintendent of Insurance of the State of New York to discuss this topic.

(3) We have given the Anti-Trust Division complete cooperation in conducting its investigation. We welcome constructive criticism on methods of improving investment banking. From our discussions with the Division, we believe it has chosen to sue for reasons other than constructive correction.

(4) The services we render our customers are invaluable to them in financing their operations. Ours is a natural and businesslike relationship which protects both the companies we serve and thousands of people who buy securities. I think most manufacturing companies will tell you that in choosing an underwriting firm they think first of a reputation for ability and good service rather than price. For our part, we say there is no conspiracy in trying to keep our customers by doing a good job in a fair and open manner.

* * *

Statement of Kuhn, Loeb & Co.

We have not yet been served with the complaint of the Department of Justice in its civil action under the anti-trust laws against certain investment banking firms, including Kuhn, Loeb & Co. Consequently, we are not in a position to comment upon it in detail. However, we know of no basis for its charge of monopoly or restraint of trade and are certain that we have conducted our business in strict compliance with law. For many years investment banking has been closely regulated by the Securities and Exchange Commission and other authorities which have statutory jurisdiction over the various phases of the securities business.

It would appear that attacks on "Wall Street" are still popular in certain quarters for political reasons. Therefore it should prove constructive to have the issues in this case decided by our courts. This, we hope, will end the long continued efforts to harass a business which plays so vital a part in our entire economy.

* * *

Statement of Dillon, Read & Co., New York City

The charge of lack of competition in the investment banking business is not in accordance with the facts. The business is essentially competitive. In fact, Dillon, Read & Co. owes its existence and present position to such competition. Dillon, Read & Co. has always competed actively for business and has never been prevented from negotiating or bidding on any piece of business by reason of any restrictive agreement or arrangement with anyone.

Dillon, Read & Co. has never been a party to any agreement or arrangement designed to prevent any other investment banking firm from competing for any piece of business.

* * *

Statement of Col. A. M. Pope President, First Boston Corporation

We are proud of our record of serving American industry. Competition has never been keener between dealers in securities. Profit margins have never been lower—a natural result of competition. We find nothing in our own procedures to warrant the charges made by the Attorney General. We do not believe that the best interests of the consumer, labor or industry are served by this action and are confident of vindication in the courts.

Allan M. Pope

* * *

Statement of Lloyd S. Gilmour, Senior Partner of Eastman, Dillon & Co.

Any claim that Eastman, Dillon & Co. has engaged in a conspiracy to prevent competition is wholly untrue. Our firm has attained its present place in the Investment Banking field through the keenest kind of competition. Almost every industrial account handled by us was at one time handled by a competitor. These accounts were obtained and held by us only through aggressive competitive action by our partners. The government apparently contends that to permit an industrialist to use his judgment as to what banker he selects leads to monopoly; that if an industrialist has to raise capital he should not utilize the services of those houses who have proved themselves capable, but must risk failure by engaging the services of those of less proven ability.

L. S. Gilmour

To assert as does the government, that an Investment Banker who advises an industrialist as to the issuance of securities, should not be permitted to participate in the underwriting of such securities is as silly as it would be to assert that a surgeon specialist who advises a patient that a major operation is necessary, should not be permitted to perform the operation.

Industry now has before it the biggest job in its history. Isn't it ridiculous to endeavor to shackle it by restricting its ability to obtain the financing necessary to do the job?

* * *

Statement by J. P. Ripley, Chairman, Harriman Ripley & Co., Incorporated

The charge that there is a monopoly among certain investment bankers is fantastic. Harriman Ripley & Co., Incorporated has not, either alone nor together with others, violated the anti-trust laws in any way. Investment bankers not only compete intensely with each other; they are in competition with commercial banks which hold several billions of term loans advanced to issuers, and also with insurance companies with which about $7 billion of securities have been placed privately during the past ten years

Joseph P. Ripley

The investment banking business is regulated to an extent which is unique among the industries of the country. Since 1933 numerous Federal and State laws have been passed relating to various phases of the business.

The new capital requirements of states and municipalities, industrial, utility, railroad, and financial corporations run into billions of dollars, and an attempted disruption of the underwriting machinery is therefore deplorable.

Justice Dept. Files Anti-Trust Suit Against Underwriters

(Continued from page 12)

ing groups, or the institutional investors, including insurance companies and others, to whom any part of a security issue shall be sold.

(11) That each firm be enjoined from acting in concert with any underwriter in any buying group in which such firm participates, or with any security dealer in a selling group, to maintain retail prices for securities, and to fix and maintain uniform dealer discounts or commissions, except where such activity is permitted by an act of Congress or by the rules and regulations of an appropriate administrative agency based upon such act of Congress, for the sole protection of investors.

(12) That each firm be enjoined from engaging in, or causing others to engage in, market operations of any kind designed to stabilize and maintain the market price of securities in any issue it purchases, except where such activity is permitted by an act of Congress or by the rules and regulations of an appropriate administrative agency based upon such act of Congress, for the sole protection of investors.

(13) That the Investment Bankers Association of America be ordered dissolved and the defendant firms be enjoined from organizing or joining any other association engaged in similar practices or that has similar purposes.

IBA Blames Suit on Compulsory Bidding Views

(Continued from page 13)

requiring compulsory competitive bidding.

Persons and organizations who favored compulsory competitive bidding expressed their opinions to administrative agencies and to members of Congress. Those persons and organizations exercised their constitutional right of free speech and petition in precisely the same way in which those rights were exercised by members of the IBA. The Anti-trust Division apparently takes the position that it is lawful to express opinions in favor of compulsory competitive bidding, but illegal to express opinions against it. We do not believe that the constitutional right of citizens to express their opinion on economic questions depends upon whether their opinions are consistent with those of the Anti-trust Division, and we are are confident that the courts will sustain our position.

The opposition of the IBA to proposals for compulsory competitive bidding was not, as alleged by the Anti-trust Division, dictated by the 17 firms who are the principal defendants in this litigation. On the contrary, the IBA acted in accordance with the sentiments of an overwhelming majority of its members and this fact is well known to the Anti-trust Division.

The IBA has never been "dominated and controlled" by the 17 firms. Apart from these 17 firms the IBA has nearly 700 other members who are located in all parts of the country. Most of these 700 other members are medium sized or small firms. The charge that these 700 members of the IBA have engaged in a combination or conspiracy to assist the 17 firms to monopolize and to dominate the investment banking industry is absurd on its face.

High Spots of IBA Memorandum

The memorandum which was submitted to Attorney General Tom C. Clark by Messrs. Hugh B. Cox and Murray Hanson, Counsel for the Investment Bankers Association, was prepared in advance of the filing of the civil suit, and not only denies the charge of improper "lobbying" but also traces its origin to the opposition of the IBA and some of its members to compulsory competitive bidding for certain types of securities. It furnishes a record of the poll of IBA members taken on the question when compulsory competitive bidding was proposed by the SEC for public utility issues and points out, despite the overwhelming opposition of IBA members to the proposal, it was promulgated as Rule 50 by the SEC. The memorandum also reviews the proceeding before the Interstate Commerce Commission in Ex Parte 158, in which the Commission held hearings on the matter of requiring the sale of railroad securities by means of competitive bidding. In these proceedings, the memorandum points out, the views of the IBA did not differ in kind or quality from the activities of those persons who favored compulsory bidding. Continuing the memorandum states:

"So far in discussing the activities of the IBA that are believed to be the basis for the charge of improper 'lobbying' an attempt has been made to state objectively the facts with respect to what the IBA did. It seems appropriate at this point to comment briefly on the significance of those facts as they relate to the charge that has been made against the IBA.

"It is assumed that it will not be suggested that the activities of the IBA in opposing compulsory competitive bidding before the Securities and Exchange Commission and the Interstate Commerce Commission or before committees of Congress, were unlawful or improper in and of themselves. It is essential to the fair and effective administration of any system of administrative regulation that citizens should have the right to appear before administrative agencies and there to state freely their position with respect to proposed rules and regulations. The importance of this right is expressly recognized by the Administrative Procedure Act (Public Law 404, 79th Congress), which provides that agencies and departments of the government before promulgating rules or regulations should give notice of their intention to do so and afford interested persons an opportunity to participate in the rule-making by the submission of their views and arguments.

"Likewise it has always been recognized that citizens are entitled to appear before committees of Congress for the purpose of presenting their views on proposed legislation. The existence and special characteristics of this right have recently been expressly recognized by Section 308 of the Federal Regulation of Lobbying Act (Title 3 of Public Law 601, 79th Congress), which provides that the regulatory provisions of the section shall not apply to any person who merely appears before a committee of the Congress in support of or in opposition to legislation.

"It is also assumed that it was not improper or unlawful for the IBA to bring the views of its members to the attention of the public and to attempt to convince other interested persons, and the public generally, that compulsory competitive bidding was not in the public interest. Groups of citizens are entitled to make speeches, to distribute written material and to take other appropriate steps, either publicly or privately, to express their point of view on any matter of public interest.

"It will hardly be suggested that it was improper or unlawful for members of the IBA privately to present their point of view on the question of compulsory competitive bidding to members of Congress. The right of the citizen to make such representations is beyond question. The free, candid and private exchange of information and views between individual citizens and members of Congress is a normal, accepted and desirable part of the legislative process in a democracy.

"Since these activities of the IBA were inherently lawful and proper, the question that necessarily arises is, what extraneous facts or circumstances are alleged to have infected or colored these harmless activities with illegality? As we understand the charge made against the IBA, the Anti-trust Division answers this question by asserting that the activities of the IBA, although lawful if considered alone, are tainted with an unlawful purpose because they were part of a larger illegal conspiracy that was formed and executed by the 17 firms.

"Counsel for the IBA have read the memoranda submitted by counsel for the 17 firms to the Attorney General; they believe that those memoranda show that the 17 firms were not and are not engaged in any conspiracy. But if this belief is erroneous and it should be assumed that there was a conspiracy in which the 17 firms had joined, we assert with confidence that there is no evidence whatsoever to support the suggestion that the other 700 members of the IBA were aware of the conspiracy, much less that they were parties to it, or that in opposing compulsory competitive bidding the members of the IBA were prompted in any way by any intent or purpose to assist the 17 firms in any combination or conspiracy in which it may be assumed that the 17 firms were engaged.

"Merely to assert generally that the activities of the IBA were part of the alleged conspiracy is not to deal with the ultimate question of fact raised by the charge. Unless the charge is to rest merely upon vague generalizations or upon unproved assumptions, it is necessary to point to some facts that demonstrate a conspiratorial relationship between the 17 firms and all of the other members of the IBA. We submit that there are no facts that justify the conclusion that any such relationship existed.

"The circumstance that the members of the IBA opposed compulsory competitive bidding instead of supporting it surely does not prove the existence of any conspiratorial relationship between them and the 17 firms. The members of the IBA were entitled to take any position on the merits of compulsory competitive bidding that they believed to be right. Their choice of one side of the controversy rather than the other is not proof of any criminal intent or purpose.

"It may be assumed that the members of the 17 firms shared the belief of the other members of the IBA that compulsory competitive bidding was not in the public interest but this is not the kind of relationship that will support the charge of conspiracy. Numerous other persons not members of the IBA also publicly opposed competitive bidding. It would be just as reasonable to assume that these other persons were parties to an illegal conspiracy merely because they shared the point of view of the 17 firms, as it would be to assume, on the same ground, that the members of the IBA had joined with the 17 firms in an illegal enterprise. This kind of purely doctrinal association is not an adequate basis for the charge that the members of the IBA conspired with the 17 firms to restrain trade or to monopolize the investment banking business.

"The charge that the members of the IBA were parties to the alleged conspiracy is thus reduced to the assertion that the 17 firms in some way control or dominate the IBA. From what has been said earlier in this memorandum, it must be clear that in the specific instances in which the IBA opposed compulsory competitive bidding the officers and the Board of Governors of the IBA were not responding to the dictates of the 17 firms. On the contrary they were acting in accordance with what was the sentiment of the great majority of the members of the organization. It may be asserted, however, that irrespective of what was done in these specific instances, the 17 firms exert some general and continuing control or domination over the IBA and its individual members. It is to this more general charge that we shall next turn our attention."

In refuting the accusation that the IBA is dominated or controlled by the 17 underwriting firms, the memorandum furnishes data regarding the number of its membership, which is now 716, (the largest since 1939), divided into various regional group divisions. It outlines the constitution of the organization to prove that the ultimate control of its affairs is vested in and exercised by an annual convention, and that of the 50 members serving on its Board of Governors in 1943-4, only nine were associated with the 17 accused firms.

The memorandum concludes:

"Even if the Attorney General should conclude that there is a basis in fact for the charge that an unlawful conspiracy exists in the investment banking field, it does not follow that the charges against the IBA are well founded or that the organization should be named as a defendant in the proposed litigation.

"It should be remembered that the charges against the IBA are not charges merely against a few firms or against the persons who, from time to time, were officers or members of the Board of Governors. They are in a real sense charges against all of the 700 members of the organization. This is particularly true because the activities that are the subject matter of the principal charges made against the IBA were activities that were approved by the great majority of its members.

"We assume that the Attorney General will not charge the 700 members of the IBA, most of whom are medium sized or small investment banking firms located in all regions of the country, with having engaged in a combination or conspiracy to violate the Sherman Act in the absence of facts to support the charge. In this memorandum we have attempted to make a full and objective statement of all of the relevant facts. We earnestly request the Attorney General to consider those facts because we believe that they show that there is no basis whatsoever for the conclusion that the members of the IBA have joined in any combination or conspiracy to violate the anti-trust laws."

Business Man's Bookshelf

Detroit Directory of Business and Industry for 1947-48 — contains 150,000 business and industrial listings naming the executive personnel with address and phone number—Charles J. Harris, 832 Fox Building, Detroit, Mich.

Fifty Suggested Services for Correspondent Banks, Their Customers and Employees — The Northern Trust Company, 50 So. La Salle Street, Chicago 90, Ill.—paper.

Forward Prices for Agriculture —D. Gale Johnson—University of Chicago Press, 5750 Ellis Avenue, Chicago 37, Ill.—cloth—$3.00.

International Monetary Fund—Schedule of Par Values—International Monetary Fund, Washington, D. C.—paper.

International Monetary Policies —Lloyd A. Metzler, Robert Triffin and Gottfried Haberler, Director of Administrative Services, Board of Governors of the Federal Reserve System, Washington, D. C.—paper—25¢.

Money, Credit and Banking — Revised Edition—Ray B. Westerfield — The Ronald Press Company, 15 East 26th Street, New York 10, N. Y.—cloth—$5.00.

More Than Conquerers—Building Peace on Fair Trade—Otto Tod Mallery—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth—$3.00.

Preparing for the 1949 Federal Budget—The Outlook as to Expenditure, Taxes and the Public Debt — Finance Department, Chamber of Commerce of the United States, Washington 6, D. C. —paper.

Will Dollars Save the World?—Henry Hazlitt — Foundation for Economic Education, Inc., Irvington-on-Hudson, New York — paper—75c (lower rates on quantity orders).

Venture and Adventure in Post-War Europe—Herbert P. Snyder, Vice-President of the First National Bank of Chicago—Foreign Banking Dept., First National Bank of Chicago—paper.

Origin and Evolution of Our Free Enterprise System

(Continued from page 2)

the American and French political revolutions and the English Industrial Revolution.

Professor Carleton Hayes put it as follows: "If some 'Rip Van Winkle' of the sixteenth century could have slept for two centuries to awake in 1750, he would have found far less to marvel at in common life of the people than would one of us."

Ignorance, hunger, famine, and pestilence stalked the lands of the earth before the introduction of machines, and before capitalistic methods made man more productive. With increased productivity came more leisure, which gave people more time for education and scientific pursuits. Thereafter, progress became much more rapid. The world tragedies of almost universal hunger, with surpluses and luxuries for only the very few, began to pass. The standard of living for the masses began to rise and to rise rapidly.

Our typical wage earner enjoys conveniences today not available to royalty prior to 1787. He has electricity, an automobile, bathrooms with hot and cold water operating under pressure, often automatic heat, the telephone, the radio, the movies, and so on and on.

The coming of machines, the greater use of capital and capitalistic methods, the rapid development and use of science, the enlarged freedom for the individual brought this great progress.

These developments came only when protection for rights of person and property was sufficient to awaken and reward ambition. Our Constitution attempted to give people such protection, and the results should be clear. As freedom for the individual has developed, and as political systems have cultivated and protected this freedom, the intellectual power of mankind has been released and economic progress has been rapid.

In the Middle Ages, people followed practices quite similar to those advocated by some of our leading social and community planners. They used land in common. The individual was under detailed regulation by authority. He bore oppressive taxes. His government debased his currency. The profit motive was crushed to the point of elimination. The result was economic stagnation, starvation, ignorance, disease, pestilence.

Doubt As to Nation's Accomplishments

One of the remarkable and arresting things today is the amount of doubt expressed as to the value of what has been accomplished in this country since 1787.

The critics of our accomplishments might do well, first of all, to consider whether or not the great business depressions, which seem to have provided them with their principal indictments of our capitalistic system and their short-run view of human progress, have not been chiefly the result of wars and improper interference with the economy by unwise government officials. If wars are an important cause of our major economic disturbances, as the evidence seems clearly to demonstrate, then it would be more to the point for the critics of our capitalistic system to join peace societies and to work for world peace instead of attempting to overthrow the system of private enterprise operating under conditions of free and fair competition. If the evidence is found to demonstrate, as it does, that economic and social upheavals in this country and elsewhere are also caused in large degree by unwise interference with the economy by inept government officials, then the critics of the capitalistic system should cease their unfortunate attacks on the private enterprise-competitive system and work for improvement in the quality and practices of our government officials.

For the earnest consideration of those critics of the capitalistic system who would lead a free people back to a system of governmental paternalism or dictatorship, from which our people and others of the world have fought to free themselves, the following observation of Sir George Paish is submitted as a most important piece of wisdom. When Sir George, long a close student of business and economic fluctuations, visited this country in 1937 he said: "Long experience has caused me to come to the conclusion that the economic crises of the world which come from time to time are the result rather of political action than of economic action, and can be avoided only when the statesmen of all nations have a greater understanding of economic law and have some appreciation of the consequences of their own actions. . . . It may be said that the statesmen of the world, taken as a whole, have, since the war, and especially in recent years, acted in such a manner as to bring the world machine almost to a standstill."

The attackers of a capitalistic system, based upon a system of private enterprise operating under conditions of free and fair competition, simply do not understand its nature, virtues, and accomplishments. They misread, or do not read at all, history and the history of this country.

The framers of our Constitution had learned and understood much better what the lessons of history had to teach. They knew what the evils of Statism and governmentally-managed economies are. As a consequence, they gave us a Constitution providing for a republican form of government with provisions for majority rule but with protection for minority groups and individuals. The individual, rather than the State, became the basic consideration. The individual, qualified to vote, was to cast his ballot for or against those who would govern him. That is political democracy in so far as the voting population is concerned. The individual was to be free to vote his dollars for or against any commodity or service. That is economic democracy. Together they give us what we call economic and political democracy, or, more loosely, simply democracy, operating under a republican or representative form of government.

In theory all powers of government in this country are derived from the people. "We the people" are both the authors and constituents of our government. Basically, we operate under two distinct governments — state and Federal — each sovereign and independent within its own sphere. The Constitution of the United States proposed to repose in the Federal government, by specific enumeration, authority over those matters of general concern. The state governments were, in principle, made governments of general powers except where prohibited by the Constitution of the United States or by their own constitutions. The Federal government can, constitutionally, exercise only those powers expressly granted it by the Constitution of the United States and those that are fairly implied from those so granted.

Although our Federal government is therefore one of limited powers under our Constitution, its control over such powers is absolute, and laws passed in the exercise of such powers are superior to all conflicting state laws. Although the power of government was deemed to reside in the people themselves as an organized body politic, the powers that they delegated to the Federal government in the Constitution of the United States cannot be resumed except as this may be done through amendment of the Constitution.

To preserve the republican form of government, the general doctrine in this country has been, and is, that the legislative, executive, and judicial departments of government should be separated and their respective powers exercised by different men. The Constitution of the United States requires this of the Federal government but not of the states. Nevertheless, in harmony with the general belief in the wisdom of this arrangement, all state constitutions require this division and balance of powers in varying extents.

Importance Attached to Individual

Under these arrangements, apparently the most fundamental consideration is that of the importance attached to the individual. In the Preamble of the Constitution it is stated, among other things, that "We the people of the United States, in order to . . . secure the blessings of liberty to ourselves and our posterity, do ordain and establish this Constitution for the United States of America." A study of the Constitution, especially of Constitutional Law, will reveal how great a proportion of our Constitution was, and is, devoted to the protection of the liberty of our people, and the degree to which the importance of the individual was a consideration of basic concern to the drafters and ratifiers of our Constitution.

The Supreme Court of the United States has stated that while the Constitution of the United States is "the body and letter" of our organic law, the Declaration of Independence "is the thought and the spirit, and it is always safe to read the letter of the Constitution in the spirit of the Declaration of Independence." The Declaration's reference to "just" powers of government reveals belief in legal limitation on arbitrary power in any form. The Declaration also asserts in effect, as does the Preamble of the Constitution, that government itself is created primarily to *secure*, not to *give*, certain rights to the people. "We hold these truths to be self-evident," says the Declaration, "that all men are created equal, that they are endowed by their Creator with certain unalienable Rights, that among these are Life, Liberty and the Pursuit of Happiness. That to secure these rights, Governments are instituted among Men, deriving their just powers from the consent of the governed. . . ."

With such a concept of government and of individual liberty written into our Federal and state constitutions, and with recognition of the fact that liberty and general well-being could not thrive except under a capitalistic system in which this liberty embraced the right to private property, the right to engage in enterprise, the right to exchange goods freely, the right to enter into contracts, this nation in the following 159 years reached the highest level of living of any country on earth. Our people accomplished more and did it in less time than any other people in the history of the world.

Those who do not understand our history and the history of the various nations of the world do not seem to realize that this unprecedented accomplishment was launched in an atmosphere marked by a growing belief in individual freedom and the virtues of private enterprise, and at the end of a series of rebellions of people here, in England, and on the Continent against strong central autocratic governments.

It was the system of private enterprise and private capitalism, resting upon the cornerstones of private property, freedom of contract, freedom of enterprise, and freedom of exchange, that made this progress possible. These basic freedoms were exercised amidst a widespread belief in the virtues of free and fair competition, the generally accepted theory and practice of government being that government should lay down and enforce such rules and regulations as were necessary to preserve and to insure such competition. Belief in the freedom and importance of the individual, regardless of inherited qualities or economic status, aside from the period and area of Negro slavery in this country, gradually spread and probably has attained the highest degree of acceptability ever reached in any country in the history of the world.

Yet, in the face of these great attainments—the greatest that the world probably has ever seen—the basic instruments that have made these accomplishments possible are now and have been, particularly during the last dozen years, under severe attack by those who would offer devices for living that nowhere at any time in the world's history have ever enabled a people to attain the standard of living and the degree of freedom which these 159 years have brought to the people of these United States. Indeed, it is substantially accurate to say that, although it has been the great institutions of individual freedom and private enterprise in this country that have been employed twice in the last thirty years to rescue peoples and nations of Europe from the onslaughts of autocratic governments, we find vociferous groups urging that we replace these institutions of freedom with those of autocratic governments.

Turning Clock of Progress Backward

There are no lessons in history that justify the recent and current attempts to turn our country's clock of progress backward—back to the employment of devices that are known to be evil and dangerous to the well-being of the individual and of a people in general.

The multitude of reasons for this reaction toward those things from which people throughout history have struggled to free themselves can perhaps be summarized under the general heading of "a shortsighted view of events in the last thirty years." The economic depressions and dislocations, the most severe of which are perhaps the result chiefly of wars and dictatorial governments, seem to have caused many people to lose their perspective. In a situation in which such a large proportion of people, here and elsewhere, have been depressed, harassed, tired, and discouraged, political demagogues, amateur and politically-minded economists, and others have found a fertile field which they have cultivated day and night. History seems to have been forgotten, or not understood, or misinterpreted. There has been a strong tendency to base programs of so-called "reform" upon emotion rather than upon the solid foundations provided by the methods of science. The lessons of hundreds of years have been tossed aside by those who have been willing to rate their anticipated or realized personal gains of the last dozen or more years above the long-time welfare of their respective nations. The politically ambitious saw an opportunity to elevate themselves, to become bosses to exercise power they never had before and probably never expected to have. Dictatorships sprang up abroad and an unprecedented march toward an unconstitutional, totalitarian form of central government developed—even in this country. Slogans, promises, programs, and policies were made to fit the needs of the rulers who did all in their power to keep themselves in positions of authority.

The ambitions of these autocrats and other leaders soon clashed, and they led their people into the most widespread and destructive war that the world has even seen. In no nation did the people as individuals have an opportunity to vote for or against that war. Their rulers decided for them. The liberties of people, already sharply curtailed by autocratic dictatorship, were progressively and rapidly reduced to something approaching zero. Millions had no choice but to lose their lives. Savings and accomplishments of a lifetime and of generations have been swept away. Destruction and waste have seared the face of the globe. Debt has been saddled on the living to an extent never before seen. Taxation has become destructive. Few people and homes anywhere on this earth have escaped bitterness and hate and despair.

This is the scourge that autocratic leaders in government have brought to millions and millions of people in this world in recent decades.

And yet the tragic lessons in these events seem to be lost on those who keep clamoring for more, not less, central government, and for less, not more, freedom for the individual. Today in this country, we are experiencing a sharp conflict between those, on one side, who clamor for more government — Socialist, Communist, or totalitarian in some form —and less, or no, private enterprise, and those, on the other side, who wish to arrest this trend and to work for greater freedom for the individual and a continuation of the progress, with improvement, that we have experienced through most of our past 159 years.

This conflict raises questions as to what is the proper aim of any social organization and what is a good type of government — in short, what is a good economy.

Our history during the last 159 years should provide ample proof that the framers of our Constitution, in so far as fundamentals are concerned, interpreted correctly the lessons which the history of the world taught and still teaches. The peculiar, indeed the disturbing, thing is that in this country it is necessary to explain and to defend the lessons learned over such a long period of time by the various peoples of the world. Basically, the responsibility for this situation seems to lie chiefly with our educational structure, particularly with two groups: (1) our schools of education which turn out so many teachers inadequately equipped to guide in a reliable manner the young people who come under their supervision, and (2) our instructors in the fields of social sciences a great proportion of whom seem to have no proper understanding of the nature and implications of science or of the lessons of history.

Since the lessons taught by the history of the world and by that of our own country are so widely misunderstood or ignored, this fact calls for additional emphasis on what some of these lessons teach as to what should be the aim of a social organization and as to what is a good type of government.

Protect and Foster Individual Liberty

It seems quite clear that no social organization is good if it does not, in addition to contributing to the material well-being of a people in general, protect and foster individual liberty.

Individual liberty has in general been considered a priceless heritage. It has been man's perpetual aspiration. He has struggled for ages to enlarge the scope of individual liberty, including the freedom necessary to develop his personality to the limits of his physical and mental capacities and to safeguard the same freedom for his fellows. The justice and desirability of such freedom are recognized by all truly enlightened and free people. When we curb this freedom, we take a step backward. When we find new ways to enlarge this freedom, we progress.

Such freedom recognizes, above all things, the sacredness of one's personality. Probably every important religion in the world has recognized and clung to this great fact. It ran like a fugue through the teachings of Christ. It lies at the bottom of that courtesy with which the refined person deals with his fellow men. It is probably one of the most vitally fundamental elements that make human existence worth while.

One of the arresting and disconcerting things so noticeable today is the large number of religious leaders who, despite the paramount place given the individual by the teachings of Christ, which they profess to follow, are ardent advocates of social and governmental systems that would reduce the individual to the status of a mere tool of a dictatorial government. This unfortunate situation in the field of religious leadership seems to be due in large part to the fact that these people attempt to speak with some authority in fields in which they are not competent—for instance, in Political Science and Economics—and to their apparent inability to see the inconsistency of their position in their own field of Christian religion in which they offer themselves as workers or leaders. If these religious leaders would master, as scholars, what science in the field of religion has to teach, and leave other fields to the scientists in those fields, it seems reasonable to suppose that there would be some real gain for society.

Fostering Equality of Competition

History also seems to teach quite clearly that a government cannot aid in raising the general level of living in society and at the same time protect and enlarge the scope of individual liberty unless it fosters free and fair competition and applies the standards yielded by such competition when regulating activities in which it is inoperative.

Human beings apparently have never devised a better means of encouraging individual development and social progress than by fostering equality of competition, impelled perhaps chiefly by the profit motive and by providing at the same time the means of protecting the weak against the strong and the honest against the dishonest.

It is important that we understand that there is no better means of determining the social value and proper prices of commodities and services than that of free and fair competition. It needs to be emphasized these days that *the only objective standards of value and price known are determined in this manner.*

Freedom of competition of itself is not enough; competition must also be fair. And fairness of competition implies conformity to the rules of fairness acceptable to that society which is endeavoring to foster competition. The test of the fairness of these rules is found in whether or not they tend to produce the conditions that would prevail if the competitors had equal strength and accorded to each the same freedom in competition.

The genus, of which competition is a part, is rivalry. And rivalry is universal in life and operates in some form in any type of society. It is only by free and fair competition, or by the application of standards revealed in such competition, that the selection of what is superior can be made in any objective manner.

It seems quite clear that most if not all deviations by governments from the objective standards provided by free and fair competition have been injurious to social well-being.

The application of these standards requires, for example, that monopolies be regulated in an effort to obtain the results that free and fair competition appear to yield in similar fields; that the weak and the honest be protected against the strong and the dishonest, to the end that that competition may be fair; and that prices, with certain exceptions, be neither fixed nor controlled, but the results of this free and fair competition, to the end that they may reflect accurately society's appraisal of the value to it of these goods and services.

Examples of appropriate exceptions to the rule against price fixing are found in the necessity for the government, in order to establish a standard of values, (a) to fix the weight of, and consequently the metallic price for, the monetary unit used as a standard in its currency system, and (b) to fix the rates charged by public and private monopolies which are permitted to operate in lieu of competitive enterprises.

It is probably desirable, also, for a government, in time of war, when governments of necessity become dictatorial and totalitarian in nature, to fix prices of those products in which a rise in prices will not bring an increase in production. That is, such a procedure may be the least undesirable of the choices, all of which are undesirable. But such government price-fixing should utilize as objective standards the prices and profits revealed under conditions of peacetime competition.

Free and fair competition cannot function properly unless there be both economic and political democracy. In a political democracy, the individual is free to cast his political votes as he thinks best—omitting, of course, children, the insane, and perhaps other incompetents. In an economic democracy, the individual is free to vote his dollars as he prefers. Democracy is incomplete in so far as either of these aspects is impaired, and neither can operate well if the other is restricted in any considerable degree.

No government, no government organization, no government bureaucrat or collection of bureaucrats can begin to compare in efficiency or in intelligence with the mass of people who are free to vote their dollars as they think best. Producers can never obtain better guidance than that given when all buyers are free to spend their dollars for this and withhold them from that. Buyers can never be served as well as when they can vote their dollars as they please and when producers must respond to these indicated preferences. Apparently every departure from this method of buying and selling injects into the economy elements of inefficiency, waste, and maladjustment. A heavy burden of proof rests upon those who, in periods other than wartime, when maladjustments and regimentation are the order of the day, would interfere with the free operation of economic, as well as political, democracy.

The power of one individual over another is an insidious and corrupting thing. It places a great responsibility upon the person with whom the power rests. Where economic and political democracy operates freely and fully, the power of one individual over another is sharply curbed. Power is widely diffused and it is difficult to concentrate it if economic and political democracy has free play. Furthermore, the system of incentives, instead of government compulsion, plays its beneficent role.

An enlightened government, earnestly striving to increase the well-being of society, will recognize and conform to the fact that society is a cooperative enterprise.

All agents and individuals engaged in the production, exchange, and consumption of goods and services, and in the distribution of the national income both compete and cooperate with one another. In production, employers, employees, and owners of natural resources and capital equipment must cooperate. All are necessary, and it is as futile to argue that one of these agents of production is more important than any one of the others as it would be to contend that any one leg of a four-leg table is more important than any one of the other three.

The better the cooperation among the agents of production, the better is the well-being of society promoted. A fostering of free and fair competition facilitates such cooperation. The smoother the competition, the more effective is the cooperation. Cooperation, under conditions of free and fair competition, becomes practically automatic and largely devoid of conscious effort. When competition operates less freely and less fairly, cooperation becomes more difficult and requires a progressively greater amount of conscious effort.

A good government will provide those agencies that ensure peace. The best cooperation among the agents of production, the best operation of our instruments of exchange, the assurance of the greatest benefits to the consumer, and the attempts to obtain the best sharing of the national income all require peace. When conflicts of interest appear, they should be eliminated quickly by means of devices that will provide justice and restore peace. In general, this means that courts must be provided to which people with conflicting interests may repair, since adjudication offers more promise of ensuring justice than does resort to force, except as used by the State to enforce those of its laws which are based upon the principles of equal justice for all.

In recognition of these facts, a good government will never cease cultivating and improving upon the devices and rules which will aid cooperation and facilitate a better understanding of its necessity and virtues. It will always occupy a neutral position with respect to the importance or interests of any one of the classes of the agents of production in recognition of the fact that all are necessary, that all should cooperate, that all are equally entitled to justice, and that this justice probably can be obtained in no better way than through the smooth operation of free and fair competition, and through the enforcement of the objective standards yielded by such competition in the fields in which it does not exist.

In so far as the economic world is involved, objective standards of justice are those yielded under conditions of free and fair competition; and it is most important that all courts charged with the responsibility of making just awards in the economic field be required by statute to find and to enforce such standards.

Without such an objective standard to guide, all standards of justice become subjective in nature. There is, then, no standard of rightness except that determined by the court. Justice would still be determined by the power of some individual uncontrolled by objective standards. The fact that the power happens to reside with a court does not alter the nature of the power being exercised. It would still be subjective, and therefore, according to objective standards, arbitrary and unjust. It would simply be a case of *Hoc volo; sic jubeo; sit pro ratione voluntas* (This I will; thus I order; let my will be in place of reason).

In recent years we have seen a multitude of instances in the fields of administrative and case law in which this has been the dominant characteristic of the standards of justice employed — in principle nothing more than the subjective "This I will, and thus I order."

This is a practice that should be ended. Objective, not subjective, standards are the only ones by which justice can be measured. We need, today particularly, to remind ourselves that in economics, these standards can be ascertained only by operation of the forces of free and fair competition, and that this is a fact of basic importance to human welfare. When we lose sight of this principle, when we depart from objective standards and attempt to solve economic and other social problems by reliance upon the subjective decisions of those with power to enforce them, we are lost in an endless forest of clashing personal opinions. Scientific principles cease to exist. People revert to the primitive device of settling controversies by force, no matter how cleverly disguised this may be by some of the devices which characterize part of what we call modern civilization.

Since one of the most corrupting forces in this world is the power of one person over another, a corresponding responsibility goes with every grant or assumption of power. This responsibility cannot be exercised properly unless the person possessing it recognizes and respects the sacredness of the personality of every individual, knows how objective standards of justice are provided, and adheres to them.

Since, in the economic world, objective standards of justice are obtained only by observing and understanding the operation of the forces and results of free and fair competition, all other standards of appraisal as to what is proper in the economic world are subjective, not objective, and, therefore, decisions and acts based upon such standards are an improper exercise of power. They fall outside the realm of economic science and of justice; they belong to the world of arbitrary will and power.

Drifting Away From Basic Principles

We in this country, like so many people throughout most of the world, have been drifting rapidly and far from these basic principles. Apparently no man can predict with accuracy where this drifting will lead us. Corruption and ruthlessness in government have become far-reaching in other countries, and they have been appearing in a variety of forms in the United States. Responsiveness to pressure groups has almost become the characteristic order of the day in our government. Demagoguery is widespread. The science of Economics has been swept by the destructive wind of Keynesian-Socialistic contentions and has in large degree been prostituted morally, ethically, and scientifically. Objective standards of science have been submerged by a deluge of writings and acts dominated by the subjective appraisals and recommendations of the authors who improperly offer them as science.

Our people have been paying a terrific price for unscientific government and unscientific economics that have been, and are being, palmed off on uninformed people as political and economic science. Some of the ominous results have been a steady encroachment upon the liberty of the individual, the greatly enhanced power of the State, the rapid and reckless dissipation of our national patrimony.

These are trends of events which every intelligent individual should wish to stop and try to stop. Intelligent people are not misled by emotional agitations or by such widely and currently used labels as Liberal, Progressive, Conservative, and Reactionary. The intelligent person calls for definition. He inquires as to what it is that the Liberal is liberal about; it may prove to be nothing more than being liberal with other people's savings. Of the Progressive he inquires as to what it is he is progressing from and toward, and how he proposes to get there if the end seems desirable. Of the Conservative he inquires as to what it is he wishes to conserve. Of the Reactionary he inquires as to what it is he is reacting from or against. In his case he may be reacting against corruption, dishonesty, injustice, demagoguery or anything which, according to objective standards, may be good or bad from the point of view of social welfare.

The intelligent person does not rely upon and is not misled by labels based upon emotion.

Contentions of Two Groups

This country is today witnessing a struggle between two groups: One of them is composed of those who, apparently not understanding the lessons of history, are clamoring for more government coercion and are trying to head this nation in the direction of social retrogression. The other is composed of those who know something about the teachings of history, and are, consequently, fighting for an improvement in our economic and social well-being by protecting and widening, if possible, the scope of individual freedom; for a wider recognition of the sacredness of the individual personality; for free and fair competition, with monopoly watched and controlled; for political and economic democracy; and for a constitutional government that will operate in accordance with the objective standards of goodness which the sciences of Government, History, Economics, and Sociology can provide.

This last-mentioned requisite for a good society requires that we know what science is and that we respect it. We should understand that knowledge is advanced only by the methods of science. Science is a matter of methodology; it is not a question of the subject matter with which we may be dealing. One may be scientific or unscientific about anything. The implications of science are understood by too few and this, fundamentally, is perhaps the social disease lying at the root of so many of our difficulties in the world today.

If it be assumed tentatively that science offers support for the assertions made here, questions naturally arise as to how we may be assured that right will prevail over wrong and as to what we may do as individuals to contribute what we can toward the right and against the wrong.

An individual, unless he be in a strategic position with great powers at his disposal, can ordinarily accomplish relatively little in matters of this kind. All he can do is his best when and where opportunity is afforded. In general, he should first see to it that he is well grounded in facts regarding these basic issues. Thereafter he can cast his political vote and his economic votes as he spends his dollars. He can write articles and letters. He can make addresses and talk to those who will listen. He can attempt to get group action from like-minded people. Just what the results will be, perhaps no one can say. Nevertheless, those are the tasks of each individual if he would do his part to obtain for himself and his children the social system and government that he believes good.

The speediest results doubtless would be obtained, and with the least effort, if there should emerge a candidate for the Presidency of

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Origin and Evolution of Our Free Enterprise System

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our country who would go before the American people and speak to them in the interests of nothing but the truth.

Considering the history of this nation and the qualities of the majority of the people who have made this country what it is, it seems highly probable that the reaction to such a candidate would be most gratifying. In any event, it would seem that much that would be good for the people of the United States would be gained should such a person dedicate himself to this undertaking.

Three fundamental things would be required of such an individual: (1) a proper understanding of what constitutes a good social organization and government; (2) a determination not to deviate from the objective standards of right and wrong in so far as science produces the answers; (3) a determination to present such facts and principles to the general public, to the best of his ability, without regard to consequences.

The common demagogic tricks and compromises of the typical politician would of course disappear completely. There would be no deference or preference shown to any group. Self-serving pressure groups would be rendered impotent. Only truth and the general welfare would count.

Such a person would be paying the people of this country the compliment implied in the assumption that they wish to hear the truth and nothing but the truth, and it would seem highly probable that the response to such a compliment would be in accordance with the best traditions of the people of this country.

This nation needs such a man as a Presidential candidate and as President. His influence for good in this country and in the world could be incalculable. With his help, and with that of all who would support the basic principles to which he would adhere, this country could soon be set on its proper, and a much healthier, course. The intellectual and material resources of all the individuals of this nation, freed from unwise government restraints, should in the aggregate take us toward better levels of living.

Regardless of whether such a person emerges as a Presidential candidate in this country, the responsibility rests upon every adult person to do all he or she can to turn this country in the direction in which it should go. Unless this is done, the aggressive agitators for dictatorial government and a governmentally-managed economy and people may take over these United States as they have taken over other countries in which the believers in democratic processes and representative government have defaulted on their responsibilities. Millions of good people in this world have in recent years been swept to their doom by ruthless governments whose officials have cared nothing for truth or justice or the general welfare.

The people of the United States have lately been drifting in a dangerous direction. They have been growing increasingly careless about protecting and perpetuating the institutions and practices that have carried them so well and so far in 159 years.

Today all of us need to stop and consider and then dedicate ourselves to the preservation of these good things of life. We need to dedicate ourselves to the preservation of the independence and liberty of ourselves and our fellowmen, as did the signers of the Declaration of Independence in 1776. We need to assert, as did they, that "for the support of this Declaration, with a firm reliance on the Protection of Divine Providence, we mutually pledge to each other our Lives, our Fortunes and our sacred Honor."

More on Corporate Profits

(Continued from page 4)

still say, "No bank loans, thank you. This is no seasonal or temporary condition. The money we need to run the business is gone; we will secure new permanent capital."

This wisdom is drawn only from hard experience. Experience looks at facts. The rise in the price level of the past year caused the trouble—although an alert treasurer could have presented the more serious repercussions. In the future prices may either fluctuate around this new price level as normal, in which case new permanent capital is required, or go higher with more of the same results, or go lower with quite disastrous consequences if present capital needs are filled by bank loans.

Experience has taught that as capital drains away the cash balance is only the first to undergo shrinkage. That is where we stand today. Next comes other liquid assets, chiefly inventories, and finally the deterioration of property.

Illustrations

How the cash disappears may be illustrated by taking three items from the balance sheet of a corporation in sound financial condition:

Cash	$10 million
Inventories	10 million
Total	$20 million
Current Liabilities	$10 million

A price inflation doubling inventory costs occurs, and the management decides to reinforce its cash position with a $5 million bank loan. The result:

Cash	$ 5 million
Inventories	20 million
Total	$25 million
Current Liabilities	$15 million

With working capital still $10 million, the financial position seems adequate. The treasurer probably tells his boss that unless something unexpected happens they have enough to get along on. He may add: "we'll pay the loan off when we liquidate some of this inventory."

If our executive still feels like asking questions he might try this one: "Why do you describe in your balance sheet an inventory that doubled in price in exactly the same terms as one that doubled in physical volume?" Any businessman knows that when prices double—particularly in a short time—they can in an equally short time be cut in half. On the other hand he knows also that if unit sales have grown to twice previous levels, he can carry twice the number in his inventory without undue risks. It seems obvious that there is a considerable basic difference between an inventory that has had a price write-up applied to it and one that describes an additional number of units. Yet many treasurers persist in describing both situations as identical. They even persist although the whole write-up of balance sheet values goes into the Income Statement and of course becomes an easy mark for the tax collector, the labor leader, the "liberal" politician, etc.

When and if the price level returns to normal the unfortunate businessman who trusted his treasurer's recommendations may find this situation:

Cash	$ 5 million
Inventories	10 million
Total	$15 million
Current Liabilities	$15 million

I doubt if Mr. Colt or any other banker would like the looks of this. Any attempt to sweeten it up by additional loans would probably meet with some sales resistance. If as so often happens everything comes at once and the bank loan matures just when prices are down, the dreams of 1921 which keep some historically minded businessmen restless may turn into daytime realities.

New Capital Requirements

Whether inventories doubled either because of price write-ups or an increase in physical size, new capital is needed. The underlying difference is seldom analyzed with the result that identical financing is too often used. The difference in risks alone is sufficient reason for a difference in financing. Basically, however, the price write-up calls for replacement of old capital, physical expansion requires new capital.

How much is required can be estimated, using methods outlined in the previous article, and checked against the ratios for cash, receivables, inventories, and current liabilities that were found to be sound at the old price level.

The speed and degree of the capital loss can be measured roughly, using Procter & Gamble's newly available Balance Sheet. As previously pointed out the large profits of the year were due in part to the ignoring of many economic costs.[2] Cash and United States Government securities declined in the past year from $49.5 million to $30.5 million although the physical size of the inventory was but little changed. Furthermore, Current Liabilities increased from $19.6 million to $32.2 million. A deterioration in the ratio of cash and equivalent to Current Liabilities of $31.6 million in one year is of course disturbing — particularly when an Income Statement compiled with generally accepted methods shows profits from operations soaring to $81 million from $38 million. One would suppose that such profits would have resulted in added rather than reduced cash.

The individual businessman can prevent a recurrence of 1921 from damaging his company if he steers clear of bank loans. If enough follow this policy we may not have to live through such a period. Although businessmen can put their corporations in sound financial condition by permanent financing now, they can't stop one continuing further drain without a change in the tax laws. This drain is an inadequate depreciation allowance. Its effect in one year is not serious. The cumulative effect is very serious indeed.

For five years ending September, 1945 property replacements for civilian production were at a minimum. In the next two years what replacements were made cost substantially more than the original equipment. Today replacement costs run more than 60% over the prewar level. In actual figures this would produce the following result for a corporation whose depreciation had an average of twelve years to run:

September, 1940—Property $12 million—life expectancy 12 years.

September, 1947—Property $12 million—life expectancy 5 years.

Reserves Provided—$7 million.

Cost to replace today — $19.2 million.

Additional reserves needed by September, 1952 unless prices decline—$12.2 million.

As of today the net effect in the example given is identical with the one-man business so often criticized by big business because it operates on a cash basis with no allowance made for such real economic costs as depreciation. This is the situation today even with big business. The years when no replacement could be made plus the years when it could be made only at higher prices cancel out at today's prices practically all depreciation reserves set up for the period. The standard accountant's assumption that prices in 1952 will be the same as 1940 comes under the heading of predictions that businessmen would do well to avoid. Based on this prediction by his accountants, the businessman has already inflated his profits by $4,200,000 (the difference between a real and fictitious depreciation charge). This profit has been taxed at wartime rates. Every bit of this tax was loss of capital.

Depreciation Question

Accounting textbooks tell us that depreciation is set up to provide for the replacement of property as it wears out or becomes obsolete. Probably most businessmen assume that their treasurer is carefully charging enough money against income to provide them with the means to keep their plants and equipment in good shape. There seems to be no other purpose for depreciation.

A few direct questions will reveal how curious is the process by which this simple requirement is carried out. The President might ask the Treasurer:

"Why do you predict that this piece of property will cost exactly the same twelve years from now as it does today?" The answer may be: "We have no basis for predicting it higher or lower, so we assume it will be the same."

Of course predicting is not a function of accounting at all. It would be much simpler to bring the property account up to date as each balance sheet is prepared. This is described in the previous article together with the appropriate charge to the Income Statement to ensure profits are neither over or understated.

This habit of predicting price trends, that accountants seem to ave acquired unconsciously, leads to predictions that property acquired at low prices will be retired possibly fifteen years later at the same low prices. Then, forgetting this prediction, more property might be acquired, five years after the original, at high prices but with a life expectancy of only ten years. The accountant, predicts that the first item will be replaced at low prices in the end year and the second item at high prices in the same end year.

Accountants have also been heard to defend their methods by admitting that it isn't an absolutely accurate method of providing the proper reserves, but it averages out. Unfortunately for this explanation, the government as well as many private statistical organizations will gladly furnish either charts or tables for a nominal fee which show clearly that construction costs have risen quite steadily for over a generation.

Accountants who maintain that their system works in practice are talking sheer opinion. They have no facts to back them up. What facts there are point to a steady drain of capital over a long period that has become noticeable to management only now due to the recent large and swift price rise. Accountants have no facts to back up this opinion because no contact is established between the old fully depreciated property and the new that replaces it. Considering the ease with which accountants take on the responsibility of predicting a price level one would suppose that the very first thing they would do is to set up an account to allow for errors that might arise from such predictions. Instead the accountant will put on his books the purchase of a car for $1,000 and set up his depreciation charge with a prediction that the new one can be purchased for $1,000 when the old one wears out. The old car wears out, but by that time the accountant has lost interest in his prediction. He merely sets up the new car which now costs $1,500 and predicts that the next one will cost $1,500. The fact that in this operation the owner of the company lost $500 appears to be of no concern to the accountant.

Depreciation based on replacement costs produces the heaviest charge on income in boom times just when the company can best afford it—as is the case with Lifo for inventories. It also reduces the temptation to waste capital and cash which accelerates the boom. The lowest charge, again like Lifo, comes in bad times. This reduces the tendency to add to capital, as is usually the case in depressions, and thus adds to the downward spiral.

Businessmen would do well to follow the example of the United States Steel Corporation and charge the proper depreciation each year even though it is not allowed for tax purposes. They should, however, insist on a change in the tax law as the tax is identical with a capital levy. With the tax rate at 38%, the drain on capital is more than any business can stand for long, and of course beings socialism closer.

The slip-shod methods the average C.P.A. uses in describing business transactions is not often recognized by the public, nor obviously do they much care. Accountants themselves seem to take little interest in the consequences of their practices. As an internationally known economist, the president of the large foundation wrote me: "I have found that very few professional accountants are much interested in or easily able to understand some of the economic implications of their practices and of the problems with which they try to deal in presenting financial information."

Historically bookkeepers, accountants appear to relish the role. When the post World War I inflation-deflation cycle occurred no head was raised to inquire if perhaps the facts had been misrepresented to businessmen, thus producing an exaggeration of the cycle. During the long calm of the '20's the explanation that "it all averages out" was allowed to stand. When the 1929-32 depression occurred, speculative excesses were permitted to take the spotlight. No hint of the forcing of the downward spiral by accounting practices came out. Not until later did a few men such as Arundel Cotter breach the dike of disinterest with some shrewd questions about inventory practices.

Although the luxurious habits our government had acquired under the Roosevelt Administration and the prospect of a Morgenthau-financed war almost guaranteed a postwar inflation, few corporation treasurers were willing to revise their accounting methods. This was in face of almost immediate large savings for their firms using methods which by now even the American Institute of Accountants considers orthodox.

Inadequacies of Standard Accounting

Today the subject of the inadequacies of standard accounting is very much alive. Nationally famous businessmen, bankers, and economists have written me on various aspects of the previous article. Financial papers, bank bulletins, and statistical services now discuss the subject at more or less length.

Yet beyond ensuring that busi-

2 "Chronicle" June 5, 1947.

nesses are in sound financial condition, there lies the even more important problem of the social consequences of misstating the situation in accounting and statistical presentations. Little attention is at present devoted to this, but it is encouraging to note that a few of the very top men in the country are giving it thought. For instance, Mr. Voorhees, Chairman of the Finance Committee of the United States Steel Corporation, wrote me after reading the first article: "I have read this article with lively interest and am in substantial agreement with what you have to say in it. I especially like what you have to say about the social and tax consequences of accounting which ignores economic costs."

No evidence is needed here to establish the deteriorating political and economic relationships that in recent years has accelerated. In fact both the average man in the street and those in high places view with alarm the widening rifts in human society which when coupled with man's increasing knowledge of nature may spell chaos in the not too distant future.

Under such circumstances it is probably essential that the means by which society is held together be re-examined, as familiarity sometimes breeds forgetfulness. The very fact of a disintegrating society is evidence that major changes in the means by which society is kept orderly will come —assuming there will be an orderly society in the future.

The economic life covers almost the whole range of activities by which the individual gains a livelihood. At present such problems as the boom-bust cycle, inflation, the three-way struggle between capitalism, socialism, and communism, and international economic warfare are unresolved. Nor so far as I know has there been any convincing method presented to resolve any of these problems.

The basic question is who or what controls economic activities. Mr. Hoffman, Chairman of the Committee for Economic Development and President of the Studebaker Corporation, says:[3]

"If men act more sensibly in the future than in the past, fluctuations in the business cycle can be moderated."

Although obviously true, unfortunately men will not act more sensibly in the future than in the past. An increase in sensibleness comes under the heading of a change in human nature.

New Dealers will tell you that Wall Street ran business until 1933 and that they themselves did after that. How either of them compelled Mr. Ford to price his cars, or change their design, or expand his business, or decide the rate of pay for his employees is unexplained. Nor do they explain how Sears Roebuck's purchasing agents' activities are controlled—what new items they purchase, how much they pay, or how much they buy. In short the basis on which the countless major and minor decisions are made can hardly be traced either to Wall Street or Washington. Yet these are the decisions which determine our economic life. Wall Street bankers and Washington have of course power to create conditions which affect Ford and Sears Roebuck decisions, but the decisions are made independently.

Most arguments about the deplorable state of economic affairs will fall under one of these two general classifications: either, if only human nature were different or, those evil men in Washington or Wall Street are to blame. As both arguments are essentially superficial in that criticism is aimed at straw figures, not much progress can be made on that line.

We generally assume that in this country at least the profit motive is the drive-wheel in economic life. Not many of us are energetic enough to work hard unless we get some kind of reward. **If profit, or rewards, is the motive power, then the basis on which decisions designed to produce profits are made is the controlling power.**

These decisions made by Ford, Sears Roebuck, or General Motors executives are based on figures which show that such decisions have a reasonable chance of adding to profits. Consequently the figures businessmen use when making decisions are the controlling power in our economy. If the information is correct, then under our conception of capitalism, the economy will function smoothly. However, if the information is incorrect then serious distortions will develop.

Since accounting figures are not only widely used for decisions, but are the basis for the statistical presentations also used for decisions, then we can conclude that **in economic life accounting is the law of the land.** For convenience I use the term "economic law" to describe this concept. As described later "economic law" is enforced by the police and in no sense corresponds to laws of economics, which are theories based on observation and logic.

Who establishes economic law? Who are the legislators whose decisions directly affect our daily life at almost every point? Are they wise men fully aware that their decisions will profoundly affect the future of society? There is of course no central body. Economic law is based on bookkeeping practices that merely grew to a body of law through trial and error, much as English political law grew. Standards—which are enforced by the police —generally come from government sources after consultation with the American Institute of Accountants. The latter as the semi-official organ of the professional Certified Public Accountant wields tremendous authority, and could probably secure such changes in economic law as it desires. There is little evidence that its responsibilities weigh heavily.

The United States Treasury Department sets standards of bookkeeping that all business enterprises must follow in preparing tax returns. Usually the expense of keeping two sets of books produces the result that the Treasury Department's idea of sound accounting prevails. Other bodies such as the Security and Exchange Commission, the Interstate Commerce Commission, and the various Stock Exchanges set certain standards for special purposes. All but Stock Exchanges have power to call on the police force to enforce their decrees. The Stock Exchanges can refuse listing privileges. So varied a source of authority has produced the result that habit and inertia are the dominating factors in establishing economic law.

The first of these two articles made the point that standard accounting rests on the assumption that prices never change. As a result when prices do change accounting reports are both useless and misleading. The second article began with some current consequences to business of accepting standard accounting as a true representation of fact.

From this cause and effect the conclusion was reached that accounting is identical with "Economic Law" used in the sense that it is enforced by the police. Since it is evident that no central authority legislates "Economic Law", habit and inertia determine it.

If this line of reasoning is true then in periods when prices change, management decisions will add to economic confusion. Correction can come only from a responsible lawmaking body.

Those inclined to pursue this argument further may find that by creating such a lawmaking body, assuming reasonably sound laws are made, the economic conflicts of our day can be resolved.

3 New York "Herald-Tribune" Sept. 14, 1947.

As We See It

(Continued from first page)

for some time past been detecting what appeared to be a returning tide of New Dealism. In these columns during past weeks we have on various occasions cited overt expressions, or what seemed to us to be inescapable implications to some such effect as this, in official or semi-official outgivings. This latest report of the President's Council of Economic Advisers takes several further steps in this direction, or at least so it seems to us. Indeed, it would appear that the President has rather definitely made up his mind to return to at least some of the controls and other interferences with business and the individual which he appeared to reject late last year and early this year, although of course it could be that these recent pronouncements are in part "trial balloons" intended to test current reports of a change of heart on the part of the general public concerning price control, rationing and the rest. At any rate, reinstatement of sweeping controls is definitely under advisement in Washington.

It is difficult to place any other interpretation upon some of the passages found in this latest report. Here are some of them. They will repay the most careful thought.

"If wheat exports continue at the levels set by foreign need, and if the domestic demand for food remains at or near its postwar level, conservation and other measures to regulate use and hold prices in check will be needed in this country. With such measures to maintain healthful nutritional standards, the supply here would be adequate to serve nutritional and other needs satisfactorily although not luxuriously. . . .

"The chief danger here is that this supply situation may be translated into further increases in the price of steel and steel products which would give an additional inflationary impetus to the whole economy. High domestic and foreign demand for industrial and agricultural machinery is closely connected with the steel problem.

"The general conclusion regarding steel as well as food is this: Whether the domestic situation worsens considerably or progresses satisfactorily depends upon the use of vigorous, affirmative measures to assure distribution to the most urgent uses and to prevent a spiraling of prices. . . .

"A new foreign aid program will have a severe or a moderate impact on our economy depending upon the domestic measures we adopt. These measures involve both the administration of foriegn aid and related questions of domestic economic policy.

"The seriously inflationary consequences that would result from mismanagement of the situation in such commodities as food and steel require selective distribution to the most necessary domestic and foreign uses. The two types of uses are interrelated, because the demand in both cases takes place at the same strategic spots in the American market. The consequences can be dealt with effectively only through careful coordination of all measures undertaken.

"The relative shortages of specific commodities require export controls, allocations for domestic use, discouragement of misuse or excessive use, efficient transportation and distribution, and the curbing of speculation and hoarding of goods.

"The general inflationary threat resulting from the combined impact of foreign and domestic demand requires the continuance of tax revenues at present levels, maximum economy in government expenditures, stimulation of saving, and the enlargement and aggressive use of measures to control dangerous expansion of credit.

"The proposal for new foreign aid requires that we face with greater wisdom and courage than ever before the dangers to our whole economy that are now revealing themselves in the form of relative shortages and inflationary pressures at strategic spots in the economy. The foreign aid program compels us to face certain domestic problems squarely, but remedial and preventive measures available to us are adequate if we have the courage to use them."

For our part, we cannot imagine what "conservation and other measures to regulate use and hold prices in check" are unless they are our old friends, rationing and price controls. If not such devices as these, then we find it difficult to guess what the authors of this report have in mind when they speak of "vigorous, affirmative measures to assure distribution to the most urgent uses and to prevent a spiraling of prices." These two specific expressions are applied only to "food" (which, of course, is a very broad category of itself) and steel (which involves a very large part of our economy as a whole), but one needs to be rather naive to suppose that the Council is concerning itself with these items exclusively. Such a conclusion would run counter to much of the reasoning of the report. That it is in no way warranted is evident when the Council speaks of "relative shortages of specific commodities" requiring "export controls, allocations for domestic use, discouragement of misuse or excessive use, efficient transportation and distribution, and the curbing of speculation and hoarding of goods." Not only are the ideas definitely New Dealish throughout, but the wording, the catch-phrases, the "cliches," might as well have been selected by Chester Bowles, Paul Porter, Wilson Wyatt, or even Franklin Roosevelt himself.

All of a Piece

Now, all this is of a piece with recent attacks on "speculation," "Wall Street," "the interests," "big business," and all the rest (climaxed by the absurd anti-trust suit against the nation's leading underwriters at a time when competition run riot has tested the mettle of more than one firm). One is obliged to wonder if the Truman Administration, which had a year ago apparently at least got a glimpse of the handwriting on the wall, has now about decided that the tide has again turned, and that it would be politically wise to return to the tactics and the techniques of its predecessor.

If it has made any such decision, it has issued a sharp challenge not only to its political opponents, but to the people of the United States who only a short year ago seemed to have "had enough" of regulation and governmental spoon-feeding.

We can only hope that the rank and file have not forgotten those days when so many items could not be had at all—except occasionally and sporadically in the black market at prices even higher than those of today.

A Concrete Program for Germany

(Continued from page 4)

their own political and economic destiny.

At the same time this coordinated pattern of organization is being developed in Western Germany, its civilian economic counterpart should be in the process of development for Western Europe as a means of making sure that the objectives under the Marshall Plan will be attained and that any appropriations made by the American Congress to implement the Marshall Plan will not be dissipated or frittered away in sideline activities that have no bearing on the primary and vitally necessary objectives.

In building this broader organization for Western Europe he should act in a civilian capacity for whatever time is required before taking over his new duties as head of Columbia University.

Given such an organization, our new policy and directive from Congress should require that we first attack the psychological problem of Germany.

This can be done by the following program, each part of which presents many problems and difficulties but none of which is impossible of attainment.

Program for Reviving Germany

The program for giving Germany new hope is:

(1) Declare an end to the reparations of capital goods.

(2) Bring to an immediate and early end de-Nazification except for the 80,000 top Nazis in category one.

(3) Permit the Germans to export by quickly untying the shackles that now bind their hands and feet in the form of regulations prohibiting barter and the making of contracts with foreign business firms; the provision by the International Bank for loans of foreign currency with which German industrial firms may buy raw materials and send out salesmen and engineers to secure export business; and by the wholesale elimination of the regulations remaining from Nazi autarchy and "Schachtism," the red tape and bureaucracy of the German Landerats and the regulations of the American and British Military governments that prevent exports.

(4) Invite the Germans to take part in the Marshall Plan discussions on the needs of Germany.

(5) Proceed with the establishment of a central government for Western Germany, building it out of the Economic Councils that are now representative of the German states, providing for its approval at a later date by popular election.

(6) Abandon the Morgenthau concept of a banking system patterned after the Federal Reserve System in America and institute a central bank for Western Germany patterned after the central banks of the other countries of Europe.

(7) Provide a new currency for Germany as soon as a central government with a balanced budget is in effect, a central bank functioning, and sufficient consumer goods available to give a new currency purchasing power.

Once a policy along these lines is announced, even though it may take months to carry out the policy, a revolutionary change in the psychology of the Germans will take place and much of their hopelessness will disappear. The German people will go to work again.

Even though they know they will be poor for two generations, they will go to work to try to build a place for themselves in the family of nations of Western Europe.

Halt Spread of Communism

Once that is done, we will have made the first effective step to stop the spread of Communism west of the "Iron Curtain."

Given a new policy, new organization and new hope in Western Germany, it is possible to begin to use food not as a means of relief but as an instrument and an incentive to get production going again.

On an average, the German people are living on a diet of 1200 calories a day. That is one-half of the diet of the people of Britain and one-third of the diet of the people in America. It is a starvation diet and no one can do heavy work and produce on a diet of 1200 calories.

In the report which is being made I have recommended that dietary experts work out a five-year plan of diet for the German people proceeding gradually from a 1300 calory diet to 2600 calories, but with special supplementary food incentive diets for specialized groups starting with the underground miners in the Ruhr. I have recommended that under the Marshall Plan this basic five-year diet be guaranteed by the other nations, mainly the United States, on a declining basis—100% the first year, 80% the second year, 60%, 40% and 20%.

By making it possible for the Germans to export, they must then rebuild their productive capacity and their exports fast enough to make up the difference in this declining guarantee. If they wish to have more than 2400 calories diet, they must produce and export more.

For a five-year period this declining guarantee for food would cost about $2 billion.

The first step in using food as a means of getting production would be to bring over meats and other special energy foods and put them in the 75 colliery stores in the Ruhr area.

Increase Ruhr Coal Production

Then give to the 170,000 underground miners of the Ruhr coupons that would enable them to get a 75% increase in the rations for themselves and their families in exchange for a 50% increase in coal production.

The Ruhr miners are now producing 220,000 tons of coal a day. Under this plan it is possible within 12 months to get them up to 330,000 tons per day.

The annual production of the Ruhr is going at the rate of 66,000,000 tons. The new plan would provide an annual production by the end of 1948 of 99,000,000 tons.

But immediately such an increase in production is promised, it is apparent that the transportation system of Germany cannot haul it away from the mines. This is due basically to the severe bombing of the transportation system during the war.

A special report, which is being included in my main report, was written suggesting what might be done to make greater use of the transportation system of Germany to meet the crisis that is bound to develop in Germany this winter unless something drastic is done to avoid it.

But even if all these measures are taken, the threat is still there of a drastic transportation crisis that may affect the economic stability of Western Europe and the rest of the world.

Intensive study of this problem indicates that the real difficulty is that we are attempting to export 10,000,000 tons of coal from Germany to Russia, France, Switzerland, Holland, Italy, Belgium and other countries of Western Europe by an unnaturally long rail haul. This ties up railway equipment that is already grievously short.

Coal Should Be Supplied by Britain

Moreover, each country securing 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. This contributes to the vicious cycle.

The fundamental fact is that in the years before the war, coal was supplied by boat from Great Britain to the large ports of Europe. Around these ports had grown up the industrial areas of these various countries. Coal that was not used in the immediate areas was sent by short rail hauls to other industrial centers or was transported by coal barges through rivers and canals.

Not only was Great Britain in prewar days the largest supplier of coal in Western Europe, but coal was the basis of her diplomatic power.

The fact that Great Britain is no longer exporting coal to Western Europe is one of the biggest contributing factors to the dollar shortage with which she is now struggling — attempting to overcome this problem by resorting to austerity, Nationalism and Socialism.

In the meantime, no progress has been made in Western Germany in the past year in the restoration of the industrial production. Municipal power plants that supply thousands of small plants have been operating at a small percentage of capacity due to a shortage of coal.

The fundamental fact is that if a moratorium could be declared for one year to 15 months on the shipment of these 10,000,000 tons of coal out of Germany, a revolutionary dynamic would be inserted into the whole picture of Western Germany and Western Europe. If these 10,000,000 tons of coal now exported from Germany could be used for a year or 15 months within Germany, the restoration of not only Germany but of Western Europe could be assured.

The only way, however, that this moratorium on the export of coal from Germany can take place is for the countries of Western Europe to be again supplied by coal from Great Britain.

Direct Incentives for Miners

The leaders of all factions in Great Britain recognize that coal is the very crux of their recovery problem.

Yet because the coal industry and the coal miners have presented such a critical problem for so many years, the leaders of Great Britain are reluctant to face this issue. They are trying everything except offering direct incentives to get the miners to again dig the coal at the rate of and in the quantities that they produced in the years before the war.

This very reluctance of everyone to tell the miners and the country the real truth is at the bottom of Great Britain's difficulties—not the whole problem of course, but the basic problem.

Under normal circumstances, the desire of the labor government to make everyone share equally in the austerity program is understandable and might even be laudable under certain conditions. But for two years the labor government of Great Britain has been avoiding the main issue of the necessity of digging and exporting coal while using the proceeds of the American loan to buy food supplies that could have been bought in part, at least, with coal had they gone to work to dig coal for export.

The simple fact is that more and more austerity, while necessary, now only tends to push Great Britain further down in a depression cycle. Austerity cannot take the place of production. As long as Great Britain does not dig and export coal, more loans are simply continuing Great Britain on the American dole, and the people of Great Britain do not like or want that if they can help it.

Offering the miner added incentives to go to the six-day week and to produce extra coal during the week would, of course, be contrary to the Socialistic conception of equality. But if the Socialists continue to insist on an equality of misery they are going to have an increasing amount of misery.

Thirty million tons of coal exported from Great Britain at current obtainable prices would almost cure the gap that now exists between Britain's imports and exports. It would go a long way toward curing the dollar shortage that is now the crux of the crisis in Great Britain. With coal, Britain could buy a large portion of her food and raw material requirements.

Nationalization Threat Slows British Output

Great Britain has the coal. She has the barges with which to haul it. She has the miners with which to dig the coal. The miners themselves, I am assured, would dig the coal if they were given incentives. They can be given such incentives. The only real obstacle is the ideological theory of the present labor government that places dependence upon Socialization and nationalization, rather than the incentives that have always induced men to work.

The productivity of the industries of Great Britain is definitely being held back, in my opinion, by the fear and uncertainty of the nationalization program. Coal, the manufacture of electric power, and transportation have now been nationalized. Sir Stafford Cripps in a speech before Parliament on the British crisis, said that more socialization is necessary rather than less and that the government would not give up its long term objectives because of the current crisis.

The fact remains, however, that if America must supply an added loan to Great Britain or help through the Marshall Plan in the way of food and raw materials to alleviate Great Britain's crisis, then Britain's contribution to the Marshall Plan and recovery of Western Europe should be to dig and export coal and to postpone further nationalization of industry until she can nationalize at her own expense and not at the expense of the American taxpayer.

When I went into 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.

America Cannot Continue European Relief

It is also prefectly clear that America cannot continue its UNRRA or relief loans to Europe. Yet we must take prompt and vigorous action to prevent the spread of Communism west of the "Iron Curtain." The only way to do this is to help Western Europe and Great Britain to get industrial production going and the standard of living rising.

Without question in Germany, and in Great Britain perhaps, it will be necessary to make additional supplies of food necessary on a declining basis. But this food supply should be made available only on condition that it be used as an incentive to get production going and not merely for relief.

It is my definite recommendation that the American Congress stipulate some such plan as outlined in the report which is being made as a condition for the appropriation of funds for the Marshall Plan.

The question has been raised as to whether France will go along with this program. From my investigation in France, covering the leaders of labor, banking and government, I believe that France will cooperate providing we understand her basic requirements.

Assurance for France

What are the requirements of France?

First, France wants to be assured that the Marshall Plan is aimed at the reconstruction of Western Europe, of which Germany is a necessary part, and not merely at the reconstruction of Germany alone to the detriment of France. Second, France wants to be taken into full partnership with America and Great Britain; and the integrated organization of Western Europe which I have outlined, to be followed by an integrated economic organization under the Marshall Plan for Western Europe, would, I believe, meet the requirements of France. Third, France must be assured that German militarism will not be revived. The plan outlined in this report will satisfy France if she has an equal part with America and Great Britain in its administration. Fourth, France wants to build up her steel industry and to do this she must have long range assurance of a supply of coke from the Ruhr in exchange for Lorraine iron ore. Under an integrated control organization of Germany, this could be assured by the veto power of the control, which would, while permitting German operation of the Ruhr, prevent her from strangling the steel industry of France.

Everyone has said that the Communists of France hold the key to the French situation. My investigations show that this is not true.

Out of six million Frenchmen who voted Communist, there are less than 750,000 real Communists. The balance are Frenchmen first, who voted the Communist ticket as a protest against current post-war economic conditions.

The Communist Party in France recognizes that it has not the power to overthrow the government and is following the Moscow line of waiting two or three years for an economic depression that will play into their hands.

France therefore is not the main obstacle to the recovery of Western Europe. The main obstacle is the ideological stand of a portion of the Labor Government of Great Britain that prevents the offer of adequate incentives to the miners to work a 6-day week and get full production that will enable adequate exports of coal to turn the economic tide.

Britain Needs Food, Raw Materials

Even if Great Britain digs and exports coal as outlined, she will still need some additional loans to buy supplementary food and raw materials. In my opinion, the people of Great Britain have not yet been told the truth about the extent of the austerity program required if there is no additional help forthcoming for Great Britain under the Marshall Plan.

It is not in the basic interests of America or of the world that Great Britain should be permitted to fall or, under excessive austerity, to delay her economic recovery.

But it is also clear that unless Great Britain is willing to dig and export coal as her contribution to the recovery of Western Europe under the Marshall Plan, further loans and help from America would not accomplish the objective of recovery.

In my opinion, the American Congress would be derelict in its duty to the American taxpayer if it failed to see clearly the essence of this problem and to act intelligently upon it.

Even if the cost is several billion dollars a year for the next five years in the form of loans, I believe that if these loans are intelligently made, not as relief but as an incentive to get production, that they can be repaid. Repayment should not be expected until after five years during which Western Europe would have a chance to get on a self-supporting basis.

The problem of repayment of these loans to America presents the same transfer problem that confronted us in World War I and World War II. But there is and can be a difference.

Some of the loans required under this program can be made from the International Bank and can be repaid to the International Bank. Some of the loans can be made by private investment bankers and repaid through the normal channels of foreign trade over future years.

But the bulk of these loans will have to be repaid through the transfer of physical goods from other countries to America.

The reduction of tariff walls would go a long way to make possible the repayment of these loans. So far, the program has not accomplished a great deal.

Our 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 and over a long period of years, would permit the repayment of these loans advanced now for reconstruction.

Repayment in Goods

Another method of repayment that should be considered by the American Congress is to make some of these loans for the reconstruction of Europe through our Export-Import Bank and then accept payment in the years to come in the kind of goods that can be used in our own relief programs, thus minimizing the taxes levied internally to meet relief requirements. In effect this would mean paying out American credit now to bring relief to Western Europe and Great Britain and later accepting goods manufactured in Europe that could be used for relief work in the United States.

To stop the forward march of Communism beyond the "Iron Curtain" may require another five years of intelligent and constructive help from America. But this help should be made as an incentive to production—as a means of helping people to help themselves through an organization, small but competent, capable of seeing that the basic principles are followed and the desired results obtained. It should have sufficient authority as to details so that they can meet changing requirements that will inevitably develop under a five-year program of this kind.

The inevitable question arises as to what Russia will do in the face of such a constructive plan of action for the reconstruction of Western Europe. It is my considered opinion that Russia will not go to war. Her policy is to wait hoping that America will fail to take action or that England will not dig coal or that France and the other countries of Western Europe will fail to get together on a plan of action.

If we fail to integrate our action as we did for the invasion of Western Europe, it is my opinion that Russia's hopes will be realized—that we will have a failure to recover in Western Europe and that this failure will bring about an economic depression of severe proportions not only in Western Europe and the British Empire but in the United States as well. The cost of such a recession will, in my opinion, be greater in the end than the cost of preventing it.

I do not know whether we have the collective intelligence or the will to act promptly enough to minimize such a recession. But I believe that our only hope of avoiding these consequences is for the leaders of our government and the committees of Congress to act with the utmost promptness in developing a plan that can be submitted to a special session of Congress this fall.

The State of Trade and Industry

(Continued from page 5)

they will protest violently if an attempt is made to put domestic production under strict distribution controls. With the distribution picture already a match for the abilities of industry experts, it is inconceivable that government control over steel distribution would produce anything but chaos.

Coincident with the tight scrap situation there is unmistakable evidence this week that steel consumers consider the steel shortage at the present time more serious than at any time since the war. The gray market is flourishing to such an extent this week that some sales of cold-rolled material have been made at $300 a ton—a new high and at least $50 a ton higher than was the case of a few months ago, a sharp contrast to bonafide steel mill quotations which range between $80 to $85 a net ton delivered for the same type of material.

News that January quotas for sheet steel users will be cut below expectations makes for further confusion. Some companies have been swamped with new steel orders against 1948 quotas, the volume running much larger than had been expected. This means that early 1948 will see the steel industry still faced with the difficult problem of distributing available supplies in as equitable a manner as possible.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 96.1% of capacity for the week beginning Nov. 3, 1947. This compares with 97.0% one week ago, 96.1% one month ago and 91.1% one year ago. Current operations represent a decrease of 0.9 point or 0.9% from the preceding week.

The week's operating rate is equivalent to 1,681,700 tons of steel ingots and castings compared to 1,697,400 tons one week ago, 1,681,700 tons one month ago and 1,605,500 tons one year ago.

RAILROAD FREIGHT LOADINGS ADVANCED MODERATELY FOR WEEK AND YEAR

Loadings for the latest week, Oct. 25, 1947, totaled 954,627 cars, according to the Association of American Railroads. This was an increase of 378 cars above the preceding week. It also represented an increase of 12,370 cars, or 1.3% above the corresponding week in 1946 and an increase of 99,848 cars, or 11.7% above the same week in 1945.

ELECTRIC OUTPUT 8.2% HIGHER THAN A YEAR AGO

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 1, 1947 was 5,009,286,000 kwh., according to the Edison Electric Institute. This compares with 4,963,816,000 kwh. in the preceding week, and was 8.2% in excess of the 4,628,353,000 kwh. produced in the corresponding week of last year.

AUTOMOTIVE OUTPUT RISES ABOVE PREVIOUS WEEK OCTOBER PRODUCTION FORESEEN AS LARGEST POSTWAR MONTH

Estimated output of 105 834 units for the current week made October the largest postwar month by bringing the year's cumulative volume to 4,141,382 units, according to Ward's Automotive Reports.

Should this goal be reached or even approached, states this authority, 1947 will stand as one of the highest production years in automotive history, being exceeded only by 1941 when 5,108,992 units were produced. In 1937, 5,016,437 units were built and 1929, 5,621,045 units, in which a record was achieved.

Production in the United States and Canada during the past week totaled 105,834 units, compared with a revised figure of 106,159 units in the previous week and 95,427 units in the comparable period of last year, states Ward's. In the corresponding 1941 week the figure was 92,879 units.

Last week's output comprised 99,347 vehicles made in this country and 6,487 in Canada. The U. S. total included 75,337 cars and 24,010 trucks, while the Dominion figure showed 4,270 cars and 2,217 trucks.

BUSINESS FAILURES DOWN SLIGHTLY FROM PREVIOUS WEEK

After a three-week increase, commercial and industrial failures declined to 70 in the week ending Oct. 30, reports Dun & Bradstreet, Inc. Despite this decline from 81 in the preceding week, concerns failing were three times as numerous as in the corresponding week of 1946 when only 22 concerns went out of business with loss to creditors.

The week's decline occurred entirely among failures involving losses of $5,000 or more. Down from 70 last week, 56 concerns failed in this size group in the week just ended, not quite four times as many as a year ago when 15 failures were reported with losses of $5,000 or more. Small failures involving liabilities under $5,000 showed a mild increase this week, rising from 11 to 14, twice the number occurring in this liability class in the comparable week of last year.

Almost half of the week's total failures, numbering 32, were concentrated in retail trade. Up a little from the preceding week's 28 they were almost three times as numerous as in the same week of 1946. Manufacturing, with 18, claimed the next largest number of failures during the week with no other industry or trade group having as many as 10 concerns failing.

Geographically, about an equal number of failures occurred in five different regions.

WHOLESALE FOOD PRICE INDEX OFF SHARPLY IN LATEST WEEK

A downturn in many important foods this week resulted in a drop of 12¢ in the Dun & Bradstreet wholesale food price index. This brought the Oct. 28 figure to $6.78, from $6.90 on Oct. 21, or a decline of 1.7% in the week. The latest index compared with $6.34 for the corresponding date a year ago, or a rise of 6.9%.

Moving upward in the week were wheat, barley, butter, currants, steers, and lambs. Declines included flour, corn, rye, oats, beef, hams, bellies, lard, cottonseed oil, eggs, potatoes, and hogs. The index represents the sum total of the price per pound of 31 foods in general use.

DAILY WHOLESALE COMMODITY PRICE INDEX TURNS LOWER ON SHARP DROP IN GRAIN PRICES

Influenced largely by the sharp slump in grains, the Dun & Bradstreet daily wholesale commodity price index turned downward in the latter part of the week after rising to a new record high level early in the period. The index figure closed at 288.55 on Oct. 28, comparing with 291.65 a week earlier, and with 233.71 on the corresponding date a year ago.

After reaching new highs for many years, grain prices turned sharply lower late last week due to liquidation prompted by the calling of a special session of Congress for Nov. 17 and fears that the President would ask for drastic measures in order to combat the upward trend of commodity prices.

Early strength was influenced largely by continued government buying of cash wheat and flour. Demand for corn fell off and prices displayed an easier undertone throughout the week. The crop was said to be practically out of danger of frost due to continued unseasonably warm weather over most of the corn belt, and the movement of the new crop to market is believed not far off.

Oats were independently strong in early dealings but declined later in sympathy with the reaction in wheat. Large flour users held aloof from the market due to current uncertainties.

A late drop in lard prices that wiped out earlier gains reflected fears that the government would recommend reimposition of controls over packing house products. Live hog markets weakened, with prices down more than $2 per hundredweight during the week. Lambs and sheep strengthened while steers held steady.

Cotton markets showed increasing strength during the first four days of last week but lost most of the gains on Friday due to uncertainties over the program to be adopted by Congress. Following the break, prices rallied sufficiently to cause a moderate rise in spot quotations for the week. Early strength was influenced by active mill and replacement buying and price-fixing against sales of the staple to the Commodity Credit Corporation.

Other factors included the favorable outlook for the textile industry in the coming year and the absence of heavy hedge selling against new crop movement. Buying was more active with reported sales in the 10 spot markets reaching 584,800 bales for the week, the largest for any week in several years. Volume for the week compared with 463,000 bales last week, and with 160,600 for the corresponding week a year ago. Cotton textile markets continued in a strong position with good demand reported for most constructions at firm to higher prices.

There was more activity noted in domestic wools in the Boston market last week. Active demand for fine wools was also reported in Texas and in the Territory States. Improvement was attributed to heavy demand for worsted and fine woolens, assuring capacity operations for top makers and yarn manufacturers well into next year. A further influence in the demand for domestics was the increased buying for import into the United States in the Australian auctions.

RETAIL AND WHOLESALE TRADE HOLD MODERATELY ABOVE YEAR AGO IN LATEST WEEK

Despite the increase of seasonal promotional sales, retail volume declined slightly the past week, according to Dun & Bradstreet, Inc., in its weekly survey of trade. Very mild weather in many areas was believed to be chiefly responsible for the decrease. Retail volume was moderately higher than that of the corresponding week a year ago with consumer interest centering on staple merchandise. Resistance to high prices as in past weeks was again in evidence.

Grocery volume increased slightly with the supply of most foods plentiful. A slight decline in meat prices was reported with demand for cheaper cuts of meat, fish and poultry remaining large. Dairy products were steadily purchased and very large quantities of sugar and coffee were requested. The buying of canned and frozen foods was also substantial. Fresh fruits and vegetables remained plentiful and reasonably priced.

Unseasonably warm weather in many parts of the country retarded consumer interest in heavyweight clothing. Furs, Winter coats and woolen underwear attracted little attention. The demand for blouses and skirts was steady with hosiery and lingerie selling well. Some increase in the buying of rain coats was reported. Men's hats, worsted suits and covert topcoats were steadily purchased as well as boys' sweaters and wool shirts which proved popular.

Paints, housewares and wallpaper remained in large demand along with plumbing and building materials which were eagerly sought. Unknown brands of home appliances were shunned and the buying of radios and phonographs decreased somewhat. Good quality furniture, draperies and floor coverings sold well and there was some increase in the buying of kitchen utensils. Automobile supplies and accessories too, were in steady demand, together with a large volume for sporting goods.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 7 to 11% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England, 5 to 9; East, 11 to 15; South, 2 to 6; Middle West, 4 to 8; Northwest, 6 to 10; Southwest, 8 to 12, and Pacific Coast, 10 to 14.

A slight increase in wholesale volume occurred during the week. Buying was at a moderately higher level than that of the corresponding week a year ago, and retailers were generally confident. Large orders were placed as retailers anticipated their requirements on a long-term basis. The response to showings of Spring merchandise was enthusiastic with re-orders for Winter articles substantial. The deliveries of some goods improved.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Oct. 25, 1947, increased by 7% from the like period of last year. This compared with an increase of 1% (revised figure) in the preceding week. For the four weeks ended Oct. 25, 1947, sales increased by 8% and for the year to date increased by 8%.

With the advent of cooler temperatures, retail trade here in New York last week quickened, reflecting an increase in department store volume estimated at close to 50% above the like period of 1946. This increase, however, was tempered somewhat by the deliverey strike last year which was just coming to an end.

In food lines, wholesale prices veered downward but retail levels held at recent peaks.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Oct. 25, 1947, increased 30% above the same period last year. This compared with an increase of 24% (revised figure) in the preceding week. In using year-ago comparisons for the above weeks allowance should be made for the fact that in the cities of New York and Newark work stoppages in the trucking industry prevailed. For the four weeks ended Oct. 25, 1947, sales increased 28% and for the year to date rose by 10%.

The Investment Outlook

(Continued from first page)

and everyone, of course, knows that when any organization of human beings, in whatever form, ceases to meet the challenge of growth, retrogression sets in.

While the thesis of Mr. Toynbee may be unduly pessimistic, it grows increasingly clear each day that even though the defeat of Germany and Italy was a victory over the forces of military aggression, it was not a victory over the basic economic and political problems that have been at the root of Europe's troubles for many decades. Quite the contrary, the tremendous destruction of property, life and social values has accentuated the problem until it is viewed almost with despair by many observers. It is almost, as Walt Whitman so pessimistically stated many years ago:

"That from any fruition of success, no matter what, shall come forth something to make a greater struggle necessary."

This growing pessimism with respect to European recovery and the possible implications to America is no doubt one of the serious psychological problems confronting business and markets. Nor is there much reason to wonder at this.

There was a time not so very many years ago when the failure of a large Middle European bank set in motion a chain of events which caused serious repercussions on our markets. But here we are confronted with the apparent failure of a far flung empire, and of a continent, embracing a substantial part of the peoples of the world.

This is obviously an event without any parallel in history. It is a long term business consideration of unprecedented magnitude and one which, due to the continuation of our internal inflationary boom, the American people have yet to come to grips with.

"A Nation of Economic Hypochondriacs"

Is it any wonder that in their endeavors to appraise the effects of these events the American people are confused and are becoming, as someone has termed it, a nation of economic hypochondriacs?

And yet, even though the problem is still too vast to permit of evaluation, there are some facts which have grown quite clear.

The first fact is that we must become accustomed, for many years in the future, to living and doing business in a world environment which is continually being subjected to tensions and shocks from abroad. As the ocean continues turbulent long after the gale has abated, so must we expect friction and turmoil for many years. However, in our present impatience with the slowness of European recovery and the continuing political disputes it is well to recall that it took the better part of eight years following the Armistice in 1918 for Europe to regain a reasonable degree of order in finance and poltics. At that time the problem was, of course, much simpler.

Have Passed Export Peak

A second fact is that we have doubtless passed the peak of our current export trade. For the past year our exports have run between 10% and 15% of our total output, or about twice the prewar percentage, and, in terms of dollars, about five times our prewar export volume. This vast export business has been largely supported, as every banker knows, by gifts or credits, and there is an obvious limit to that process.

Even though the aid requested under the Marshall Plan is is granted in full by our Congress, this support alone will not be sufficient to maintain both European trade at its recent pace and also offset the shrinkage in shipments to countries not included in the Marshall Plan. Two areas not included in the Marshall Plan, namely Latin America and Canada, imported far more of our goods in 1946, and so far in 1947, than all of Western Europe and several times the goods purchased by England. Canada and Latin America are also running low on dollar balances, and restrictions have been placed on certain classes of imports by several important Latin American countries.

The total excess of American exports over imports to all countries has recently been running at an annual rate of approximately 18 times our average favorable balance for the 1936-38 period, and not far from twice as large as the 1946 balance. Unless we are willing and able to continue to finance this balance in large part a substantial shrinkage is indicated.

A third fact would seem to be that a period of currency adjustments impends. The English pound and most of the European currencies are overvalued in terms of the dollar and must be adjusted. The present official rate of about 4.02 for the English pound is probably even more unrealistic than was the reestablishment of the pound at 4.86 following World War I. French currency conditions are deplorable and the black market in francs is a matter of common knowledge, and this condition is a major hurdle in front of France's effort to regain her export trade.

While a readjustment of European currencies might aid European exports, in due course this action could have adverse repercussions on our prices, particularly agricultural, at such time as other countries achieve a better balance between supply and demand.

Under different conditions American business and security markets would regard with apprehension the prospect of a decline in export trade. That the average business man or investor is not presently more concerned is doubtless due to the continued high level of domestic demand stimulated in large part by the massive inflation of our purchasing media.

However, as we are in the seventh year of a major inflation, it should be clear that we are gradually approaching an economic readjustment. With most all segments of industry operating at or near capacity, with practically full employment and at high wages, with prospects that our national income this year will reach a new high at around $190 billion, with farm products in great demand and at high prices, and with other indices attesting to the excellence of business, it is very difficult to see how conditions can improve much or long continue at the current satisfactory level.

When Will Readjustment Come?

The great question is "when will an economic readjustment come upon us?" This is a question which has been debated for well over two years, and to date the prophets have failed to arrive at a conclusion which has been supported by subsequent developments. The predictions of many economists in 1945 to the effect that V-J Day would usher in a period of high unemployment proved as erroneous as the almost unanimous view of observers in 1946 that agricultural prices would decline sharply in 1947 and that this would inaugurate a business readjustment of some severity.

The conference of government and business economists held under the auspices of the National Industrial Conference in late 1946 was virtually unanimous in expecting a recession by the spring or fall of 1947—and yet it has not come. A composite forecast of 13 economists published in December of 1946 concluded that industrial production in 1947 would be down 10% from 1946 and that unemployment would be relatively high by midsummer. And so it has gone.

In the light of the many forecasts which have proven to be so far from the facts, one naturally has great reservation in placing his own views on public record. But when one deals with other people's money, either as advisor or trustee, he must at least have the courage of his convictions and, beyond that, must have a basis for his convictions.

A careful examination of the correlation of incoming orders received by various lines of business with their current level of activity sheds some light on the subject.

(1) Consumer non-durable goods—The soft goods lines were heavily bought by merchants and the public during the spring of 1946, and by midsummer it appeared that supply was exceeding demand, resulting in a reduction of about 30% in new orders by the fall. With, however, continued good domestic and export demand last winter and during the spring and summer of this year the supply has been well absorbed, and merchants are now finding themselves short of supplies. As a result the non-durables should do well this fall, but it is doubtful if the present high volume can be sustained much into 1948.

(2) Consumer durable goods—There is still a large unfilled demand for most durable items, and this type of activity should do well through 1948. Automobiles remain critically tight and, in fact, due to growing junking of older models, more cars are needed now than on V-J Day. While it is estimated that approximately 4,000,000 cars and trucks will be produced this year—a record only once exceeded—statistics indicate that we must have several years of large production before we reattain the same degree of available automobile transportation which prevailed at the time of Pearl Harbor. Furniture is still in heavy demand, and with the ending of installment controls on Nov. 1 the prospects are good for this line for some time ahead. Home appliances, other than small radios, should be in demand through 1948, although in a more competitive market.

(3) Construction, heavy industries and raw materials — Industrial and commercial building should do well for many months ahead. Home building will continue to be retarded due to high costs, and rental building will not really boom until rental controls end. However, a great demand exists, and the construction of dwelling units should be good for a sustained period. Based on a projection of new orders, we should begin to catch up on the backlog of heavy industrial equipment orders by the spring of 1948 when some slowing down should become apparent. The demand for raw materials is so great that the steel industry, non-ferrous metals, petroleum, lumber and paper industries should all be busy through 1948.

Study of other segments of our economy reveals promising prospects, and it would appear, therefore, that, even though we experience a reduction in our over-all export trade and some slowing down in certain lines, the total domestic demand, buttressed by high wages and savings, is such as to indicate a good degree of activity through all or the greater part of 1948. In addition, as we turn into an election year, we may expect the Administration to do all in its power to create a favorable business atmosphere in order to prevent any serious business setback at least prior to November.

Peak of Profits Reached

It is probable, however, that over-all industrial profits have reached or passed their peak. With the progressive passing of "sellers' markets" in individual lines profit margins should return to lower levels and selling and service costs should increase. There is also little doubt that inventory profits have aided earnings in many cases. The profit experience of most retailers in the first half of this year indicates how quickly profits can decline when inventory losses occur and competitive conditions return.

It is not surprising that the cross-current of uncertainty regarding conditions abroad and the prospect for continued excellent business at home should find diverse reflection in our securities market.

The great postwar activity has caused a large increase in commercial and industrial borrowings, and as a result the bond market has been in a slow decline for the past 18 months. We have completed two major bond cycles so far in this century, and it is probable that we entered upon a third in the spring of 1946.

How long the present cycle will last and how far it will go is, of course, tied in with the credit and debt management policies of our government and, as such, the outcome is unpredictable. The present downswing should be orderly and should not be too pronounced so long as the Federal Reserve continues to provide adequate support for governments. As is well known, however, corporations, insurance companies and banks have been substantial sellers on balance of governments during the past year as a result of the increased demand for business credit.

Position of Corporation Bonds

Corporation bonds have been in supply, and another large wave of financing is scheduled for this fall and winter. This should tend to depress further the prices of corporate issues, and the old spread relationship between yields on corporate high grade issues and governments is gradually being restored.

The recent failure of the offering of the Pacific Gas & Electric bonds is a significant development. In recent years insurance companies have been large buyers of this class of bond and at prices close to the levels prevailing at the time of the offering. In this particular case, however, the major insurance companies were very light buyers at the issue price despite the fact that the yield available was considerably in excess of prevailing levels. As a result the underwriters were left with a substantial portion of the issue. This incident, following closely on the heels of the disappointing sale of the Duquesne Power & Light Co. financing, indicates a major change in point of view towards the bond market.

There is considerable talk in investment banking circles to the effect that good grade corporate bonds are generally headed for at least a 3% yield basis in the near future. So long as the major insurance companies continue reluctant to buy except at concessions it is reasonably certain that bond prices will be adjusted farther all the line. A great deal of the coming financing is for new money purposes and this will subject the bond market to a substantial test.

So far as private investors are concerned there has been no real demand for high grade bonds for many years, and as yet there is no visible revival in interest even at the higher yields.

Municipal bonds continue to be authorized in large volume by states and municipalities, prices have softened substantially, and there is a substantial amount of unsold bonds in dealers' hands. In this connection it is interesting to note the relative change in yields which has occurred between governments and municipals in the past 18 months.

In April of 1946 the "Bond Buyers Index" indicated a yield of 1.29% for 20 municipal bonds and 1.21% for U. S. Government bank eligible 2½s of 1972/67 after deduction of the present corporate income tax.

At the end of September, 1947 the yield from municipals had increased to 1.82% while the yield on governments had only increased to 1.32%. In other words, from a point where the yields were almost identical municipal bonds have declined so that the yield is now almost ½ of 1% more than the yield realized after corporation taxes on long term governments.

Investment quality preferred stocks are, of course, highly sensitive to changes in bond yields, with the added point that due to the fact that most issues have no sinking funds and, therefore, no retirement date they tend to fluctuate more widely than bonds. Of late the preferred stock market has been under pressure as a result of the changing interest rate and the further fact that corporations have been sellers. New issues of preferred stocks have not gone well, and investment bankers have become very cautious in bidding for this class of issue.

Action of Stock Market

In the face of record peacetime business volumes, high earnings and inflation the action of the stock market over the past year has puzzled investors. This perplexity is evidenced by low volumes of transactions on listed and unlisted markets and is further illustrated by the fact that today two of the major statistical reporting agencies with large investor distribution are counselling opposite courses.

However, if one can have any confidence in the indications that we probably will not experience a major readjustment within the next 12 months, and if the old statistical relationships mean anything in this hectic world, good quality common stocks appear undervalued. When measured against the rise in commodities, the ratio of stock to bond yields, the price-earnings ratio, and when correlated for change in the national income, stocks seem to be attractive. When compared to past selling levels they do not appear cheap.

It would seem, however, as though the historic selling levels cannot alone give the answer, as the tremendous dilution which has occurred in the value of the dollar has no doubt altered the dollar-price relationship for equities just as we have doubtless experienced a permanent long term change in our commodity and wage levels. As a measure of the change in the relationship between stock and commodity prices it is interesting to note that at the peak of the 1932-37 "bull market" the Bureau of Labor Statistics commodity price index stood at around 40% of the Dow Jones Industrial stock index, whereas today the commodity index is equal to approximately 87% of the stock index.

It is probable that the earnings of the stocks comprising the Dow Jones Industrial average will approximate $18 to $19 per share for the current year. If so, this will be the highest rate of earnings since 1929 when $19.94 was recorded. The earnings in 1946 were $13.60, which in turn exceeded any year subsequent to 1929.

It is reasonable to assume, however, that the earnings of many corporations this year include a substantial amount of non-repetitive "froth" in the form of inventory profits and low selling costs. After eliminating this froth the real earnings are probably nearer $15 per share than $18-$19 per share. Even so this is a fine net earning year, and stocks should have reflected it more generously. Stock prices are, on the average, however, not far from the closing price of 176.39 on Jan. 2, and the total variation in the Dow Jones Industrial average this year either side of this figure has been less than 7.5%.

For the six years 1935 to 1940 the average price-earnings relationship was 16.2, and for the six years 1941 to 1946, inclusive, the relationship was 13.35. For the 12-year period embracing six years when our economy was not measurably disturbed by war and six years of preparation and participation in the war, and the period since, the average price-earnings relationship was 14.77.

If any of these relationships are applied to the prospective earnings for 1947, a considerably higher average market value than now prevails would result.

It is recognized that many analysts feel that the Dow Jones Industrial average is not broad enough, but for illustrative purposes it would seem to suffice.

Future of Stock Prices

While the recent increase in bond yields has narrowed somewhat the spread between stock and bond yields, the relationship is still significant when judged by past records. Using a correlation of stock prices and individual liquid resources and national income as a measure of investment purchasing power, it would appear that stocks have not yet fully responded to the great change in our economy flowing from the war.

Your speaker would like to emphasize quickly and most emphatically that he is not urging the immediate broad purchase of stocks, nor is he endeavoring to be a soothsayer. He is trying to say, however, that based on statistical relationships the value of good stocks has not reflected as fully as commodities, real estate and bonds the enormous change in our over-all national income, price and wage level. It is believed that sooner or later these relationships will be adjusted. And that, moreover, from the standpoint of the longer range future with all of its political, business and currency uncertainties, a partnership in leading well entrenched and competently managed American businesses will doubtless prove to be profitable and sound.

No one can say what stock prices will do over a short period of time and, in the last analysis, a true investor — such as a trust fund — is not concerned so much with price fluctuations as with sound underlying value and income potential. Judged from this point of view there are many sound stock values available in the market today.

Under the current perplexing circumstances what investment policy should an individual investor or trust account follow today? In considering this question investors with very high incomes will be excluded, as for them the main emphasis must be placed on taxes, and spaced maturity municipal bonds would seem to be the most obvious answer. Consideration of real estate is also omitted for the reason that it is not applicable to a good many accounts and, in addition, this speaker does not feel qualified to discuss this specialized subject.

For the average individual investor and for trust funds in states which have adopted the Prudent Man concept a policy of good quality bonds — with spaced maturities — and common stocks is suggested. Straight investment preferred stocks without any conversion rights are not suggested at this time for the reason that their prices are still historically high and, if we are in a declining bond cycle, substantial capital shrinkage may occur with little chance of near term recovery.

The proportion between bonds and common stocks naturally must vary according to circumstances, but it is suggested that between 25% and 40% would be proper today. Considering the advanced stage of the business cycle only stocks with good earnings and dividend records should be acquired. This is not a time for buying into marginal situations but a time for cautious confidence in the better situated companies. Illustrative of groups which appear to face a promising trade future are the oils, the autos, the chemicals, the farm equipments and electrical equipments. The building industry faces excellent prospects, but the stocks of most of the older line companies are selling at relatively high prices. For excellent yields and stable earning power the better operating light and power stocks appear attractive, while for sound underlying asset value the leading insurance and bank stocks are interesting.

An investment in common stocks selected from the leading companies in the above groups combined with an investment in government bonds and carefully chosen medium maturity corporation bonds will return a reasonably satisfactory yield and at the same time will provide a good measure of protection for income and principal against either inflation or deflation.

This is a middle of the road policy which might easily be criticized for lack of imagination. In response it might be said that this is a time to follow a middle of the road policy and that, moreover, there is plenty of scope for imagination and managerial ability involved in the problem of changing the percentage invested in common stocks and bonds and in choosing and substituting common stocks. It is here that the quality of judgment will be apparent.

Some investors and institutions have adopted rigid so-called "formula plans" as a partial substitute for judgment in accomplishing the change in percentage as between bonds and common stocks. A rigid plan may be satisfactory for certain investors, but in the main it is to be questioned whether an experienced investor or trust administrator would ever care to follow an automatic program. A blueprint or pro forma program should always exist, but like all blueprints it should be subject to change. The mere existence of a pro forma blueprint, however, is of great value for its influence in moderating at different stages of a cycle both optimism and pessimism and, where investments are handled by a committee, in serving to keep deliberations and decisions on the appointed track.

In summary, this would appear to be a time for cautious confidence—a time for observing that while the traffic lights are gradually turning from green to yellow they are not yet red.

With John J. O'Brien

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Everett F. Morgan has become associated with John J. O'Brien & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges.

With Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Robert V. Sloan has become connected with Herrick, Waddell & Co., Inc., Merchants Bank Building.

With Nathan C. Fay

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE — Harold B. McClellion has become affiliated with Nathan C. Fay & Co., 208 Middle Street.

Economic Advisory Council Reports on Foreign Aid Burden

(Continued from page 17)

The Problem of Specific Commodities

Food, steel, industrial and agricultural machinery, coal, and fertilizer are items of key significance because foreign demand for these goods is especially urgent whereas they are in relatively short supply in this country.

The Impact of the Grain Shortage. The food situation is the most serious. The problem stems from a very short corn crop at home, coinciding with a bad crop year for food grains in Europe. Although the domestic wheat crop was at a record level, adverse corn crop developments and high meat prices have provided incentives for feeding large amounts of wheat to livestock.

Exports of wheat will need to be maintained at recent levels. At the same time, the domestic demand both for grains, and for meat, poultry, and other food continues to be very high despite record prices. Food price increases have already become serious, and further food price increases would decrease the value of each dollar of foreign aid extended, work additional hardships upon American families of low or moderate income, and threaten an inflationary price-wage spiral which could adversely affect the whole economy. If wheat exports continue at the levels set by foreign need, and if the domestic demand for food remains at or near its postwar level, conservation and other measures to regulate use and hold prices in check will be needed in this country. With such measures to maintain healthful nutritional standards, the supply here would be adequate to serve nutritional and other needs satisfactorily although not luxuriously.

Steel and Steel Products. Our total production of rolled steel products during the first half of 1947 was at an annual rate of more than 62 million short tons, contrasted with less than 35 million tons in 1939. Although exports rose from about two and a half million tons in 1939 to an annual rate of six and a half million tons in the first half of 1947, the amount of steel available for domestic consumption is much higher than before the war. But owing to the enormous increase in our steel using industry, the relative steel shortage is of serious proportions, and there is not much prospect of large increase in production in the short run. The chief danger here is that this supply situation may be translated into further increases in the price of steel and steel products which would give an additional inflationary impetus to the whole economy. High domestic and foreign demand for industrial and agricultural machinery is closely connected with the steel problem.

The general conclusion regarding steel as well as food is this: whether the domestic situation worsens considerably or progresses satisfactorily depends upon the use of vigorous, affirmative measures to assure distribution to the most urgent uses and to prevent a spiraling of prices.

Coal and Fertilizer. In the case of coal and fertilizer, for which there is a large foreign need to quicken the process of economic restoration, the domestic economy can well afford to continue or even increase shipments of these commodities. Domestic shortages are not serious (for coal, the problem is mainly one of transportation), while shipments abroad will lessen the demand for other imports by hastening the revival of production in Europe.

Fiscal Impact of Foreign Aid

Foreign aid to date has been financed with revenues derived from taxation and not through increasing the national debt. This policy should continue so long as our own economy continues to operate at high levels and under inflationary pressure. Even had there been a smaller foreign aid program in the past, and even without a new foreign aid program, it would be undesirable to reduce the level of taxes while such pressures exist. On the other hand, from the budgetary standpoint, a new foreign aid program should not call for increased taxes. Further, since the general impact of a new foreign aid program would be less than the recent impact of foreign aid, such a new program would not increase inflationary pressures above recent levels and therefore would not call for still higher taxes as an anti-inflationary measure. The amount of exports financed with government aid has ranged between 2 and 3% of our gross national product, and will be less in the future, and our general financial capacity to support such a program cannot be questioned.

Some Long-Range Implications of Foreign Aid

To the extent that aid is provided through loans, these can't be repaid only through restoration of the export trade of other countries. This will expose American industry to added competition, a test which must be faced. Some outright gifts to meet emergency demands, however, will more rapidly qualify these countries for loans from the International Bank and private sources and more rapidly restore a well-balanced world trade.

In the longer run, the economic restoration of Europe will benefit our own economy by enabling us to obtain more goods by advantageous trade. On the other hand, a cessation of foreign aid would force an economic reorientation of Europe which would be detrimental to our economy.

Softening the Impact of Foreign Aid

A new foreign aid program will have a severe or a moderate impact on our economy depending upon the domestic measures we adopt. These measures involve both the administration of foreign aid and related questions of domestic economic policy.

The seriously inflationary consequences that would result from mismanagement of the situation in such commodities as food and steel require selective distribution to the most necessary domestic and foreign uses. The two types of uses are interrelated, because the demand in both cases takes place at the same strategic spots in the American market. The consequences can be dealt with effectively only through careful coordination of all measures undertaken.

The relative shortages of specific commodities require export controls, allocations for domestic use, discouragement of misuse or excessive use, efficient transportation and distribution, and the curbing of speculation and hoarding of goods.

The general inflationary threat resulting from the combined impact of foreign and domestic demand requires the continuance of tax revenues at present levels, maximum economy in government expenditures, stimulation of saving, and the enlargement and aggressive use of measures to control dangerous expansion of credit.

The proposal for new foreign aid requires that we face with greater wisdom and courage than ever before the dangers to our whole economy that are now revealing themselves in the form of relative shortages and inflationary pressures at strategic spots in the economy. The foreign aid program compels us to face certain domestic problems squarely, but remedial and preventive measures available to us are adequate if we have the courage to use them.

A Stock Market Forecast

(Continued from page 3)

in the first half of 1947 buying was reduced to a figure which was less than sales. Merchandise in department stores rapidly approached a minimum in relation to current sales.

Retail executives, however, found that in spite of predictions of a buyers' strike, the public was maintaining its desire to buy merchandise in order to satisfy its long deferred wants and had the wherewithal to do so. Store buyers, therefore, swarmed into the wholesale markets and tempo of the soft goods industry, the only weak segment of the economy, immediately quickened.

The public, during the past year, hit upon the idea that a falling off of the soft goods industry foreshadowed a decline in heavy goods, not realizing that they were expecting the tail to wag the dog. It is the heavy goods industry which supplies the wages which make for sales at the retail level. So long as the heavy industries are prosperous, any correction in the soft goods industry must be shallow and of short duration.

Was the Market Wrong?

At the present time, nearly 18 months after the stock market topped out, we find the business picture about as favorable as when the top was made. Is it not, therefore, logical to assume that for some reason or other the stock market simply made a mistake? Is it not equally logical to believe that, having made a mistake, the stock market will correct itself and rise to levels commensurate with present earnings and dividends? Only a decided recession of business in the reasonably near future could seem to prevent this from happening, and this hardly seems likely.

The public has accepted for a year and a half the dire predictions of foreign political troubles and domestic business depression only to find that none of the forebodings of the pessimists have come true. I believe that the time is now near at hand when the upward pull of value will overcome present fears, and that a complete change of psychology will be witnessed. At that time all the present babble will be forgotten and stocks will again be appraised on their earnings, their asset values and their dividends. A startling rise in the price of common stocks would then occur, especially in those equities, unexploited in the 1942-1946 market, which represent ownership in those heavy goods companies whose backlog of orders will take years to satisfy.

Timberlake Co. Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, MAINE—Harry E. Rowe has become associated with Timberlake & Co., 191 Middle Street. He was formerly with Coburn & Middlebrook.

Joins Ketcham & Nongard

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — J. Arthur Madden has become associated with Ketcham & Nongard, 105 West Adams Street. He was formerly with Eastman, Dillon & Co.

John R. Richards Dead

John R. Richards, an officer of Hill Richards & Co., Los Angeles, is dead.

A Sound Bank Loan Policy

(Continued from page 6)

paper, accounts receivable, mortgage loans, etc., but if need be lines of business as well. Loaning policy should also be able to give a concrete answer to whether or not a bank should encourage or discourage either new borrowing accounts or engage in types of loaning activities which are new to itself. There are fashions in bank credit just as there are in women's dresses. As the scenery today is being defiled, in some cases at least by the longer hemline, so is there is perfectly human tendency on our part to meet our competition. The answer to this one should depend on the analysis of our own position, not on "keeping up with the Jones'."

Four Generalizations

May I be permitted four generalizations with respect to this question of policy. The first is that every member of the organization who has to do with loaning should know clearly what the policy is and why it is. Secondly, loan policy should be the subject of periodic review based on periodic analysis. As underlying factors change, so should the objectives. Third, no loaning policy should be formulated which does not conscientiously recognize obligations to present customers. Fourth, no loaning policy should discriminate against small or new businesses solely because they are either small or new.

Passing Upon Loan Applications

The second major subdivision of this discussion suggested the importance of a sense of perspective in passing upon loan applications today. "Perspective" is another one of those nice broad words which can mean all things to all men. The dictionary lists nine alternative definitions. The one that I would like to use in this context is the long range view of things.

To even mention the importance of sound and thorough credit work to this audience would be just as foolish as to attempt to instruct John Lewis on the technique on conducting a coal strike. It might not be amiss to point out, however, that those of us who had our first credit experience in the early to middle thirties may have gotten one warped view of bank lending. There the emphasis was predominantly on liquidation. Those of us who were first exposed to credit work in the late thirties and early to middle forties saw another picture. There the underlying business tide was so strong and so clearly in one direction that it required real genius to make bad loans. It seems to me that management must recognize those two points of view. It must keep a sense of balance between the ulcers of the thirties and the vim, vigor and vitality of the breakfast club of the forties.

However, I want to be much more specific than that. After you and I, or our associates, have done the all important analytical job on a credit up for consideration I would like to suggest that we put in perspective, take the long range view of (1) the breakeven point of the borrower, (2) the effect which our loan may have on the safety of the borrower's equity; and (3) the effect which our loan may have on the business picture in general.

As I see it, those three points are closely inter-related.

On breakeven points, if any of us think that this is primarily applicable only to large enterprises let me respectfully disagree. The smaller the business the more essential it is for the owner or partners to know what volume they must do to break even at a given level of costs, and what can be done to reduce variable expenses should volume drop. I think we must remember that should the level of prices drop this will automatically tend to bring a reduction of volume. Also, there is almost invariably a time lag between volume decline and a cut down in expense. The smaller the capital in relation to sales, the greater the risk to both creditors and owners, under these circumstances. This spells out for me a greater obligation on our part to discuss such matters with clients who may not have the facilities within their own organization to formulate plans against the time when it might become essential to put them into effect.

Breakeven Points

From the operating statements and budgets which you and I see going across our desks, I think we would agree that breakeven points for many businesses are substantially higher than they were prewar. How much higher for business in the aggregate is difficult to ascertain from any figures which I have been able to find. I do think, however, that the few following facts furnish an indication of what can happen to profit margins when sales drop. In 1929 corporate sales excluding financial and real estate companies were reported by the Department of Commerce at about $140 billion. Corporate profits before income taxes (offsetting the losses of those enterprises with losses against the profits of those with profits) were stated at a little short of $10 billion. By 1930 corporate sales had dropped about 15%. Corporate profits were off 70%. In 1932 sales had declined to about $70 billion or one-half of the 1929 total. All corporations in the aggregate lost better than $3 billion that year.

Corporate sales are currently running at a rate of substantially better than twice the 1936-39 average. Corporate profits before taxes are running at about five times the '36-'39 average. The leverage as we move either above or below the breakeven point accelerates rapidly. We are not here considering the widely debated subject of whether business profits are or are not "too big"—whatever that term may mean. Nor is there any attempt to predict whether or not there will be any appreciable decline from what is historically a very high sales level.

It is only desired to point out that when sales do decline profits go much more rapidly. It therefore seems reasonable that you and I and our customers should all be conscious of what is probably the highest dollar breakeven level on record. Even more important—what plans does management have for moving the breakeven point to the left, should developments make this necessary. In other words, we should put present sales, breakeven and profit levels in perspective and ask ourselves what happens, who does it happen to and who pays for it, should that perspective change without compensating adjustments.

Borrower's Equity

The next item which I believe should be put in perspective is the effect which any loan which we grant may have on the borrower's equity. Our first speaker correctly pointed out that the interests of borrower and lender are substantially identical. Certainly it is axiomatic that if the borrower's equity becomes materially impaired, creditors run grave risks of being hurt. The hurt may come from losses and/or public ill will. I do not like to remember, and neither do you, the harsh things said about us during the early thirties, when loans were being called, mortgages being foreclosed and other collateral being repossessed. While we might live through another hailstorm of harsh words, acts of the legislature induced by an hostile public opinion could be another matter entirely.

It takes a great deal more money to do business today than it did even a year or so ago. This is due both to the high level of prices and the high level of physical activity. That money comes both from internal sources, i.e., retained earnings, including depreciation, and from external sources, i.e., loans of one kind or another or equity investment. While I have seen no recent estimates of the total of private indebtedness, it is certain that it has gone appreciably higher over the past 18 or 20 months and has done so despite the substantial amount of retained earnings.

Just a few straws indicate the way in which the wind blows. According to the SEC in 1946 the holdings of government securities by all U. S. corporations decreased by $6 billion, while current notes and accounts payable increased by almost the same amount. Martin Gainsburgh, Chief Economist of the National Industrial Conference Board, is author of a statement speaking of smaller business enterprises, that even before the recent bulge in prices starting in the late summer, "warning signals of diminishing liquidity (i.e., in financial statements) had begun to appear." He went on to say that, "Thin loans for excessive inventories or temporary props of short-term financing where equity financing is obviously the only prescribed remedy will only aggravate the final solution for both the small enterprise and its financing institution." During the first 6 months of this year out of a total of public security issues for new capital, amounting to one billion eight hundred million dollars, only one-half billion was equity, the balance bonds or notes. It is probable that since January, 1946 bank loans, excluding loans made for the purpose of purchasing or carrying securities, have increased by some $15 billion — about a 100% jump.

During the week ending Oct. 15, the loans of the weekly reporting banks increased by almost $200 million. An increase of about 1% in a single week! Commercial, Industrial and Agricultural Loans went up about $234 million. This was an increase of almost 2% in a single week!

Debts, like Scotchmen, of which I am one, are stubborn and disagreeable things. They must be paid in dollars regardless of what happens to income accounts or shrinkage in asset or collateral values. When we look at a credit let's put the debt structure in perspective, even though we may be a well secured creditor and presumably safe. Down the road, is the debt structure of the borrower such that should volume fall or values suffer a setback payments of principal and interest are likely to imperil the borrower's equity. If that should happen to enough people you and I had better ask the "Profiteers," "Communists," and "Labor Leaders," who now alternately have a lease on the dog house, to vacate and make way for the bankers. Because that's where we would be.

Effects of Bank Loans On Business

I hope too many of you will not disagree with me too violently when I say that we must also put in perspective the effect which our loan may have on the business picture in general. Could you stand just one or two more figures? Individually we all love to play with figures, financial statements of course, but collectively, for some reason or other, they seem to be as boring as some of our best friends. Since last June the loans of the weekly reporting banks, ex-security loans, have increased by somewhat better than 10%. Meanwhile, there has been no appreciable change in either physical production, as measured by the Federal Reserve Board Index, or in employment. But something else has happened. If the "little woman" has not already told you about it emphatically, ask her. The level of prices, as measured by the sensitive index of wholesale commodities, has moved up by about 11 points or just short of 8%.

It would be a great over-simplification, and also completely incorrect, to infer that because bank loans went up 10% and production and employment did not change materially, prices went up 8%. Life is not that simple. However, it is difficult to escape the conclusion that some part of the money which you and I created through our loans in the last three months found its way not into either more goods produced, or more people at work, but primarily into higher prices. If you will take the time some long winter evening to trace the movement of bank loans, physical production, employment and prices during times when in retrospect we knew that business conditions were changing, you will draw some interesting conclusions.

As a matter of good credit technique we all make it our business to ascertain what the money we lend to a borrower will be used for and how and when it will be paid back. Is it unreasonable to suggest that we go just a little beyond this and put the problem in perspective? Assuming the safety of the advance under consideration, if our loan will increase overall production, or decrease costs or put more people to work it might be said to be constructive. If the proceeds, even though the loan be safe, will only enable the borrower to bid up prices in a scarce market do we not run the risk of creating future problems for ourselves and for the business community in general?

This, I think, was implicit in our first speaker's suggestion, that we give full consideration to our social responsibilities as well as to our traditionally recognized obligations to our depositors, our employees, and our shareholders.

The Fourth "C" in Credit

The third and last major point to be considered in this discussion is the necessity of thinking for ourselves about that very important fourth "C" of credit extension today—"Conditions." Here I promise both brevity and a complete lack of figures.

Some thoughtful observers of the American scene have professed fears that as means of transmitting the written word, the spoken words and pictures have increased in efficiency, there has been a tendency to induce stereotyped thinking in our country. It is their contention that, with syndicated newspaper columns, syndicated political cartoons, moving pictures treating with socio-political themes and radio news analysts talking simultaneously to nationwide audiences, it is too easy for all of us to pick our favorites, and read, listen or look at them regularly. Thus, these observers say, too many of us drift into the habit of letting our favorites think for us. This, they say, has tended over the years to replace the vigor of the town meeting, just as our highly efficient super-markets have eliminiated the cracker barrel and the pot-bellied stove as a forum for local political debate.

Whether or not these observers are right, I wouldn't know. It does seem to me, however, that particularly since the early thirties there have been an increasing number of economic services, weekly or monthly letters, etc., which digest the current economic scene for us and present us with their conclusions. Since the many reputable organizations who make such digests available have on their staffs competent statisticians and economists I, for one, believe that they render us a valuable service. However, are they tending to atrophy our own faculties for analyzing the current scene for ourselves and then checking our conclusions against those of the experts?

Frequently, too, I wonder if I do not fool myself into thinking that I have a better "feel" of the general situation than I do, merely because by the nature of the banking business we have contacts with a great many different clients in a great many different lines of business. These contacts do undoubtedly place us in a position where we can put our fingers on the pulse of business sentiment. Here again though, I wonder if it is not a good idea for us to check our own impressions against the facts and figures which constantly improving statistical procedure and equipment place so readily at our disposal.

Considerations of Basic Business Indicators

It seems to me that in addition to knowing, as we all do, pretty accurately what is happening to the major lines of business or commodities which dominate our own communities, we should keep a reasonably close watch for ourselves on what is happening to a few more or less basic business indicators. Not only in what direction but keep currently posted on the extent of the movement. The trend of bank loans, investments, and deposits, (these are the life blood of our business) interest rates, commodity prices, cost of living, employment, physical production, retail sales, private construction, and foreign trade all have important implications for us. They furnish the broad background against which our loaning and investment policies must be formulated and against which day by day decisions must be made.

If you do not already have some pet source of reference for this data a subscription to the Federal Reserve Bulletin will bring these figures as well as a great deal of other worthwhile information to your desk monthly If banking is the profession which we believe it to be it is just as incumbent on us to keep up with the literature in our field as it is for the competent physician or attorney to read the medical journals or the law reviews.

Banking management today, as does all management, has its share of problems. None of these is more important than loaning policy. The policy must be geared to the capital funds of the bank, and at the same time meet the legitimate credit requirements of the community. When formulated it should be expressed in concrete, not general terms; it should be subject to periodic analysis and review it should recognize obligations to present customers and it should not discriminate against small or new businesses solely because they are small or new.

It has also been suggested that under today's conditions, it is important to have a sense of perspective. It is suggested that we take the long range point of view, specifically towards breakeven points; towards the effect which debts may have on the borrower's equity, and towards the effect which bank loans may have on the business picture in general. Sales, breakeven points and profits are historically at very high levels. Should an appreciable drop in sales occur without compensating adjustments in costs and expenses, profits would deteriorate rapidly. Also, debts incurred at high levels of prices and business activity have in the past imperiled or wiped out borrower's equities. Under such circumstances even where lenders have not suffered losses they have incurred the hostility of the community. This has frequently been followed by restrictive legislation. A sense of perspective will also make us realize that at some stage of the business cycle increasing bank loans will result primarily in an increased upward pressure on prices rather than in decreased costs, or maintaining production and employment. The cumulative effect of loans of this sort is apt sooner or later to affect adversely the community in general and along with it bankers in particular.

Lastly, it is suggested that to keep our loaning policy in constant focus and to properly administer it day by day, it is incumbent on us to keep ourselves directly informed on the movements of the more important business indices. While the opinions of the experts are of great value, we should use them as a check on our own thinking, not as a substitute for it.

A year from today we will be living through the most dramatic proof of the fact that we are, thank God, a politically free people. We will be in the midst of the presidential election to be culminated by you and me going to the polls and marking our secret ballot as our own good conscience and our own good judgment dictates. The air will be filled with orators who will alternately be either "viewing with alarm" or "pointing with pride."

May I steal a little of the orator's stuff in concluding this discussion, and apply it to our own jobs today? In the performance of our daily duties if we bankers both individually and collectively use good judgment in viewing with alarm those things which should be viewed with alarm, then I am sure we will be able to point with pride at the record we have made during these perplexing times.

The Eclipse of Cheap Money in Britain

(Continued from first page)

millions. There were the gratuities paid to the men and women in the Forces. Industry had been piling up massive liquid resources for extensions and rehabilitation. It had approximately £200 millions of Excess Profits Tax postwar credits due to it. This was the supply side of the equation. On the demand side, six years of abstinence by individuals and industry, the complete cessation of any house building, a vast amount of war damage to British property at home and abroad, the decimation of our merchant marine—these and other factors would have meant in a free economy that borrowing and spending would have been at a fantastic premium, and saving and lending at an equally fantastic discount.

It is, of course, certain that any modern government in these circumstances would have set its face against that free economy. And it must be conceded that in these circumstances, a rise in interest rates would have been a pretty ineffectual means of choking off much of the excess demand; faced with such an unparalleled market, no industrialist worth his salt would have quibbled over paying an extra 1, 2 or 3% for capital which enabled him to put his goods among the buyers. It is true that Britain's war-time coalition Government, under the leadership of Mr. Churchill, issued a White Paper outlining the post-war policy for maintaining full employment, which included among the weapons available for this purpose variations in the interest rate to help in curbing or stimulating capital investment. But it is certain that when it came to the point, any modern government would have decided that dearer money was not the weapon to employ at such a juncture, particularly since deficit financing was still being resorted to on a massive scale, and in consequence a rise in interest rates would have aggravated the problem of financing the budget deficit.

The Dalton Cheap Money Campaign

It is, however, one thing to concede that any government would have ruled out dearer money in this early post-war phase. It was quite another to have chosen this precise moment, as Mr. Dalton, Chancellor of the Exchequer, did, to launch a vigorous cheaper money campaign. The reasons for the choice, of course, are not far to seek. Quite apart from his Budgetary problem, Mr. Dalton happens to possess among his back-benchers quite a number of M.Ps. who, although they would find a dissertation on the theory of interest rates way beyond them, are fully convinced that any interest is a bad thing. They talk with scorn and derision of rentiers and "coupon-clippies," maintaining that they are parasites who batten upon the productive worker, and so on and so on. Any measures designed to reduce the share of "unearned income" in the national income which Mr. Dalton cared to introduce were therefore assured of a rapturous if slightly uncomprehending support.

Mr. Dalton really got to work in October, 1945, when he reduced short-term interest rates by cutting the rate on Treasury Deposit Receipts (held by the banks) from 1⅛% to ⅝%, with the consequential results that the rate on Treasury Bills promptly fell to half its previous level (T.D.R.'s have a six-months' currency and Treasury Bills three months') and the banks were forced to cut the interest they allowed on time deposits from 1 to ½% and to abolish altogether interest on current accounts. The next step, taken in December, 1945, was to shut off the running issues of 3% Savings Bonds, 1965/75 and 2½% National War Bonds, 1954/56 and to offer instead (after a reasonable interval to allow funds to accumulate) 2½% Savings Bonds, 1964/67, which was done in May, 1946. Up to this point, it is interesting and instructive to note, the great majority of British investors, both institutional and private, were willing to "play along" with Mr. Dalton. It would be too much to say they enjoyed the process of reducing interest rates. But they obviously thought the policy not unreasonable, particularly since it was all the time forcing all capital values higher—and capital profits suffer no tax in Britain. Mr. Dalton, in short, at this stage was playing a clever if unorthodox hand; the unorthodoxy arose not only in the timing of the cheaper money campaign but in some of Mr. Dalton's publicity methods. The latter savored too much of the ring-master's technique, with the whip-cracking and the "Roll up, roll up; it's positively your last chance" exhortations, for the liking of some conservative British investors.

But the whip-cracking worked; indeed, at times, it worked so well that the market, lured on by the carrot of tax-free capital appreciation, was several points ahead of the ring-master. Without much doubt, these early successes went to Mr. Dalton's head. The name of Lord Goschen—who 50 years or so ago converted 3% Consols (which had been in existence since 1749) on to a 2¾% and then a 2½% basis—will always be famous in financial circles. Mr. Dalton, if report is to be believed, wished to go down in history as a second and greater Goschen, who had hoisted 2½% Consols to par, and then actually repaid them. As the first step towards reaching this ultimate objective, Mr. Dalton in October, 1946 called for redemption our 3% Local Loans stock and announced that to facilitate the operation he would issue a new loan, 2½% Treasury stock, 1975 "or after."

It was the last two words which broke Mr. Dalton's magic sway over the market. An "or after" stock is known in London as a one-way option stock; the government can redeem it after the named date but is under no obligation to do so. It follows that if it is redeemed, it will be redeemed at the worst possible moment from the lender's point of view—when interest rates are very low. On the other hand if interest rates rise, the lender lacks the protection of a fixed redemption date and will see the capital value of his investment crumble away. British investors in fact had "had some." The previously mentioned 2½% Consols is a one-way option stock, which has been redeemable since 1923 and subsequently, and investors now living have seen Consols fall from 93⅝ to 43⅝ and rise again to 99½. They had seen the purchasing power of the net income from £100 invested in Consols fall from £3 in 1914 to under 15 shillings. With such experiences fresh in their minds, and with the government taking 45% of the 2½% interest rate in income tax (and considerably more from the surtax payer) investors to a man decided to shun the new issue like the plague.

Matters might have more or less remained there had Mr. Dalton decided to rest modestly on his not inconsiderable laurels. But neither modesty nor repose are among Mr. Dalton's varied qualities. Mr. Dalton is an economist who knows from A to Z the theory of interest rates in a closed economy. Do not all the text-books, the latter day writings of the late Lord Keynes, lay down that if all other investment channels are closed by physical controls, and if the investment system is flooded with liquidity, the investor must, willy nilly, in the long run accept any interest rate and any redemption terms which are offered to him? They do—and Mr. Dalton knew it. Other people knew the theory too. Hard-boiled stockbrokers in London were discussing quite seriously the prospect that the long-term interest rate would fall to 2, 1½ or even zero per cent.

Somehow, however, that obstinate person, the British investor, refused to be convinced. Or perhaps it is fairer to say that he was not allowed time to be convinced. Mr. Dalton did his share of providing the right background faithfully enough, by buying up in the market hundreds of millions of his own bonds, financing his purchases by the issue of floating debt to the banks. This is a process familiar and legitimate, within bounds, in any economy in which "managed" interest rates play their part. It was followed, within bounds, by Mr. Dalton's Tory predecessors. But Mr. Dalton is (or was) no believer in doing things by half measures. He publicly proclaimed that he was not disturbed by a huge and rising floating debt. He has never disclosed how much of government bonds he purchased in his endeavor to establish Treasury 2½s at par. But in the last quarter of 1946 bank deposits in Britain were rising at the rate of well over £1,000 millions a year; during the whole of 1946, they increased by over £800 millions. The experts drew their own conclusions.

"Suppressed Inflation"

The process was strongly criticized by financial journalists and bank chairmen as adding dangerously to the "suppressed inflation" already existing in Britain. But it was not until the fuel crisis hit the country last February that Mr. Dalton came unstuck. That crisis aroused fears that industry would have to sell its government bonds to finance its losses; that the Government Unemployment Insurance Board, which for years had been piling up funds for investment, would at best have nothing to invest and might be a seller to finance unemployment benefit payments. It was not then a matter of supporting the market on a 2½% irredeemable basis. It was a question of standing in the market ready to take on all sellers. And Mr. Dalton decided that discretion was the better part of valor, impelled, in all probability, by the admonitions of his advisers and Cabinet colleagues. (The majority of the latter, it is safe to assume, had earlier had little inkling of the financial inwardness of the ever cheaper money policy.)

After the fuel crisis, the market steadied up on the lower levels established during the crisis. Significantly, in May this year, Mr. Dalton stated in the House of Commons that from then on he proposed to pay more attention to the level of floating debt than to the level of interest rates. The slump in government bonds engendered by Britain's dollar crisis in the late summer months showed that he meant what he said. The "government buyer" has been conspicuous by his absence. And, ironically enough, British government bonds at one time recently were almost exactly back to where they were when Mr. Dalton took office in July, 1945.

Effect on Stock Exchange Prices

The cheaper money campaign, and its recent eclipse, has had severe and obvious reactions in the sphere of investment through its inflation and deflation of Stock Exchange prices. It has also had important repercussions in the business world, although these have been less widely appreciated. It may, for example, seem an exaggeration to say that Mr. Dalton bears some responsibility for the British fuel crisis of last February. Yet in fact his financial policy played some part. Excessive purchasing power found an outlet in widespread buying of electrical appliances. Because of the war-time inflation of capacity in light engineering, such goods were available in profusion, and the Purchase Tax on them had been reduced in the April, 1946 Budget. In pre-war days, the average British householder, counting his pence, would keep a watchful eye on his electricity bill. Today, with so much money about and so little on which to spend it, the old restraints have gone. The Scots have a saying "Many a mickle makes a muckle." A little extravagance in electricity consumption in 10 million British homes added up to a substantial contributory cause of the fuel crisis. The incident was an interesting illustration of the fact that even in a so-called controlled economy some things remained uncontrolled. (Electricity and gas are among the few household necessities unrationed in Great Britain.) On these uncontrolled items, enormous pressure is exerted, with resulting distortion of the whole economy.

Distorting Results

In another way, cheap and cheaper money has had distorting results. Recently there has been much criticism in economic circles over the fact that Britain is attempting to do too many things at the same time. In particular, economists maintain that unnecessary capital investment projects are using steel, cement and other raw materials as well as labor, at a time when all British resources should be devoted to immediate needs, such as exports. The long-term desirability of such projects—which include the new bridge over the River Severn, to cost £9 million, and railway electrification schemes—is not in dispute. But obviously these projects would be better delayed until such time as our resources are or threaten to be under-employed. Very few people, however, have connected the projected launching of these schemes—many of which are now to be cut back—with the cheap money campaign. Yet in fact the connection is a direct one—the finance of public works projects is only possible, given a low interest rate. In the old days of a free interest rate, the high interest rates which would be inevitable in conditions such as those now existing would automatically choke off public works. The low interest rates which depression brings would have made them possible at the time they were most needed. Truly, it takes a controlled economy to illustrate the benefits of free economic forces.

Future Trend of Interest Rates

He would be a bold man who would say what the future trend of interest rates in Britain will be. Quite recently, Mr. Dalton has reiterated his faith in cheap money, and the long-term interest rate as a result has fallen from 3% to about 2.8%. It seems legitimate to link the Chancellor's recent declaration with the fact that he faces the necessity of distributing nearly £1,000 millions of government bonds to holders of the nationalized railways next January. (One of the causes of the weakness of gilt-edged in recent months has been the knowledge that intending buyers could effect a cheap entry into government stocks through railway stocks, because the latter, in effect already a government obligation, stand at substantial discounts relative to gilt-edged proper.) If the interest rate next January is unacceptable to railway stockholders, the Chancellor will face a flood of sales from such holders. If the interest rate falls before January, the cost of nationalization will be increased—an unpleasant prospect for a Socialist Chancellor. It is reasonably safe to assume that Mr. Dalton has had enough of debt creation to enforce an artificial rate. If so, then the future lies with investors themselves. If they decide that 3% is adequate, then 3% the rate will be. If they consider 3% inadequate, rates will rise to whatever level investors deem proper. But even if the government has its face against further debt creation, it can probably hold the present structure by the simple expedient of restoring confidence in the purchasing power of the currency. For if a consensus of opinion in investment circles could be taken, I think most people today would regard 3% as a reasonable return, provided always that they are convinced that inflation really will be stayed.

Culbertson, Olsen Co. Formed in Chicago

CHICAGO, ILL.—John C. Culbertson, W. O. Olsen and Fred Freeman all former officers of J. J. O'Connor & Co., announce, as of Nov. 1, the formation of Culbertson, Olsen & Co. as successors to the investment business of J. J. O'Connor & Co.

Three With King Merritt

MINNEAPOLIS, MINN.—Homer B. Chase, Orvin J. Strand, and Carl S. Weppler have become affiliated with King Merritt & Co., Inc., Pence Building.

A Sound Bank Loan Policy

(Continued from page 6)

paper, accounts receivable, mortgage loans, etc., but if need be lines of business as well. Loaning policy should also be able to give a concrete answer to whether or not a bank should encourage or discourage either new borrowing accounts or engage in types of loaning activities which are new to itself. There are fashions in bank credit just as there are in women's dresses. As the scenery today is being defiled, in some cases at least by the longer hemline, so is there is perfectly human tendency on our part to meet our competition. The answer to this one should depend on the analysis of our own position, not on "keeping up with the Jones'."

Four Generalizations

May I be permitted four generalizations with respect to this question of policy. The first is that every member of the organization who has to do with loaning should know clearly what the policy is and why it is. Secondly, loan policy should be the subject of periodic review based on periodic analysis. As underlying factors change, so should the objectives. Third, no loaning policy should be formulated which does not conscientiously recognize obligations to present customers. Fourth, no loaning policy should discriminate against small or new businesses solely because they are either small or new.

Passing Upon Loan Applications

The second major subdivision of this discussion suggested the importance of a sense of perspective in passing upon loan applications today. "Perspective" is another one of those nice broad words which can mean all things to all men. The dictionary lists nine alternative definitions. The one that I would like to use in this context is the long range view of things.

To even mention the importance of sound and thorough credit work to this audience would be just as foolish as to attempt to instruct John Lewis on the technique on conducting a coal strike. It might not be amiss to point out, however, that those of us who had our first credit experience in the early to middle thirties may have gotten one warped view of bank lending. There the emphasis was predominantly on liquidation. Those of us who were first exposed to credit work in the late thirties and early to middle forties saw another picture. There the underlying business tide was so strong and so clearly in one direction that it required real genius to make bad loans. It seems to me that management must recognize those two points of view. It must keep a sense of balance between the ulcers of the thirties and the vim, vigor and vitality of the breakfast club of the forties.

However, I want to be much more specific than that. After you and I, or our associates, have done the all important analytical job on a credit up for consideration I would like to suggest that we put in perspective, take the long range view of (1) the breakeven point of the borrower, (2) the effect which our loan may have on the safety of the borrower's equity; and (3) the effect which our loan may have on the business picture in general.

As I see it, those three points are closely inter-related.

On breakeven points, if any of us think that this is primarily applicable only to large enterprises let me respectfully disagree. The smaller the business the more essential it is for the owner or partners to know what volume they must do to break even at a given level of costs, and what can be done to reduce variable expenses should volume drop. I think we must remember that should the level of prices drop this will automatically tend to bring a reduction of volume. Also, there is almost invariably a time lag between volume decline and a cut down in expense. The smaller the capital in relation to sales, the greater the risk to both creditors and owners, under these circumstances. This spells out for me a greater obligation on our part to discuss such matters with clients who may not have the facilities within their own organization to formulate plans against the time when it might become essential to put them into effect.

Breakeven Points

From the operating statements and budgets which you and I see going across our desks, I think we would agree that breakeven points for many businesses are substantially higher than they were prewar. How much higher for business in the aggregate is difficult to ascertain from any figures which I have been able to find. I do think, however, that the few following facts furnish an indication of what can happen to profit margins when sales drop. In 1929 corporate sales excluding financial and real estate companies were reported by the Department of Commerce at about $140 billion. Corporate profits before income taxes (offsetting the losses of those enterprises with losses against the profits of those with profits) were stated at a little short of $10 billion. By 1930 corporate sales had dropped about 15%. Corporate profits were off 70%. In 1932 sales had declined to about $70 billion or one-half of the 1929 total. All corporations in the aggregate lost better than $3 billion that year.

Corporate sales are currently running at a rate of substantially better than twice the 1936-39 average. Corporate profits before taxes are running at about five times the '36-'39 average. The leverage as we move either above or below the breakeven point accelerates rapidly. We are not here considering the widely debated subject of whether business profits are or are not "too big"—whatever that term may mean. Nor is there any attempt to predict whether or not there will be any appreciable decline from what is historically a very high sales level.

It is only desired to point out that when sales do decline profits go much more rapidly. It therefore seems reasonable that you and I and our customers should all be conscious of what is probably the highest dollar breakeven level on record. Even more important—what plans does management have for moving the breakeven point to the left, should developments make this necessary. In other words, we should put present sales, breakeven and profit levels in perspective and ask ourselves what happens, who does it happen to and who pays for it, should that perspective change without compensating adjustments.

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It takes a great deal more money to do business today than it did even a year or so ago. This is due both to the high level of prices and the high level of physical activity. That money comes both from internal sources, i.e., retained earnings, including depreciation, and from external sources, i.e., loans of one kind or another or equity investment. While I have seen no recent estimates of the total of private indebtedness, it is certain that it has gone appreciably higher over the past 18 or 20 months and has done so despite the substantial amount of retained earnings.

Just a few straws indicate the way in which the wind blows. According to the SEC in 1946 the holdings of government securities by all U. S. corporations decreased by $6 billion, while current notes and accounts payable increased by almost the same amount. Martin Gainsburgh, Chief Economist of the National Industrial Conference Board, is author of a statement speaking of smaller business enterprises, that even before the recent bulge in prices starting in the late summer, "warning signals of diminishing liquidity (i.e., in financial statements) had begun to appear." He went on to say that, "Thin loans for excessive inventories or temporary props of short-term financing where equity financing is obviously the only prescribed remedy will only aggravate the final solution for both the small enterprise and its financing institution." During the first 6 months of this year out of a total of public security issues for new capital, amounting to one billion eight hundred million dollars, only one-half billion was equity, the balance bonds or notes. It is probable that since January, 1946 bank loans, excluding loans made for the purpose of purchasing or carrying securities, have increased by some $15 billion — about a 100% jump.

During the week ending Oct. 15, the loans of the weekly reporting banks increased by almost $200 million. An increase of about 1% in a single week! Commercial, Industrial and Agricultural Loans went up about $234 million. This was an increase of almost 2% in a single week!

Debts, like Scotchmen, of which I am one, are stubborn and disagreeable things. They must be paid in dollars regardless of what happens to income accounts or shrinkage in asset or collateral values. When we look at a credit let's put the debt structure in perspective, even though we may be a well secured creditor and presumably safe. Down the road, is the debt structure of the borrower such that should volume fall or values suffer a setback payments of principal and interest are likely to imperil the borrower's equity. If that should happen to enough people you and I had better ask the "Profiteers," "Communists," and "Labor Leaders," who now alternately have a lease on the dog house, to vacate and make way for the bankers. Because that's where we would be.

Effects of Bank Loans On Business

I hope too many of you will not disagree with me too violently when I say that we must also put in perspective the effect which our loan may have on the business picture in general. Could you stand just one or two more figures? Individually we all love to play with figures, financial statements of course, but collectively, for some reason or other, they seem to be as boring as some of our best friends. Since last June the loans of the weekly reporting banks, ex-security loans, have increased by somewhat better than 10%. Meanwhile, there has been no appreciable change in either physical production, as measured by the Federal Reserve Board Index, or in employment. But something else has happened. If the "little woman" has not already told you about it emphatically, ask her. The level of prices, as measured by the sensitive index of wholesale commodities, has moved up by about 11 points or just short of 8%.

It would be a great over-simplification, and also completely incorrect, to infer that because bank loans went up 10% and production and employment did not change materially, prices went up 8%. Life is not that simple. However, it is difficult to escape the conclusion that some part of the money which you and I created through our loans in the last three months found its way not into either more goods produced, or more people at work, but primarily into higher prices. If you will take the time some long winter evening to trace the movement of bank loans, physical production, employment and prices during times when in retrospect we knew that business conditions were changing, you will draw some interesting conclusions.

As a matter of good credit technique we all make it our business to ascertain what the money we lend to a borrower will be used for and how and when it will be paid back. Is it unreasonable to suggest that we go just a little beyond this and put the problem in perspective? Assuming the safety of the advance under consideration, if our loan will increase overall production, or decrease costs or put more people to work it might be said to be constructive. If the proceeds, even though the loan be safe, will only enable the borrower to bid up prices in a scarce market do we not run the risk of creating future problems for ourselves and for the business community in general?

This, I think, was implicit in cur first speaker's suggestion, that we give full consideration to our social responsibilities as well as to our traditionally recognized obligations to our depositors, our employees, and our shareholders.

The Fourth "C" in Credit

The third and last major point to be considered in this discussion is the necessity of thinking for ourselves about that very important fourth "C" of credit extension today—"Conditions." Here I promise both brevity and a complete lack of figures.

Some thoughtful observers of the American scene have professed fears that as means of transmitting the written word, the spoken words and pictures have increased in efficiency, there has been a tendency to induce stereotyped thinking in our country. It is their contention that, with syndicated newspaper columns, syndicated political cartoons, moving pictures treating with socio-political themes and radio news analysts talking simultaneously to nationwide audiences, it is too easy for all of us to pick our favorites, and read, listen or look at them regularly. Thus, these observers say, too many of us drift into the habit of letting our favorites think for us. This, they say, has tended over the years to replace the vigor of the town meeting, just as our highly efficient super-markets have elimimiated the cracker barrel and the pot-bellied stove as a forum for local political debate.

Whether or not these observers are right, I wouldn't know. It does seem to me, however, that particularly since the early thirties there have been an increasing number of economic services, weekly or monthly letters, etc., which digest the current economic scene for us and present us with their conclusions. Since the many reputable organizations who make such digests available have on their staffs competent statisticians and economists I, for one, believe that they render us a valuable service. However, are they tending to atrophy our own faculties for analyzing the current scene for ourselves and **then** checking our conclusions against those of the experts?

Frequently, too, I wonder if I do not fool myself into thinking that I have a better "feel" of the general situation than I do, merely because by the nature of the banking business we have contacts with a great many different clients in a great many different lines of business. These contacts do undoubtedly place us in a position where we can put our fingers on the pulse of business sentiment. Here again though, I wonder if it is not a good idea for us to check our own impressions against the facts and figures which constantly improving statistical procedure and equipment place so readily at our disposal.

Considerations of Basic Business Indicators

It seems to me that in addition to knowing, as we all do, pretty accurately what is happening to the major lines of business or commodities which dominate our own communities, we should keep a reasonably close watch for ourselves on what is happening to a few more or less basic business indicators. Not only in what direction but keep currently posted on the extent of the movement. The trend of bank loans, investments, and deposits, (these are the life blood of our business) interest rates, commodity prices, cost of living, employment, physical production, retail sales, private construction, and foreign trade all have important implications for us. They furnish the broad background against which our loaning and investment policies must be formulated and against which day by day decisions must be made.

If you do not already have some pet source of reference for this data a subscription to the Federal Reserve Bulletin will bring these figures as well as a great deal of other worthwhile information to your desk monthly If banking is the profession which we believe it to be it is just as incumbent on us to keep up with the literature in our field as it is for the competent physician or attorney to read the medical journals or the law reviews.

Banking management today, as does all management, has its share of problems. None of these is more important than loaning policy. The policy must be geared to the capital funds of the bank, and at the same time meet the legitimate credit requirements of the community. When formulated it should be expressed in concrete, not general terms; it should be subject to periodic analysis and review it should recognize obligations to present customers and it should not discriminate against small or new businesses solely because they are small or new.

It has also been suggested that under today's conditions, it is important to have a sense of perspective. It is suggested that we take the long range point of view, specifically towards breakeven points; towards the effect which debts may have on the borrower's equity, and towards the effect which bank loans may have on the business picture in general. Sales, breakeven points and profits are historically at very high levels. Should an appreciable drop in sales occur without compensating adjustments in costs and expenses, profits would deteriorate rapidly. Also, debts incurred at high levels of prices and business activity have in the past imperiled or wiped out borrower's equities. Under such circumstances even where lenders have not suffered losses they have incurred the hostility of the community. This has frequently been followed by restrictive legislation. A sense of perspective will also make us realize that at some stage of the business cycle increasing bank loans will result primarily in an increased upward pressure on prices rather than in decreased costs, or maintaining production and employment. The cumulative effect of loans of this sort is apt sooner or later to affect adversely the community in general and along with it bankers in particular.

Lastly, it is suggested that to keep our loaning policy in constant focus and to properly administer it day by day, it is incumbent on us to keep ourselves directly informed on the movements of the more important business indices. While the opinions of the experts are of great value, we should use them as a check on our own thinking, not as a substitute for it.

A year from today we will be living through the most dramatic proof of the fact that we are, thank God, a politically free people. We will be in the midst of the presidential election to be culminated by you and me going to the polls and marking our secret ballot as our own good conscience and our own good judgment dictates. The air will be filled with orators who will alternately be either "viewing with alarm" or "pointing with pride."

May I steal a little of the orator's stuff in concluding this discussion, and apply it to our own jobs today? In the performance of our daily duties if we bankers both individually and collectively use good judgment in viewing with alarm those things which should be viewed with alarm, then I am sure we will be able to point with pride at the record we have made during these perplexing times.

The Eclipse of Cheap Money in Britain

(Continued from first page)

millions. There were the gratuities paid to the men and women in the Forces. Industry had been piling up massive liquid resources for extensions and rehabilitation. It had approximately £200 millions of Excess Profits Tax post-war credits due to it. This was the supply side of the equation. On the demand side, six years of abstinence by individuals and industry, the complete cessation of any house building, a vast amount of war damage to British property at home and abroad, the decimation of our merchant marine — these and other factors would have meant in a free economy that borrowing and spending would have been at a fantastic premium, and saving and lending at an equally fantastic discount.

It is, of course, certain that any modern government in these circumstances would have set its face against that free economy. And it must be conceded that in these circumstances, a rise in interest rates would have been a pretty ineffectual means of choking off much of the excess demand; faced with such an unparalleled market, no industrialist worth his salt would have quibbled over paying an extra 1, 2 or 3% for capital which enabled him to put his goods among the buyers. It is true that Britain's war-time coalition Government, under the leadership of Mr. Churchill, issued a White Paper outlining the post-war policy for maintaining full employment, which included among the weapons available for this purpose variations in the interest rate to help in curbing or stimulating capital investment. But it is certain that when it came to the point, any modern government would have decided that dearer money was not the weapon to employ at such a juncture, particularly since deficit financing was still being resorted to on a massive scale, and in consequence a rise in interest rates would have aggravated the problem of financing the budget deficit.

The Dalton Cheap Money Campaign

It is, however, one thing to concede that any government would have ruled out dearer money in this early post-war phase. It was quite another to have chosen this precise moment, as Mr. Dalton, Chancellor of the Exchequer, did, to launch a vigorous cheaper money campaign. The reasons for the choice, of course, are not far to seek. Quite apart from his Budgetary problem, Mr. Dalton happens to possess among his back-benchers quite a number of M.Ps. who, although they would find a dissertation on the theory of interest rates way beyond them, are fully convinced that any interest is a bad thing. They talk with scorn and derision of rentiers and "coupon-clippies," maintaining that they are parasites who batten upon the productive worker, and so on and so on. Any measures designed to reduce the share of "unearned income" in the national income which Mr. Dalton cared to introduce were therefore assured of a rapturous if slightly uncomprehending support.

Mr. Dalton really got to work in October, 1945, when he reduced short-term interest rates by cutting the rate on Treasury Deposit Receipts (held by the banks) from 1⅛% to ⅝%, with the consequential results that the rate on Treasury Bills promptly fell to half its previous level (T.D.R.'s have a six-months' currency and Treasury Bills three months') and the banks were forced to cut the interest they allowed on time deposits from 1 to ½% and to abolish altogether interest on current accounts. The next step, taken in December, 1945, was to shut off the running issues of 3% Savings Bonds, 1965/75 and 2½% National War Bonds, 1954/56 and to offer instead (after a reasonable interval to allow funds to accumulate) 2½% Savings Bonds, 1964/67, which was done in May, 1946. Up to this point, it is interesting and instructive to note, the great majority of British investors, both institutional and private, were willing to "play along" with Mr. Dalton. It would be too much to say they enjoyed the process of reducing interest rates. But they obviously thought the policy not unreasonable, particularly since it was all the time forcing all capital values higher—and capital profits suffer no tax in Britain. Mr. Dalton, in short, at this stage was playing a clever if unorthodox hand; the unorthodoxy arose not only in the timing of the cheaper money campaign but in some of Mr. Dalton's publicity methods. The latter savored too much of the ring-master's technique, with the whip-cracking and the "Roll up, roll up; it's positively your last chance" exhortations, for the liking of some conservative British investors.

But the whip-cracking worked; indeed, at times, it worked so well that the market, lured on by the carrot of tax-free capital appreciation, was several points ahead of the ring-master. Without much doubt, these early successes went to Mr. Dalton's head. The name of Lord Goschen—who 50 years or so ago converted 3% Consols (which had been in existence since 1749) on to a 2¾% and then a 2½% basis—will always be famous in financial circles. Mr. Dalton, if report is to be believed, wished to go down in history as a second and greater Goschen, who had hoisted 2½% Consols to par, and then actually repaid them. As the first step towards reaching this ultimate objective, Mr. Dalton in October, 1946 called for redemption our 3% Local Loans stock and announced that to facilitate the operation he would issue a new loan, 2½% Treasury stock, 1975 "or after."

It was the last two words which broke Mr. Dalton's magic sway over the market. An "or after" stock is known in London as a one-way option stock; the government can redeem it after the named date but is under no obligation to do so. It follows that if it is redeemed, it will be redeemed at the worst possible moment from the lender's point of view—when interest rates are very low. On the other hand if interest rates rise, the lender lacks the protection of a fixed redemption date and will see the capital value of his investment crumble away. British investors in fact had "had some." The previously mentioned 2½% Consols is a one-way option stock, which has been redeemable since 1923 and subsequently, and investors now living have seen Consols fall from 93⅝ to 43⅝ and rise again to 99½. They had seen the purchasing power of the net income from £100 invested in Consols fall from £3 in 1914 to under 15 shillings. With such experiences fresh in their minds, and with the government taking 45% of the 2½% interest rate in income tax (and considerably more from the surtax payer) investors to a man decided to shun the new issue like the plague.

Matters might have more or less remained there had Mr. Dalton decided to rest modestly on his not inconsiderable laurels. But neither modesty nor repose are among Mr. Dalton's varied qualities. Mr. Dalton is an economist who knows from A to Z the theory of interest rates in a closed economy. Do not all the text-books, the latter day writings of the late Lord Keynes, lay down that if all other investment channels are closed by physical controls, and if the investment system is flooded with liquidity, the investor must, willy nilly, in the long run accept any interest rate and any redemption terms which are offered to him? They do—and Mr. Dalton knew it. Other people knew the theory too. Hard-boiled stockbrokers in London were discussing quite seriously the prospect that the long-term interest rate would fall to 2, 1½ or even zero per cent.

Somehow, however, that obstinate person, the British investor, refused to be convinced. Or perhaps it is fairer to say that he was not allowed time to be convinced. Mr. Dalton did his share of providing the right background faithfully enough, by buying up in the market hundreds of millions of his own bonds, financing his purchases by the issue of floating debt to the banks. This is a process familiar and legitimate, within bounds, in any economy in which "managed" interest rates play their part. It was followed, within bounds, by Mr. Dalton's Tory predecessors. But Mr. Dalton is (or was) no believer in doing things by half measures. He publicly proclaimed that he was not disturbed by a huge and rising floating debt. He has never disclosed how much of government bonds he purchased in his endeavor to establish Treasury 2½s at par. But in the last quarter of 1946 bank deposits in Britain were rising at the rate of well over £1,000 millions a year; during the whole of 1946, they increased by over £800 millions. The experts drew their own conclusions.

"Suppressed Inflation"

The process was strongly criticized by financial journalists and bank chairmen as adding dangerously to the "suppressed inflation" already existing in Britain. But it was not until the fuel crisis hit the country last February that Mr. Dalton came unstuck. That crisis aroused fears that industry would have to sell its government bonds to finance its losses; that the Government Unemployment Insurance Board, which for years had been piling up funds for investment, would at best have nothing to invest and might be a seller to finance unemployment benefit payments. It was not then a matter of supporting the market on a 2½% irredeemable basis. It was a question of standing in the market ready to take on all sellers. And Mr. Dalton decided that discretion was the better part of valor, impelled, in all probability, by the admonitions of his advisers and Cabinet colleagues. (The majority of the latter, it is safe to assume, had earlier had little inkling of the financial inwardness of the ever cheaper money policy.)

After the fuel crisis, the market steadied up on the lower levels established during the crisis. Significantly, in May this year, Mr. Dalton stated in the House of Commons that from then on he proposed to pay more attention to the level of floating debt than to the level of interest rates. The slump in government bonds engendered by Britain's dollar crisis in the late summer months showed that he meant what he said. The "government buyer" has been conspicuous by his absence. And, ironically enough, British government bonds at one time recently were almost exactly back to where they were when Mr. Dalton took office in July, 1945.

Effect on Stock Exchange Prices

The cheaper money campaign, and its recent eclipse, has had severe and obvious reactions in the sphere of investment through its inflation and deflation of Stock Exchange prices. It has also had important repercussions in the business world, although these have been less widely appreciated. It may, for example, seem an exaggeration to say that Mr. Dalton bears some responsibility for the British fuel crisis of last February. Yet in fact his financial policy played some part. Excessive purchasing power found an outlet in widespread buying of electrical appliances. Because of the war-time inflation of capacity in light engineering, such goods were available in profusion, and the Purchase Tax on them had been reduced in the April, 1946 Budget. In pre-war days, the average British householder, counting his pence, would keep a watchful eye on his electricity bill. Today, with so much money about and so little on which to spend it, the old restraints have gone. The Scots have a saying "Many a mickle makes a muckle." A little extravagance in electricity consumption in 10 million British homes added up to a substantial contributory cause of the fuel crisis. The incident was an interesting illustration of the fact that even in a so-called controlled economy some things remained uncontrolled. (Electricity and gas are among the few household necessities unrationed in Great Britain.) On these uncontrolled items, enormous pressure is exerted, with resulting distortion of the whole economy.

Distorting Results

In another way, cheap and cheaper money has had distorting results. Recently there has been much criticism in economic circles over the fact that Britain is attempting to do too many things at the same time. In particular, economists maintain that unnecessary capital investment projects are using steel, cement and other raw materials as well as labor, at a time when all British resources should be devoted to immediate needs, such as exports. The long-term desirability of such projects —which include the new bridge over the River Severn, to cost £9 million, and railway electrification schemes—is not in dispute. But obviously these projects would be better delayed until such time as our resources are or threaten to be under-employed. Very few people, however, have connected the projected launching of these schemes—many of which are now to be cut back—with the cheap money campaign. Yet in fact the connection is a direct one — the finance of public works projects is only possible, given a low interest rate. In the old days of a free interest rate, the high interest rates which would be inevitable in conditions such as those now existing would automatically choke off public works. The low interest rates which depression brings would have made them possible at the time they were most needed. Truly, it takes a controlled economy to illustrate the benefits of free economic forces.

Future Trend of Interest Rates

He would be a bold man who would say what the future trend of interest rates in Britain will be. Quite recently, Mr. Dalton has reiterated his faith in cheap money, and the long-term interest rate as a result has fallen from 3% to about 2.8%. It seems legitimate to link the Chancellor's recent declaration with the fact that he faces the necessity of distributing nearly £1,000 millions of government bonds to holders of the nationalized railways next January. (One of the causes of the weakness of gilt-edged in recent months has been the knowledge that intending buyers could effect a cheap entry into government stocks through railway stocks, because the latter, in effect already a government obligation, stand at substantial discounts relative to gilt-edged proper.) If the interest rate next January is unacceptable to railway stockholders, the Chancellor will face a flood of sales from such holders. If the interest rate falls before January, the cost of nationalization will be increased—an unpleasant prospect for a Socialist Chancellor. It is reasonably safe to assume that Mr. Dalton has had enough of debt creation to enforce an artificial rate. If so, then the future lies with investors themselves. If they decide that 3% is adequate, then 3% the rate will be. If they consider 3% inadequate, rates will rise to whatever level investors deem proper. But even if the government has its face against further debt creation, it can probably hold the present structure by the simple expedient of restoring confidence in the purchasing power of the currency. For if a consensus of opinion in investment circles could be taken, I think most people today would regard 3% as a reasonable return, provided always that they are convinced that inflation really will be stayed.

Culbertson, Olsen Co. Formed in Chicago

CHICAGO, ILL.—John C. Culbertson, W. O. Olsen and Fred Freeman all former officers of J. J. O'Connor & Co., announce, as of Nov. 1, the formation of Culbertson, Olsen & Co. as successors to the investment business of J. J. O'Connor & Co.

Three With King Merritt

MINNEAPOLIS, MINN.—Homer B. Chase, Orvin J. Strand, and Carl S. Weppler have become affiliated with King Merritt & Co., Inc., Pence Building.

"Communists Penetrate Wall Street": Cherne

(Continued from page 19)

been the cradle of freedom, was better off under the Nazis. While she was then their arsenal, today she does not function at all.

"At the same time, the United States is in a boom so great that even the most optimistic did not expect it, let alone those who have been anticipating a slump for two years. Even the talked-of leveling off and stabilization never quite developed.

"Even so, the United States is worrying about meeting domestic needs and having enough to export to keep her markets abroad.

"Now, when the shake-down comes, it will no longer be a leveling process, because our levels have spiraled so high. All of us know the value of periodic adjustment and slumps, and leveling off before a new stable but higher level is reached. Now we have decreased purchasing power, but no leveling off has occurred.

"Although 10% to 15% of all U. S. goods are being exported, there is a tremendous disproportion among the different goods. For example 53½% of freight cars are going abroad, 38½% of cotton, 30.7% of lubricating oils, 30% of tobacco and naval stores, 29% of wheat and flour.

"Without foreign capacity to pay for these goods, we are in serious trouble. There is a kernel of truth in the fabulous Soviet claim that the Marshall Plan is trying to force U. S. goods down Europe's throat.

"Three months ago, the Soviet had acquired more territory outside its boundaries than the Nazis had amassed up to Pearl Harbor. It may no longer be possible, no matter what we do, to save Italy and Austria. Our remaining stakes today, and the real issues, are Germany, France, Belgium, England, and some portion of the Middle East. Most of the shouting has been and continues to be over Greece, but this is only the practice ground, as was Spain for World War II, for the next war, not the battleground, which is France.

"It is yet to be determined whether Sunday's victory in France was a victory for the United States or for the Soviet. The State Department is not happy about it. Our effort has been to drive a wedge between the socialists and communists in Europe, both of whom know each other thoroughly, respect each other, and hate each others' guts. The socialists are our biggest allies against communism in Europe. The De Gaulle victory weakens the socialist drive for a united front. Now, over night, the Red vote, which was 30%, becomes 55%.

"Russian policy has tried to represent the conflict as a fight between Fascism and Communism only. The De Gaulle victory gives some credence to that choice.

"Until three months ago, we were losing so badly that the picture was impossible to discuss, but then we made the second move, the second piece of American genius, since the war. The first was a year ago—the Atomic Energy Commission proposal by Bernard Baruch. The second was the Marshall Plan. Listen to Vishinsky crying like a wounded lion, to determine how hard it hit Russia, which was hit worst in its own orbit. Poland and Czechoslovakia, knowing well that dollars are there for them under the Marshall Plan, were compelled to stay away from discussions of their needs under it, and they resent Russia bitterly for having to decline the money. Oscar Lange in Poland was immobilized by the nomination to a UN commission by Mrs. Roosevelt, and a second-rater was sent in his place to make the forced reply.

"The Marshall Plan is vital not only to our foreign but our domestic affairs. It is failing, not abroad, but in the White House, and in Congress. Truman is irritated with it — understandably but not admirably—because it is forcing him into fighting tax cuts, into bringing back price control and rationing, and in calling an additional session of Congress, when he doesn't even want any before the next election.

"The NAM is no more helpful in its trying to say that the European crisis is exaggerated, and that only one-third of a program is necessary. There are times when Wallace and the NAM are indistinguishable in Washington. Wallace has called warmonger at Truman for the Marshall Plan so often that Truman is beginning to believe it himself.

"Wall Street, a large sector of internationalism in this country, wants Eisenhower for President because Truman and Taft don't like the rest of the world, and Dewey doesn't know what he likes. He will determine his policy at a time when it will have the most political effect, and both the policy and the intensity of it will be determined in exact proportion to the political effect. In 1948, the people may well prefer a tax cut to the Marshall Plan, and Dewey will advocate it if they do.

"Nov. 17, the date called for the special session of Congress, is too late. The State Department asked for Sept. 1, and that was none too soon. Jan. 1 would be out of the question. All of that month would be spent in committee organization. February would go to the Senate, March to the House, and half of April be spent in ironing out differences between the two, so that it would be the end of April by the time any action would be taken — the end of winter, 1948, when the European crisis may well have been settled one way or another.

"But once the Soviet police state takes over and occupies, there is no recall as there is over a bill in Congress. Try to get Poland back now, even though there is no country in Europe with a greater traditional hatred of Russia. There will be no internal revolution. The revolutionary is taken care of long before he can take any action.

"Byrnes was replaceable, but Marshall is not, because there is no man so feared by the Soviet—on grounds of his ability. Cherne would hate to think that Marshall's threat of resignation would be necesary to force action on the Plan.

Questions

"Holland is in least danger of absorption into the Soviet bloc of any of the Western nations. Scandinavia is against Russia, but in the last six months, the Soviet has applied tremendous economic pressure, particularly on Norway and Sweden, and if it wins by these means, Holland will go along, too, since it is really part of Scandinavia.

"Russia may or may not want to absorb all the countries of Western Europe which she is trying to draw into her bloc. But she remembers the aftermath of World War I, when both military and economic animosity was directed at her by the United States (troops in Siberia for long time), France, and England, and any country not communist is regarded as inimicable to her. Russia does not believe that the United States wants peace. Moreover, her people, exhausted by war, want peace, a little comfort and consumer goods, which the Soviet cannot supply. Thus, she is faced with an internal disruption and discontent, and hence seeks to unify by creating an outside threat. In addition, she believes that capitalism is absolutely incompatible with communism and when capitalism breaks down, communism will automatically take over.

"United Office and Professional Workers of America in no single question of policy has deviated from that of the Communist Party in the past seven years.

"China is incredibly complex and almost hopeless, but the one ray of light is that it is equally complex for the Russians. There are no easy victories or decisions for anyone in China. This is why the fight is being carried on in Europe. The Chinese Nationalist Government is thoroughly corrupt from top to bottom, and whoever tackles China must deal with them.

"The Russian police state would not be affected by the death of Stalin, who, in certain cases, is the prisoner of the police state. He is now more inclined to moderation, but the Red Army, which is the base of Russian isolationism, and the bloc formed by Molotov, Vishinsky, Zhdanov, and Laventky Bira are for violence. Bira (pronounced beereye), former head of the secret police, and the force behind the treason trials, might well be the next Premier. Vishinsky is the mouthpiece for the Politburo.

"Difference between Russia and Germany is this — that Germany had one man who was its leader, determined policy, and had formed the party, and built it. Stalin is merely an employee of the State Politburo, which is boss. He could, and might under extreme circumstances, be removed in the same way that Browder was cast out in 24 hours, after which the "Daily Worker" berated itself for its former allegiance.

"The Truman Doctrine was Russia's best asset. That is why so little is heard about it today. It antagonized even anti-communist Europe which is equally afraid of the United States and of Russia when it uses its military strength. Europe is against foreign troops and foreign occupation by any country. It wants only to be put back on its feet so that it can run itself. This job can be done with dollars at a fraction of the cost of occupation."

Uncle Sam Looks Abroad

(Continued from page 15)

Bank follows with interest, too, for recovery and stability are its world-wide objectives.

What Is the World Bank?

Now what is this International Bank for Reconstruction and Development? It is in reality a finance company owned by 45 nations who have subscribed to its capital to the value of some $8 billion, each in proportion to its own size and resources. Thus, the Bank represents an instrument owned and backed by the member governments, through which the funds of private investors, with appropriate safeguards for their protection, can be channeled into productive loans to aid in the reconstruction of its war-devastated member countries, and into the development of sound economic projects in the underdeveloped areas.

There has been much misconception that the Bank has $8 billion of funds actually at hand out of which to make loans. The facts are these. Only 20% of this is paid in or ever will be paid in for the purpose of making loans, and of this paid-in capital only about $725,000,000 is in U. S. dollars. This is significant because, as I am sure you realize, the present demand is almost entirely for dollars to buy goods primarily in the United States. Furthermore, we can lend our capital only with the consent of the nation whose currency is involved. Today, unfortunately, there are few countries other than the United States in a position to give such consent. With the exception of the equivalent of $2,000,000 worth of francs made available out of its subscribed capital by Belgium to cover the purchase of railway equipment by Luxembourg, all of the loans that we have made up to date have been in U. S. dollars. Within the past few months we have made four such loans, one each to France, Holland, Denmark and Luxembourg, for a total of approximately $500,000,000.

In order for the Bank to obtain additional dollars for the purposes of lending we must sell bonds to private investors, and under existing circumstances, predominantly to investors in the United States. As you may recall, we sold our first issue of $250,000,000 of bonds in July.

The bonds of the Bank have behind them, of course, all of our assets, including our loans and the unqualified right to call upon all of the member governments for the unpaid 80% capital subscription. We have tried to make it abundantly clear, but it bears repetition, that in the event it is needed to meet the Bank's obligations, the U. S. Government is committed up to a total of $2½ billion, irrespective of whether the guarantee is met by any other member nation. Thus, up to this amount, the bonds of the Bank are covered by the full faith and credit of the United States. Without in any way inferring that the obligations of the other members will not be effective, we recognize the fact that at the present time the American investor is looking primarily at the protection provided by the obligation of his own government. Based on this obligation, it is now possible for the investor in America to make his funds available for world reconstruction and development with adequate protection.

The Finance Ministers or comparable officials of the 45 member nations compose the Board of Governors of the Bank. Ordinarily they meet once each year. The 13 Executive Directors who represent them sit regularly in Washington. The management of the Bank is made up of about 350 men and women recruited from 19 different nations and representing an aggregation of varied talents and experience. We have former central bank executives, finance ministry officials and private bankers; we have economists who come from government service, from business and from the universities. We come from many different backgrounds and speak many different tongues. But our whole staff shares, I am convinced, a deep loyalty to the Bank and to the purposes for which it was formed.

The management of the Bank has given unstinting support and assistance in all its efforts by the Executive Directors. The Directors have devoted their attention to matters of policy and have relegated administrative matters to the management. The line between policy and administration is sometimes not too easy to draw, but suffice it to say the operations of the Bank have been carried out in a spirit of mutual cooperation between the directors and the staff which has been most fortunate and helpful. While the debate on many issues of policy is spirited, I think I am correct in saying that on all matters which have come before our board to date we have thus far never had a division in our voting.

On the eleventh of September the Second Annual Report of the Bank was submitted by the President to the Board of Governors assembled in London. In this report an attempt was made to set out an analysis of the problems which beset the European nations in their fight for recovery, and of the fundamental requirements for economic development elsewhere. This is a public document and may be obtained from the Bank by those who are interested.

The year covered by the report has been an important one in the development of the Bank's policies. It is a year in which we have undertaken our first operations both as borrower and lender and have begun to build up a policy framework which will give form to our future activities.

Loans for Constructive Purposes

The core of that structure is our continuing emphasis on the requirement that loans made by the Bank must be made productive and must relate to well-designed projects of reconstruction and development.

This implies that the project or program we help to finance must promise an increase in the level of industrial or agricultural output of the borrowing country. It implies that the proceeds of the loan must be utilized only for the productive purposes for which the loan was granted. It implies that the borrowing country itself must take effective steps, where necessary, to remedy any unsound monetary or budgetary practices which would threaten either the productivity of the loan or the prospects of its repayment.

In cooperation with the borrowing countries we have established mechanisms to assure that the proceeds of our loans are not diverted to purposes other than those for which the loan was granted. This includes not only the meticulous checking of documents of purchase and the like, but also checking on the end use within the borrowing country of the goods purchased with money advanced by the Bank. If we lend money for a railroad, or a coal mine, or a power plant, we wish to see that it is used for that purpose so that we may be able to satisfy ourselves that it was so employed.

But our technical investigations and our supervision over the proceeds will prove of little value in assuring that our loans will prove productive unless there is a reliable economic base on which to build.

Responsibility for Financial Reforms

The responsibility for making the political decisions required for the achievement of the necessary financial reforms rests with the appropriate officials of the individual nations. But we believe that the Bank, precisely because it is a cooperative international agency, will prove increasingly useful as an influence to prompt and perhaps to facilitate the taking of the necessary steps to bring about economic stability.

Let me make clear that when I emphasize the importance that the Bank's loans prove productive, we are thinking of the importance of productive loans from the standpoint of healthy international relations. There are few things which place a greater strain upon friendship between nations than international loans which leave behind merely an obligation to repay, without corresponding benefits to those who must bear the burden of repayment. In such cases, and they have unfortunately not been infrequent, the people of the borrowing country are apt to regard the lender as a foreign ogre of whom the worst can readily be believed. The people of the lending country, on the other hand, when they discover that their own often quite generous instincts are being interpreted as avarice, are apt to become disillusioned and to look with disfavor upon further ventures in the international field. The sum total is impairment rather than improvement of relations within the international community.

Impediments to Europe's Recovery

In our opinion there are three major impediments to Europe's recovery. They are shortages of food, fuel and manpower. How to overcome these impediments is a question engaging the most earnest consideration of the leaders of the 16 European countries and of the United States. While manpower does not seem so obvious a need, there is nevertheless a real shortage of labor in Europe to perform the urgent tasks. This shortage could be met in part by more efficient utilization of labor, by reduction of the number of people unnecessarily employed in governmental and other nonproductive pursuits, and by a greater mobility of manpower, in part across national borders. Moves toward the solution of this problem must be made by Europe itself; the problem cannot be solved by loans from America.

The requirements for capital goods to rebuild, modernize and expand productive facilities constitute the field in which the Bank is most concerned. Even for this category of requirements our funds cannot be sufficient to do more than fill the most pressing needs. The estimate in the Paris Report on the Marshall Plan is that $3.1 billion of industrial capital goods are required over the next four years. We have not yet gone far enough in our studies to justify an opinion on the reliability of this estimate, but we are obviously giving close attention to it.

I think we must all realize that the Paris Report is merely an economic prediction. Covering the period of four years, it is necessarily general and lacking in preciseness. The form, the timing, the conditions, the means of implementation, all must be worked out. In Washington and elsewhere a tremendous amount of work is being done on every aspect of this problem and we in the Bank, in close cooperation with many other agencies, are attempting to develop answers to the many questions.

Problem of Undeveloped Areas

Turning from the European scene, the Bank has as well an important task to assist in the economic progress of the less well-developed areas of the world. The development of these resources is as important for the progress of the more mature nations of the world as it is for raising the standards of life in the undeveloped areas themselves.

But here again the Bank, or any other outside agency, cannot accomplish the most important part of the task. The future of these peoples is chiefly in their own hands. They must maintain and, in many cases achieve, a reasonable degree of political stability. They must put their own financial houses in order. Their people must show the willingness to work, the desire to make the effort for the better life towards which they look.

The Bank wishes to assist to the fullest in this challenging task of development. It is prepared to join in working out sound development plans and to grant loans for carefully selected projejcts to get the wheels moving. As a catalyst it hopes to stimulate the growth of partnership between the material resources and manpower of the underdeveloped areas, and the money and the technical and management skills of the better developed nations.

It was on this pattern that the United States developed and on this pattern alone, in our opinion, can the present underdeveloped nations assure their economic progress.

Progress Has Been Made

I have dealt at some length on the grimmer aspects of reconstruction in Europe. Let us not overlook the fact, however, that much progress has been made, due both to the efforts of Europe itself and to foreign grants and credits. Vast areas of arable land have been cleared of mines and wreckage and restored to the plow. Remarkable progress has been made in getting back into operation the heavily damaged railways. Production in many lines—for example, textiles, rubber goods, cement—has shown great progress. Millions of individuals are toiling under harsh conditions to repair and build up normal life and activities.

However, this record of reconstruction is not uniform. There are examples of countries torn by political dissension, unsound financial management, and weak or impractical leadership, tempting the people to seek salvation through some means easier than the hard work necessary to produce more of the goods which they desperately need.

But staring them and us in the face today are the hard facts that recovery from the devastation of the war can only come by more work, not less—by longer hours, not shorter—by sacrifice, by pulling together. The hopes for an easy way out are dying hard. But there now seems to be emerging a realization on both sides of the Atlantic of the tremendous efforts required; not only of the need for assistance from America, but also that this aid can be useful, and will be forthcoming, but only as those who need the help do their utmost to help themselves.

The Need for Sound Credit

(Continued from page 15)

ter times to follow bad just as surely as it threatens poor times to follow good.

Examine Carefully Loan Applications

You and I have the opportunity of making a significant contribution toward the continued healthy functioning of our present economic system. Loan applications must be examined more and more in the light of social needs. Loan policies must be geared, as never before, to the needs of our economy as a whole—the need for full employment and the need for expanded production. By these remarks I do not mean to advocate the abandonment of sound credit principles. To the contrary, I mean to urge the extension of sound credit—credit that is sound for the borrower, sound for the lender and sound for the economy as a whole. Generally speaking, the interests of the borrower, the lender and the economy will be found to run parallel and not into conflict. In the past, however, it seems to me, all too often only the interests of the borrower and the lender have been considered and no thought given to the overall economic consequences of our decisions.

Surely the excessive use of bank credit to support speculation in the late twenties stands as an indictment from which the banking fraternity has not since fully recovered. While speculation in the stock market is not being financed by the banks currently, I think we realize that speculation in other markets—either recognized as such or not—is obtaining some bank support at the present.

When I speak of loaning policies, again let me emphasize, I refer not only to the policies pursued in making loans but also the policies pursued in administering loans after they are on the books. The emphasis in bank loaning policies should now shift from the aggressive acquisition of new loans to the careful, painstaking administration of credits now on the books.

Most seasoned credit men will agree with me when I say that but few loans are unsound on the day of their inception—the unsound ones develop with the ever-changing interplay of human and economic factors. Therefore, emphasis today must be on alert, intelligent follow-up — on full realization that all business is dynamic and never static. Once more, perhaps, we should remind ourselves that the human factor is the most unstable of all those we have to deal with and, accordingly, the pessimism of the thirties has all but been forgotten in the optimism of the forties To break the defeatist philosophy of the thirties, the banking fraternity had to be exhorted to make more loans—to take risks again. Let us hope that we have not gone too far in the opposite direction and so require exhortation to curb our optimism.

Are we following some policies now, are we indulging in some practices now that are apt to cause trouble? Later in the day an impressive array of speakers will deal with this question in a manner much more authoritative and specific than lies within either my capacity or my province as a "keynote" speaker on this program. I take it, however, that I have the privilege of making a few broad generalizations. In fact, I shall probably make my generalization so broad that none of the experts who follow me will be able to challenge my statements.

Trouble in Behavior of Prices

It takes no exceptional discernment to see that possible trouble for the future lies in the level and behavior of prices, in the marginal economic enterprise borne and nurtured by the lush economy of wartime and in the field of consumer or installment credit.

Let us look briefly at the factor of prices in the credit problems of a free economy. Wars do two things to make a permanently higher price level inevitable. They destroy and concurrently they create a great quantity of purchasing power. When the market is not only stripped of goods but also overstimulated by purchasing power only one result is possible without controls, and that is mounting prices. In our day, as never before, labor has had the power to force wages up in the face of rising costs of living and the power of labor is such that each advance in wages tends to be frozen into the economy in the form of higher costs. So the spiral rises. Where it stops nobody knows, but if it reaches ground too high to be held, then the spiral starts to reverse with prices melting in the face of curtailed demand. If labor's gains were not frozen so rigidly by labor's great power, we might expect labor to make concessions on the downswing. As it is, the full impact of falling prices is apt to be upon business which will go into the red fast with any substantial curtailment of volume. Thus all businessmen are keenly aware today of the high break-even point developed in recent years. They know full well how uncomfortably small is the difference between profits and losses.

None of us is gifted with sufficient foresight to call the turn and say now prices have reached their peak and hereafter will recede. Here we are in precisely the same position as we are in when after many years of prosperity we know the chances favor a change. The question for us is this—do we as lenders know which of our borrowers are most vulnerable to a break in prices? If we do, can we go further and judge which among those that are vulnerable know they are and have a plan of defense when the break comes? Finally, are we sufficiently courageous both to curb those who are obviously speculating and to back up those who deserve support because they are trying to do a legitimate business and have full realization of their problems?

The Marginal Business Enterprise

What about the marginal business enterprise that is still with us in great number? After World War I we called them "war babies." They were born of the lush economy of wartime but their day of birth in World War II does not of necessity precede V-J Day. Wartime prosperity has carried over for two years since V-J Day and has continued to spawn not a few enterprises that will have no place in a more highly competitive economy. Surely, those banks which have had much experience in the so-called "GI" business loans know this. Not all marginal business concerns are doomed. Some, in fact many, may already have carved out an enduring place in our economy. Our job, as credit men, is to live very, very close to all those whose records do not go back of 1939 and by doing so learn to sort the sheep from among the goats. It is a delicate, trying task for those who are fully aware of the social responsibility to which I have previously alluded. We can do fully as much harm by failing to discern the sheep as by backing up the goats.

Now I come to installment or consumer credit. An old friend, you might say, but one for whom familiarity has bred respect and not contempt. Here is an instrument having the greatest social implications yet to be placed in the hands of the nation's banks. If we but learn to use it skilfully and wisely, it can help us immeasurably in our desire to perpetuate a system of free men working out their economic destinies as individuals. If we use it ineptly and permit its abuse it can become a nightmare to haunt our dreams. On Nov. 1, with the death of Regulation W, the nation's bankers will be handed the ball once more. To me, this means one more—and perhaps the last—chance to prove that the granting of credit can be most wisely left to the free play of individual negotiation. If we could but forget the direction in which competition had headed the installment business in 1941, we might face the future with less ominous forebodings. Long experience in the credit field cannot fail to point out the manifold dangers inherent in intense competition on terms. Of course, you will say, we compete among ourselves with regard to the terms granted on all loans —why single out consumer credit? If I single it out, it is because I fear too many bankers seem to think that because each individual credit is small there can be no particular risk in taking greater than prudent chances. While we may think twice before making a loan for $100,000 on terms too liberal as respects the borrower's equity or too liberal as respects the time of repayment, it is so easy to say of the smaller loan that after all only $100 to $300 is being risked.

Another aspect of installment or consumer credit that causes me some concern is the impact of present-day advertising methods on the average man in the street. Today any man who can read—or lacking that ability—can hear his radio, must get the impression that every one of any number of large financial institutions has earmarked and set aside for his use a sum of from $100 to $300. He is entitled to draw it down by merely showing up to sign some papers, or, if he really is in a hurry, by going no further than using his telephone.

Forgive me if I seem to exaggerate, and in exaggerating, appear to take these problems lightly, because I don't—I am in dead earnest. I have only to suggest that the senior officers and even the directors of those banks with consumer credit departments should watch the activity more closely and not entrust it entirely to the direction of junior members of the staff.

Perhaps I have gone far enough, or even too far, in my efforts to "keynote" today's meeting. But I sense on this October day in 1947 that bank credit men have need carefully and calmly to appraise the current scene, to recognize fearlessly their responsibilities in a troubled world, to review loaning policies and reshape them where necessary and be prepared to steer ahead with that confidence which our economic history inspires in all those who see it steadily and as a whole.

London Stock Exchange Official Year-Book Out

The 1947 edition of the Stock Exchange Official Year-Book, made and printed in Great Britain, has just been released in this country. It contains 3,482 pages, or 280 pages more than its predecessor. This increase is mainly due to the inclusion of notices of 218 additional companies and 31 new government and municipal loans and to the restatement of details of capital history omitted from editions since 1940 owing to war conditions.

The "Commercial and Industrial Classified List" has also been reinstated in a new and enlarged form. It includes the names of some 2,700 companies whose securities are dealt with in the book itself.

The 1947 issue, which is published by Thomas Skinner & Co. (publishers), Ltd., London, England, under the sanction of the Council of the London Stock Exchange, costs $25 per copy in the United States and Canada.

The Supplementary Index, now known as the "Register of Defunct and Other Companies Removed from the Stock Exchange Official Year-Book," has been further enlarged to 412 pages by the addition of details of the past history of some hundreds of companies. A limited number of copies of the 1947 edition can be obtained from Thomas Skinner & Co., Ltd., at £1 per copy.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Trading range now about 10 points; 175 low and 185 high. Don't expect any action in near future.

The futility of buying stocks on strength in the current market was demonstrated again when they closed last Thursday. The averages were off at one time almost four points from the high of the day, even if they closed slightly better than the lows. The remainder of the week was equally ineffective, though the same averages managed to struggle back a few points.

* * *

Such action is typical of a market honeycombed with guesses and rumors and built on a base which is completely inflationary. It is this base which leads to hopes and it is these rumors which feed these hopes. How long such a situation can exist is a debatable point. Having no desire to g t into a verbal fracas, I'll just give the situation, a passing nod and go on to other things.

* * *

By the time you read this the various local election returns will be completely in and the Republicans and the Democrats will both compete with each other in pointing with pride and viewing with alarm. It is quite likely that the market, being the barometer it is, will veer accordingly. Whether anything will be made of this is open to question. In fact any news upon which the market is expected to act is open to question. I prefer to believe that the market gets its reasons for its up or down moves within it, rather than from the outside.

* * *

A few weeks ago when things looked pretty gloomy (averages about 174) I thought the market had seen a level from which a rally would result. Later I said that as it approached, or passed the 180-84 level, obstacles would appear. Nothing has happened to change that. This means that there exists a trading range between those two levels. In the old days such a range was ideal for in and out trading. Today, there are doubts. These doubts are based on the fact that the majority of traders are odd-lot participants and today, with commissions up, the odd-lotter is in a tough spot. After odd lot differentials, commissions and taxes, it costs about point and a half before any profits. That's a lot of profit to pay for the privilege of trying to make anything.

* * *

It is suggested that to cut down this differential that where possible all buying be done in round lots. If not possible then a long term objective must be followed. If neither are feasible, then better stay out. Maybe you won't make anything that way. But neither will you lose.

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.]

Bruce Hoblitzell With Wm. L. Burton & Co.

Bruce C. Hoblitzell has become associated with Wm. L. Burton &

Bruce C. Hoblitzell

Co., 25 Broad Street, New York City. Mr. Hoblitzell was formerly partner of Bruce C. Hoblitzell & Co. and prior thereto was with Stroud & Co. and Dunne & Co.

"Back of the Boom"

(Continued from page 7)

on hand and in bank. The money on hand consists of currency outside the banks, while the money in bank consists of demand deposits subject to transfer by check. Only these two media of exchange are money in the strict sense, for only they can be spent directly for goods and services. Time deposits, insurance policies and securities of all types must all be first converted into either currency or demand deposits before they can be spent.

Where does this money come from? It comes into being or enters circulation, solely as a result of the lending and investing operations of our commercial banking system. Generally speaking, every time the commercial banks expand credit, either in the form of security purchases or commercial, industrial, and agricultural loans, the money supply increases; while every time the commercial banking system contracts credit, the money supply decreases. A withdrawal of a demand deposit or its conversion into cash does not change the size of the money supply. It simply changes the ratio of deposits to currency in the total supply. Similarly, the deposit of currency in a bank does not change the size of the money supply, but only its composition. Also, currency held in the vaults of the commercial banks or held on deposit with the Federal Reserve Banks is not a part of the money supply, since it is not available for spending by anyone. Such currency is merely a reserve of substitute money held for depositors who may want currency in place of their deposits. Commercial bank deposit reserves are not part of the money supply.

It is a little-known but extremely significant fact that if all the loans and investments of commercial banks were liquidated at face value, virtually every dollar of the money supply would be withdrawn from circulation. The nation's cash account would be siphoned off as if by a huge invisible pump, and the economy would grind to a painful halt.

The economy's money supply is often compared to the body's bloodstream. It can also be compared to the engine which runs an automobile. As is the case with the automobile engine, the bigger the money supply is relative to the load it must carry—the economy as a whole—the less rapidly does it have to turn over or revolve to operate the economy at a given level of activity.

Since the decade following World War I—and even since the beginning of World War II—there have been profound changes in both the size and character of the money supply. In the first place, there has been a tremendous increase in the size of the money supply—both its absolute size and its relative size. It totals today \$108.5 billion as against \$45½ billion in 1941, \$26.1 billion in 1929, and \$23.7 billion in 1920.

The currency portion of it today totals \$26 billion as against \$8.2 billion in 1941, \$3.6 billion in 1929, and \$4.1 billion in 1920.

The demand deposit portion of it today totals \$82½ billion as against \$37.3 billion in 1941, \$22.5 billion in 1929, and \$19.6 billion in 1920.

Relative to population, it has grown tremendously. Thus, as against only \$223 per capita in 1920, \$214 per capita in 1929, and \$342 per capita in 1941, it amounts today to \$770 per capita.

It has also grown significantly in relation to the volume of industrial production. For instance, for every point on the Federal Reserve Board index, there are today \$587 million of money in circulation. In 1941 there were only \$281 million per index point; while in 1929 there were only \$237 million per point; and in 1920, \$316 million per point.

Another way of measuring the relative size of the money supply is to compare it with the total net debit of the country. Today the money suply is 27% of this total, and remember that included in the total debit is the amount owed by the Federal Government which is not pressing because its repayment can be indefinitely deferred. But against 27% today, in 1941 the money supply was 21.4% of total debt, in 1929 it was 13.6%, and in 1920 it was 17.5%.

When we relate money to total private debt only, excluding the government portion, the relative growth in the money supply is even more spectacular. In other words, in 1920 the money supply was 22.4% of total private debt, in 1929 it was 16.1%, in 1941 it was 32.5%, and today it is over 70% of total private debt.

And finally, in relation to Gross National Product, the money supply has grown significantly from 25.1% in 1929 to 36.3% in 1941, and 48.2% today.

What all these figures add up to is, of course, that the economy's money engine is much bigger relative to the load it has to carry than it was both right after World War I and at the 1929 and 1941 prosperity peaks. Whereas the situation was formerly analogous to a Lincoln with a Model T engine, now it is more like a Model T with a Lincoln engine. The money power per pound of economy has been tremendously increased.

Decline in Circulation Velocity

And, consequently, as the money engine has increased in size, its rate of usage—its velocity of circulation—has declined. As it has gotten bigger, the money engine has been able to revolve more slowly and yet deliver as much or even more total buying power than before to the economy.

This can be seen from an examination of the Federal Reserve Board's figures on the anual turnover rate of demand deposits, which normally constitute about 80% to 90% of the total money supply. Excluding the figures for New York City, where the picture is clouded by heavy, purely financial transactions, deposits turned over 37.3 times in 1920, 40.5 times in 1929, 22.4 times in 1933, 22.4 times in 1937, and 19.4 times in 1941, as against their annual rate today of only about 18 times. In short, the present money supply is so big that it can support the largest boom in 30 years with practically the lowest rate of turnover or usage in 30 years. (The turnover rate was slightly lower in the recent war years because of rationing, price controls, and other artificial restrictions on spending.)

In size alone, then, the money supply is far different from what it was following the last war and during the years between the two world wars.

Change in Character of Money Supply

However, of equal significance to its increase in size is the change that has taken place in the fundamental character of the money supply.

Commercial bank credit can, of course, be extended to two basic groups in the economy—the public group comprising the Federal, State and local governments, and the private group comprising all business and individual borrowers.

When the U. S. Government and the governments of various states sell bonds to commercial banks, the money supply is increased just as it is when business and individuals obtain bank loans. The important point is that by far the greatest proportion of the increase in the total money supply has resulted from an exxpansion of bank credit extended to the Federal Government. This can be determined by obtaining for each year the ratio of public bank credit in the form of bank-held U. S. Government securities to total bank credit and then splitting the total money supply into two parts on the basis of this ratio.

Here is what has happened to the portions of the total money supply resulting from the two types of bank credit—public and private. The publicly-initiated portion of the money supply has increased from \$2.4 billion in 1920, \$2.6 billion in 1929, and \$19.2 billion in 1941, to almost \$63 billion at present.

On the other hand, the portion of the money supply resulting from the private use of bank credit which was \$21.3 billion in 1920, \$23.5 billion in 1929, and \$26.3 billion in 1941, is \$40.7 billion today.

In other words, whereas in both 1920 and 1929 the money supply was approximately 10% the result of government borrowing and 90% the result of private borrowing from the banks, in 1941 it was 42% public as against 58% private; and today it is 62½% public as against 37½% private. Perhaps no other single set of figures can so well reflect the recent transfer in the balance of fundamental economic power from Main Street to Washington!

However, I am not so much concerned today with the social and political implications of this profound change in the character of the money supply as I am with its purely economic implications. Regardless of whether one favors or opposes it, the fact remains that today almost two-thirds of our money supply is the result of commercial bank ownership of U. S. securities which were sold to the banks as a means of financing the war. Almost two-thirds of the nation's cash account exists because of governmental fiscal action. In other words, a significant proportion of the total national debt has been monetized. And since the national debt is not likely to decline materially for an indefinite length of time, there is little likelihood of a reduction in the portion of the money supply resulting from commercial bank holdings of this debt. In short, the method of financing the war has in effect frozen in circulation \$68 billion of the money supply. Or, a floor has been placed under the money supply at almost the \$70 billion level.

Relaxation of Reserve Requirements

Moreover, the status of the remaining part of the money supply—the privately-initiated portion—has changed significantly from what it was following World War I, and even at the beginning of World War II. It is substantially more stable in character, or less susceptible to shrinkage in the face of economic adversity.

The full explanation for this greater stability is too long and technical to state here. Very briefly, however, the explanation lies in the fact that bank deposit reserves have been considerably relaxed. Our banking system operates on what is basically a fractional deposit reserve system. That is the banks are permitted to create deposit money up to several times the amount of their available reserves. Moreover, because they normally do create deposit money virtually up to the limit permitted by their reserves, anything which reduces their reserves requires a multiple contraction in deposit money, either through the sale of securities, the calling of loans, the refusal to renew loans, or any combination of these procedures.

In days gone by, when their deposit reserves were primarily gold, the banks were at the mercy of any economic forces which significantly varied their gold holdings. Today, gold has been pushed further and further into the background (if not into the ground—at Fort Knox!) so that it is only a very loose limiter of bank reserves.

In other words, there are now several ways of varying or controlling bank reserves regardless of what happens to the nation's gold stock. It was because of the rules and regulations under which he used to have to operate that the banker came to be compared to someone who hands you an umbrella when the sun is shining, and snatches it back when it starts to rain. Actually, of course, the banker usually couldn't help himself and had to contract his credit and the money supply in order to safeguard his deposits whenever any signs of business hesitation developed. Declining sales and falling prices in any major segment of the economy usually touched off a virtual chain reaction of bank credit contraction and money supply reduction which threw the economy into a tailspin, out of which it could recover only after a painful process of deflation and depression.

Between June 1920 and June 1921, for instance, the banks had to contract the money supply by 12%, from $23.7 billion to $20.8 billion. And between 1929 and 1933 they had to reduce the supply almost 27%, from $26 1 billion to $19.2 billion, all of which, incidentally, was in the private portion, which fell 39%, from $23.5 billion to $14.4 billion.

Present Bank Lending Situation

Now, fortunately, the situation is quite different. If need arises, the banks can easily increase their reserves, and therefore expand their lending potential, or further safeguard their deposits, almost at will. They can do this simply by selling some of their huge holdings of securities to the 12 Federal Reserve banks. It has been estimated that on the basis of the $70 billion of U. S. securities now held by the banks, they could expand their loans—and hence the money supply—by approximately $450 billion over the present figure, if occasion demanded.

The banks are therefore no longer under any serious compulsion to snatch back the credit "umbrella" when the economic skies darken. As a matter of fact, they should now be able to supplement the umbrella with a raincoat, if needed by a customer to weather an economic squall! The periodic mad scramble by banks for liquidity, which is so fatal to the money supply, should no longer be necessary. Also, there is little doubt that if accurate figures were available, they would show that the average bank loan to private business or individuals is for a significantly longer term—and hence less susceptible to rapid contraction—than was the case in the twenties, or even just before World War II. Being far less concerned with the problem of obtaining sufficient reserves to safeguard deposits in time of stress, the banks are now naturally tending to lend money for longer periods. Then, too, Federal insurance of deposits has undoubtedly made it less necessary for the banks to reduce credit quickly when the going gets the least bit tough.

Today, then, we have a money supply which is roughly two-thirds frozen, through government action, as compared to only 10% frozen back in the twenties. And, whereas the remaining 90% was in those days extremely vulnerable to falling sales, falling prices, and other types of business adversity, the remaining one-third today is considerably more resistant to business adversity, primarily because bank deposit reserves have been greatly liberalized.

In short, the money supply today is now strikingly different from what it ever was before, in the degree of its inherent resistance to relatively minor strains and maladjustments in the over-all economy. Whereas these strains or maladjustments could then precipitate a contraction of the money supply, which would bring on a major depression, today the money supply is largely impervious to them.

I believe we have already seen concrete proof of this greater resistance. Wholesale prices reached a temporary peak in March of this year, and then turned down significantly in April and May. It is entirely possible that this turndown in prices, reflecting at least a temporary slackening of demand, would have precipitated a rather severe recession or even a major depression, if the money supply had been as vulnerable as it was back in 1920. The fact that it was much less vulnerable and so did not shrink prevented the price decline from becoming cumulative. Money stayed in circulation in the hands of business and individuals, and so the decline in prices soon brought them back into the market, to an even greater extent than before.

As a matter of fact, the money supply passed an even more acid test with flying colors at the time of reconversion from war to peace. More specifically, between the first quarter of 1945 and the second quarter of 1946 the Federal Government's purchasing of goods and services was reduced by over 77%, from an annual rate of $92.2 billion to one of $20.9 billion. Yet despite this great reduction in demand in one major segment of the economy, the money supply held firm; and, in fact, actually increased somewhat. As a result, the money basis for converting wants and needs into effective demand in the other segments of the economy was not destroyed, but was even strengthened. Demand in these other segments—namely, private business and consumer spending—rapidly took up the slack resulting from the decline in government spending, and the economy rolled merrily along at virtual capacity, with scarcely a tremor. Yet, had the money supply been as vulnerable to swings in demand as formerly, a major depression would almost certainly have developed at that time, in line with the expectations of many economists.

Lesson to Be Learned

The economic lesson to be learned from these two recent experiences would seem to be that if the money supply holds firm, over-all demand—and hence the general level of business and employment—need not fall when demand eases temporarily in one segment of the economy.

The economic records will show, I believe, that depressions as we know them really date from the inception of a money supply dependent upon fractional-reserve, deposit-credit banking. Until the present, this kind of money supply has been inherently vulnerable, despite its many other obvious advantages. That is, our depressions have been basically a result of monetary vulnerability. Therefore, any changes, such as those effected during the recent war, which reduce the inherent vulnerability of our money supply simultaneously reduce the likelihood of depressions.

From here on out, it would seem, then, there is a good chance that the remaining maladjustments and strains existing in the economy today can work themselves out without bringing on a serious depression. As long as we have an ample money supply which is also highly resistant to economic shocks, it should be possible to make relatively painlessly the transfers and adjustments of productive capacity required to put the economy into better balance.

This should not be taken to mean that we will not continue to have occasional shifts in the demand for individual products. We may, for instance, periodically produce more automobiles, or more shoes, or more food, or more houses than the market will absorb. But we should not periodically find ourselves producing simultaneously more of nearly everything than the market will absorb. We should not again experience the sickening drops in over-all demand which stem from the wholesale destruction of money and which prevent the transfers of manpower and facilities needed to correct mere shifts in the demand for individual products.

As stated previously, this appraisal of the present monetary situation is not necessarily an endorsement of the means by which it was achieved. There is little doubt that the government's policy of borrowing billions of dollars from the banks for the purchase of war materials which were subsequently destroyed, and hence could not be sold in order to recover and retire this money from circulation, was inherently inflationary. Bank loans to the government are not self-liquidating as are most of those to private enterprise. So this governmental policy unquestionably led to a more rapid increase in the money supply than the economy could take, or than was warranted by the economy's fundamental rate of growth, which means that this policy was the basic cause of the recent rapid rise in prices.

On the other hand, the facts seem to show that in the past the economy was usually forced to operate with not only a minimum or even deficient money supply, but also with one which was extremely vulnerable to stresses and strains. Thus, while our economy has undoubtedly suffered to some extent from a too rapid expansion in the money supply resulting from this governmental fiscal action, there is no blinking the fact that in the same process we have achieved a considerably less vulnerable money supply.

To sum up briefly, then, the one thing that is really different about this boom is the money supply available to finance it.

The present money supply is not only much bigger for the job it has to do. It is also, due to heavy use of bank credit by the U. S. Government and to greatly liberalized bank reserves, far better insulated against economic shocks.

Therefore, so long as nothing is done to suddenly reduce the money supply or to undermine its newly acquired strength, there are valid reasons for believing that the present boom will not give way inevitably to a bust. Rather, there are real grounds for the belief that the U. S. economy will henceforth operate much more consistently at capacity levels, without the periodic blight of major depressions. And, at any rate, there is little doubt that back of the present boom's record size is primarily the record size of the money supply, while back of the present boom's record longevity is primarily the greatly enhanced stability of the money supply. The vastly changed condition of the money supply is the real basis of the present boom.

Observations

(Continued from page 5)

Congress, and closely supervising investment banking practices for 13 years, should have remained decisive.

One of the major "reliefs" asked for by the Justice Department, that regarding market operations for stabilizing and price maintenance, is specifically covered by the Securities Exchange Act plus the Commission's rules and regulations issued thereunder. Carrying out its mandate given in Section 9(a)(6) of the Act to resolve this most complicated problem, the Commission after lengthy investigation and deliberations has issued six detailed rules (X-9A6-1 to 6) governing the notice of intention to stabilize transactions while stabilizing, requirements for disclosure, and reporting.

Balancing the Picture

Also outside the technical legal purview, other existing safeguards should be mentioned in order to forestall a too-distorted picture for the public. Basic are the pervading sanctions for *disclosure* which underlie the entire philosophy of the Securities Act as well as the balance of the concomitant financial legislation. The waiting-period ordered by section 8(a) of the Act during which the prescribed information can be disseminated, truly has represented "a basic change in the environment of securities distribution" (in the words of Paul Gourritch, formerly of Kuhn Loeb & Co. and of the Commission), in this or any other country.

Items of disclosure concerning investment bankers' participation which were constructively instituted with the passage of the Act include the gross spread to bankers, full data regarding the type of bankers' commitments, the amount of each underwriter's participation, the price at which he is to take the securities, full details of his won profit and of the participations he will allot to distributors and finders, preferred lists, the interests of "experts," expenses in addition to the underwriting commissions, and the disclosure of every "material contract."

Likewise the Attorney General's stated fears over abuses arising from close "banker-client" relationship are rendered groundless by the prescribed disclosure in reporting in income or proxy statements of the minutest details of transactions of any kind with all individuals having the least semblance of a dual relationship, prescribed under sections 13 and 14 of the Securities and Exchange Act.

Whose Interest Is to Be Served?

The new suit only further obscures all efforts to ascertain just who it is that our governing authorities are aiming to protect—the existing stock- or bond-holder, the officers of the issuing corporation, the insurance company policy-holder, or the potential or actual purchaser of the new issue.

For the new complaint's major aim to bring about competitive bidding generally—although this has not been asked outside the public utilities field by the SEC—definitely exerts the effect of raising the price to *the new investor*. In a wholly ill-founded would-be analogy with ordinary business practice, forced competitive bidding in securities selling would strip the protection from the relatively inexpert buyers which is afforded by the bargaining power exercised by the investment banker in possession of discretion accompanying his knowledge. The abuse to the community of buyers from awarding of newly-created issues on the basis of an auction price is of course greatly accentuated during bull periods of greater demand than supply.

This solicitude of the Justice Department for the *existing stockholders* is, however, contradicted by the present suit's concurrent upbraiding of the bankers for using their alleged domination and control for over-merchandising with refunding operations. For the taking advantage of declining interest costs by the bankers' refunding at lower rates likewise materially helps those existing stockholders, while injuring the extirpated bondholder.

Such contradiction is also found in the castigation of the bankers (section C, par. 1) for their being "in cahoots" with *institutional buyers*, as the insurance companies in the New York market, to set up requirements favorable to them. This plaint would seem to imply that the millions of *insurance policyholders* should be "soaked"—rather than protected—for the benefit of the capital issuers. On the other hand, again, the Government is charging (in section K) that the banker deprives the institutional or other investor from freedom of choice regarding the security or the setting of its terms.

Again in various sections the Department complains of the advisory services which the bankers perform for the issuing corporations, through "placing"(?) directors on their boards and otherwise. Apart from any monopoly-proclivities that may be suspected therefrom, should not such continuing expert advisory functions actually be considered constructive for the buyers' permanent interests, in a fiduciary way, in lieu of abrupt washing-of-hands after the completion of each flotation?

Are we so hell-bent after the nefarious investment bankers that we dont care at all who is hurt or helped in the process?

Furthermore those who really should logically be indicted as the culprits if the detailed charges are true, namely the managers of the issuing corporations, are overlooked by the Justice Department.

Halsey Stuart Offers P. S. of Indiana Bonds

A group headed by Halsey, Stuart & Co. Inc. received the award Nov. 3 of $15,000,000 Public Service Co. of Indiana, Inc., first mortgage bonds, series G, 3⅛%, due Nov. 1, 1977, on its bid of 101.0799. Public offering of the bonds is being made at 101⅝%.

Proceeds from the sale of the bonds are to be applied to the company's construction program which it is estimated will require approximately $52,000,000.

For the 12 months ended Aug. 31, 1947, the company reported total operating revenues of $29,603,808. After depreciation, maintenance and all taxes except Federal income taxes, gross income amounted to $10,763,159; annual interest requirements on all bonds now outstanding, including this issue, will require $1,968,750.

The bonds may be redeemed by the company initially at 104⅝%, the premium reducing annually thereafter, and for Sinking Fund purposes redemption is permitted at 102½% and at reduced prices thereafter.

Public Service Co. of Indiana, Inc. furnishes electric service to 70 of the 92 counties of Indiana. The territory is residential, agricultural and widely diversified industrially. Among the larger cities served are Terre Haute, Kokomo, Lafayette, New Albany and Bloomington.

Let's Speed Up Peace Treaties!

(Continued from page 7)

trust subvert the restoration of those friendly relations which peace and rehabilitation so desperately need and which America will always be found eager to reciprocally encourage on a two-way street. For all our sakes, the situation needs a heavy dose of total truth. If humanly possible, we all need a successful attack upon misunderstanding. We must be as ready as others in this connection to face the scriptural injunction about motes and beams. I wish that peace and total truth might have an honest clinic with all the cards face up before the world.

Wants a "Live and Let Live" World

I want a "live and let live" world if peace-with-justice can thus be found; and, despite discouragements, I decline, voluntarily, to give up the quest. I want honorable friendship around the earth. I want global disarmament dependably protected against bad faith. I want to rely dependably on the United Nations to keep the peace. But pending reliable evolution in these directions, I want a totally adequate American national defense. Unshared ideals can be a dangerous delusion.

I am opposed to appeasements which aggravate the dangers from which they vainly seek escape. So are the people of the United States according to the latest Gallup poll. This is a tremendously important fact lest our attitudes be miscalculated either at home or abroad. But I am sure we crave decent and honorable agreements. I decline to proceed on the tragic theory that war is inevitable. World War III might destroy even its victors. Only madmen could deliberately want it or neglect honorable methods to prevent it. I still have patience—vigilant patience. But I have no patience with helplessly drifting into the prolonged chaos and deliberate confusion upon which freedom's disintegration thrives.

We should continue vigorously to support the United Nations, taking scrupulous care to respect its authority as faithfully as we demand respect from others. Despite its birth pangs and its damaged youth, it has demonstrated tremendous values and is still the basis of the world's best hope. So long as we are talking things out, no matter how angrily, we are not shooting things out. I ask those Americans who would dismiss the United Nations as a total loss to remember this.

Without the United Nations, the Communist design for a postwar world would certainly have been no less aggressively belligerent. Without the United Nations the design would have matured relatively in the dark. It would not stand out where he who runs may read. It would not be confronting the organized judgment of mankind. Without the United Nations the Soviet Union and its satellites would have gone their own way to their own ends. The greater the difficulties which surround the peace, the greater the need for this consultative device, for our sake, for their sakes, for all our sakes. If it does not save the peace, it will fix the crystal-clear responsibility for its loss. This moral verdict of mankind finally is the greatest power on earth.

We should continue to urge curative changes in the Charter. The "veto" should apply solely to the use of armed force. At that point it is a Constitutional necessity even with us. But it should never apply to pacific means for the settlement of situations and disputes. It was a mistake, demonstrated by events, to do so in the first place. I have always said that 98% of the Charter's genius is in these pacific chapters. No peace-loving nation—better say, no peace-living nation — should hesitate to give peace-making this untrammelled, democratic chance.

Acting strictly within the Charter, the unified Republics of the Western Hemisphere blazed this new and glorious trail at their recent inspiring Pan-American Rio Conference. A two-thirds Pan-American vote controls all pacific decisions in this regional arrangement. There is no "veto" except each individual nation's right not to contribute to armed forces against its will. Here lies the inviting, enlightened road. Time and events will have to decide ultimately whether any other road will be worth its upkeep.

But the problem which the world confronts is not confined to the United Nations. Other imperative factors—beset by kindred difficulties—are indispensable to stability and peace. Among many such, including a long merited Austrian peace, my time permits reference only to the typical need for a German peace.

German Restoration Core of European Rehabilitation

Germany's restoration to viable autonomy is at the core of Europe's rehabilitation. Economic unity of the occupied zones, promised at Potsdam, has been frustrated by our Soviet associates. As an unavoidable alternative, we have linked the American and British zones—with the door always wide open for the Soviets and France to join. This is the nucleus upon which we must build. Germany's twice ravished neighbors must have complete protection against the re-erection of another Axis threat. To this end we have demonstrated our good faith by offering a 40-year promise of instant military support against the recurrence of a German threat. France and the contiguous Low Countries have other vital interests which must be resolved.

I am unable to believe that a German peace conference could not preponderantly find common ground. If the Council of Foreign Ministers still deadlocks this winter, it had better adjourn *sine die*. The peace conference should be called by those who do agree—open to all interested states whether they agree or not—to write a practical, reasonable peace for the German areas within its jurisdiction. It is infinitely preferable for the Council of Foreign Ministers to come to united terms. But I am saying that disagreement—here or elsewhere—cannot be allowed to postpone peace, rehabilitation and self-government forever. Peace must have priority.

The Marshall Plan

I conclude with a quick reference to pending fuel-and-famine aids to Europe this winter and to the so-called "Marshall plan." The former involves elemental human survival in a free society. America will have lost its traditional character if it refuses such relief under appropriate auspices. The latter, the "Marshall Idea" — involves long-range aid to implement self-help and self-sufficiency. If self-help and self-sufficiency can be made to work, this objective may well be a bargain. We must find reasonable promise of this success, because we cannot indefinitely underwrite the world. We must know the total bill, including China. We must frankly canvass our own resources lest we impair our own economy and thus vindicate the sinister hopes of those who expect our economic collapse to end all democracy for keeps.

We must be sure of sound administration and adequate cooperation. But within these practical limitations I agree with Secretary Marshall at Boston when he describes the supreme, underlying issue as follows:

> Whether or not men are to be left free to organize their existence in accordance with their own desires or whether they are to have their lives arranged and dictated for them by small groups of men who have arrogated to themselves this arbitrary power.

In any event, we must take one of two calculated risks. There is the calculated risk if we proceed. But let's be honest enough with American destiny not to ignore the calculated risk if we do not proceed. Secretary Marshall correctly says it involves—

> The danger of the actual disappearance of the characteristics of Western civilization on which our Government and our manner of living are based.

And now, this is my final comment. Foreign policy is a legitimate subject of frank debate by our citizens. Foreign policy belongs to the people. It is a legitimate subject of partisan contest if there is deep division. But I raise the fervent prayer that we may ever strive for an unpartisan American foreign policy—not Republican, not Democratic, but American — which substantially unites our people at the water's edge in behalf of peace, with justice and liberty under law.

And my last word reverts to the Dutch Centennnial which richly inspires this occasion. I give you the challenge of the Dutch dominie, Albertus Christian Van Raalte, leader of the 1847 pilgrimage to Michigan, speaking at the 25th Anniversary, which now lengthens to a century:

"To our successors to whom we entrust our inheritance we wish to say — FORGET NOT; IT IS GOD WHO POINTED IT OUT TO US."

Can Europe Furnish Collateral?

(Continued from first page)

their own gold and dollar and other hard currency holdings in excess of those needed for effective currency reserves, but the gold, hard currencies, and securities held by their own nationals both at home and abroad. About this there can be no reasonable difference of opinion. The questions are: What? When? and How?

What is the value of the collateral we are discussing and what proportion does it bear to the size of the problem? As the proponent of the question points out, the British requisitioned or otherwise repatriated during the war approximately $4¼ billion of securities, not including those pledged as collateral for the RFC loan. I accept the questioner's estimate that a possible $2 billion of British assets may remain today. So, as far as Great Britain is concerned, we are talking in terms of a possible $2 billion in collateral to be pledged for any loans additional to existing commitments, including the $3¾ billion Financial Agreement.

Western Europe Holds $2 Billion of Securities

With respect to the Western European countries, my guess, based upon Department of Commerce statistics, is that Western European holdings of stocks and bonds, in the United States, are around $2,200 million. It is guessed that dollars hoarded in Western Europe aggregate between $1 and $3 billion; gold between $2 and $4 billion. Unless these nations can immediately locate and deliver the securities, cash, and gold, hidden in their own domains the total collateral immediately available for pledge we are talking about for Western Europe does not much exceed $2 billion; and the pledge is subject to certain difficulties which I will presently discuss. In any event, as these countries have estimated their needs from us to be in excess of $30 billion (and even with the screening to which they have been subjected have not been reduced below $20 billion) the collateral we are discussing bears a small proportion to the size of the projected loans. As some of these countries have other debts to public institutions and private foreign investors, there is involved in the use of this collateral the question with which we as bankers are familiar as to the propriety of one debtor seeking security while the others remain unsecured, so long as there is not enough collateral to go around.

Unlike the British assets which were not blocked by our Foreign Funds Control, the assets in the United States of nationals of the Western European nations were included in the Foreign Funds Control blocking which, at the outset, aggregated approximately $8 billion. About one-half were of the countries with which we are presently concerned. Through relaxation of the controls, that amount has now been drawn down to less than $2 billion and constitutes the bulk of the $2,200 million.

Foreign Dollar Assets "Seed Corn" of Private Enterprise

Now that we know what we are talking about, i.e., $2,200 million assets, the bulk of which are still owned by the nationals of the countries concerned and still to be released from our Foreign Funds Control, — we can talk about "when." These assets constitute the seed-corn of private enterprise—the funds by which individuals in these countries can reestablish their private business relations in the United States when private trade again becomes practicable. It is contrary to fact to assume that the bulk of these funds are "refugee" money. Most of the "refugee" money has long since been released in accordance with the Treasury policy of putting it at the disposal of the owner once he had domiciled himself in the United States. What we are dealing with is mainly the assets of the nationals who remained at home, and it is fair to assume, that these are funds which they had accumulated and were using in their own private dealings in the United States. For us to encourage the expropriation and use of these foreign assets in the state trading operations of the Western European nations, is to encourage a movement diametrically opposed to that for which we have been fighting in Geneva at the International Trade Conference. Is it not more in keeping with the whole philosophy of our program for economic collaboration with friendly nations, to postpone the utilization of these assets until the time when their employment will work toward the resumption of private trade between the business interests of the countries concerned?

The final question is: How are these assets to be put to use? Shall we, as one commentator has put it, seize and use "in the national interest" the assets in the United States of friendly nations? The fact is that while we know the identity of these assets, the countries of which the owners are nationals largely do not. For various reasons the owners have been reluctant to report this property to their own governments. Some small proportion of this reluctance may stem from the fact that there may be an enemy interest in them, which, if disclosed, would result in their being vested by our Government by virtue of the provisions of our Trading with the Enemy Act. Another possibility is that those funds were fugitive from various laws with respect to taxes, requisitioning, and the like. But the preponderant reasons for this reluctance, in my judgment, were neither of these. One was that conversion of dollar assets into local currency at the artificial and unrealistic rates presently in force, would result in the immediate confiscation of the bulk of their value. The other one was that the surrender of these assets to countries which had undertaken national policies inimical to private property would mean the loss to the owners concerned of the "seed" money by which they could alone hope to reestablish themselves ultimately as private traders. I do not intend to outline or discuss the technical argument by which it is suggested that our Alien Property Custodian, by making the violent assumption that the reluctance to declare property stems exclusively from what is by all odds the smallest factor, should vest all undeclared assets as enemy property. One commentator characterizes the hesitation of the Secretary of the Treasury to take this step as "timid." It is not likely that property-holders the world 'round would so characterize it. They would be more likely to regard it as of a boldness comparable to that displayed by Hitler in marching into their countries in an attempt to apply their property to his cause. Foreign Funds Control was instituted to prevent him from attaining that objective. In the words of Senator Connally, at the time Congress ratified the Control, it was intended to confirm:

> "An international belief and an international faith in the integrity of the United States Government, that it will protect and safeguard and secure the property even of aliens that is legally and lawfully in the United States."

Is this action, initiated by a process consistent with our conception of individual property rights, to be terminated by an action which can be defended only in the language employed by adherents to the police-state? To do that would be to make a mockery of the assurance of protection we gave foreign investors, who in the past have contributed so much to the development of the United States.

A Better Solution

There is a better solution. That solution is to continue the protection we extended in 1940 until not simply the period of war but of post-war adjustment has progressed far enough to permit these funds to be released by democratic processes back into the channels of private trade. By so doing we will most assuredly achieve what we all agree is desirable, i.e., the application to rehabilitation of the Western European economy, in the most effective fashion, of the remaining available assets of those countries.

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)	Nov. 9	96.1	97.0	96.1	91.1
Equivalent to—					
Steel ingots and castings produced (net tons)	Nov. 9	1,681,700	1,697,400	1,681,700	1,605,500
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Oct 25	5,295,350	5,268,400	5,196,000	4,729,800
Crude runs to stills—daily average (bbls.)	Oct. 25	5,165,000	5,167,000	5,290,000	4,688,000
Gasoline output (bbls.)	Oct. 25	16,529,000	16,298,000	16,501,000	14,780,000
Kerosine output (bbls.)	Oct. 25	2,050,000	2,176,000	2,022,000	2,067,000
Gas oil and distillate fuel oil output (bbls.)	Oct. 25	6,638,000	6,217,000	6,136,000	5,493,000
Residual fuel oil output (bbls.)	Oct. 25	8,666,000	8,542,000	8,580,000	7,525,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at					
Kerosine (bbls.) at	Oct. 25	82,003,000	80,912,000	82,472,000	86,731,000
Gas oil and distillate fuel oil (bbls.) at	Oct. 25	23,014,000	22,516,000	22,829,000	22,047,000
Residual fuel oil (bbls.) at	Oct. 25	62,609,000	61,312,000	60,406,000	67,331,000
	Oct. 25	57,419,000	57,776,000	56,777,000	60,759,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Oct. 25	954,627	954,249	937,954	942,257
Revenue freight rec'd from connections (number of cars)	Oct. 25	742,077	745,287	729,165	746,834
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction					
Private construction	Oct. 30	$82,237,000	$141,719,000	$166,812,000	$109,385,000
Public construction	Oct. 30	33,509,000	84,959,000	130,241,000	75,090,000
State and municipal	Oct. 30	48,728,000	56,760,000	36,571,000	34,295,000
Federal	Oct. 30	44,894,000	50,306,000	24,563,000	30,530,000
	Oct. 30	3,834,000	6,454,000	12,008,000	3,765,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)					
Pennsylvania anthracite (tons)	Oct. 25	12,635,000	*12,645,000	12,300,000	12,760,000
Beehive coke (tons)	Oct. 25	1,230,000	1,223,000	1,278,000	1,292,000
	Oct. 25	131,700	*133,100	134,400	121,200
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Oct. 25	307	299	316	287
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 1	5,009,286	4,963,816	4,934,851	4,628,353
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Oct. 30	70	81	81	22
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)					
Pig iron (per gross ton)	Oct. 28	3.19141c	3.19141c	3.19141c	2.73011c
Scrap steel (per gross ton)	Oct. 28	$36.96	$36.96	$36.93	$28.13
	Oct. 28	$42.58	$41.83	$37.75	$19.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at					
Export refinery at	Oct. 29	21.200c	21.200c	21.225c	14.150c
Straits tin (New York) at	Oct. 29	21.375c	21.300c	21.425c	17.425c
Lead (New York) at	Oct. 29	80.000c	80.000c	80.000c	52.000c
Lead (St. Louis) at	Oct. 29	15.000c	15.000c	15.000c	8.250c
Zinc (East St. Louis) at	Oct. 29	14.800c	14.800c	14.800c	8.100c
	Oct. 29	10.500c	10.500c	10.500c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds					
Average corporate	Nov. 3	†102.62	†102.84	----	†104.02
Aaa	Nov. 3	113.50	113.70	114.66	116.61
Aa	Nov. 3	118.60	118.80	119.20	121.04
A	Nov. 3	116.80	116.80	117.60	119.20
Baa	Nov. 3	113.31	113.50	114.85	116.22
Railroad Group	Nov. 3	105.86	106.04	107.27	110.15
Public Utilities Group	Nov. 3	108.16	108.52	109.60	112.19
Industrials Group	Nov. 3	115.24	115.25	116.02	117.60
	Nov. 3	117.20	117.60	118.20	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds					
Average corporate	Nov. 3	†2.32	†2.31	----	†2.24
Aaa	Nov. 3	2.98	2.97	2.92	2.82
Aa	Nov. 3	2.72	2.71	2.69	2.60
A	Nov. 3	2.81	2.81	2.77	2.69
Baa	Nov. 3	2.98	2.98	2.91	2.84
Railroad Group	Nov. 3	3.41	3.39	3.32	3.16
Public Utilities Group	Nov. 3	3.27	3.25	3.19	3.05
Industrials Group	Nov. 3	2.89	2.89	2.85	2.77
	Nov. 3	2.79	2.77	2.74	2.65
MOODY'S COMMODITY INDEX	Nov. 3	443.9	448.3	440.2	356.4
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods					
Fats and oils	Nov. 1	228.7	238.6	232.9	201.9
Farm products	Nov. 1	235.5	238.6	245.0	280.1
Cotton	Nov. 1	256.7	270.7	265.5	224.0
Grains	Nov. 1	306.4	315.3	290.5	286.4
Livestock	Nov. 1	288.2	308.3	295.4	215.6
Fuels	Nov. 1	246.5	261.3	262.3	222.2
Miscellaneous commodities	Nov. 1	195.0	195.0	190.3	154.2
Textiles	Nov. 1	172.9	173.0	169.3	151.1
Metals	Nov. 1	217.0	217.6	214.2	201.0
Building materials	Nov. 1	159.6	159.5	159.1	125.0
Chemicals and drugs	Nov. 1	232.6	232.7	226.6	184.5
Fertilizer materials	Nov. 1	154.5	154.5	151.5	128.2
Fertilizers	Nov. 1	135.5	135.5	135.6	122.4
Farm machinery	Nov. 1	136.9	136.9	135.7	125.1
All groups combined	Nov. 1	128.3	127.1	127.1	116.6
	Nov. 1	212.0	217.2	213.2	181.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)					
Production (tons)	Oct. 25	169,061	162,060	180,644	155,140
Percentage of activity	Oct. 25	182,173	185,868	183,554	175,440
Unfilled orders (tons) at	Oct. 25	101	101	102	101
	Oct. 25	431,860	445,358	437,550	572,188
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Oct. 31	147.9	146.2	144.5	147.1
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities					
Farm products	Oct. 25	158.0	157.9	156.2	135.9
Foods	Oct. 25	190.7	190.9	184.7	170.1
Hides and leather products	Oct. 25	176.2	178.5	177.6	169.9
Textile products	Oct. 25	191.3	190.4	186.2	143.3
Fuel and lighting materials	Oct. 25	142.1	141.2	140.8	126.5
Metal and metal products	Oct. 25	117.4	115.7	115.0	95.0
Building materials	Oct. 25	151.3	151.1	150.4	114.4
Chemicals and allied products	Oct. 25	184.4	184.0	182.0	134.2
Housefurnishings goods	Oct. 25	126.9	124.7	123.6	99.5
Miscellaneous commodities	Oct. 25	132.9	132.7	131.9	115.9
	Oct. 25	117.1	116.5	114.9	103.7
Special groups—					
Raw materials					
Semi-manufactured articles	Oct. 25	177.0	176.0	171.1	153.0
Manufactured products	Oct. 25	154.1	152.4	151.3	117.7
All commodities other than farm products	Oct. 25	150.6	151.1	150.9	131.7
All commodities other than farm products and foods	Oct. 25	150.9	150.8	150.0	128.5
	Oct. 25	140.2	139.3	138.2	113.1

*Revised figure. †Figures are for taxable securities; previous figures given were for non-taxable.

	Latest Month	Previous Month	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons) —Month of September	6,775,158	*6,982,086	6,555,566
†Shipments of steel products, including alloy and stainless (net tons)—Month of August	5,278,223	4,974,566	4,994,377
AMERICAN ZINC INSTITUTE, INC.—Month of September:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	67,853	66,852	58,475
Shipments (tons of 2,000 lbs.)	63,500	59,653	65,927
Stock at end of period (tons)	195,260	190,917	230,161
Unfilled orders at end of period (tons)	38,041	40,028	42,186
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of September:			
Total construction	$1,470,000,000	*$1,439,000,000	$1,237,000,000
New construction	1,262,000,000	*1,238,000,000	1,066,000,000
Private construction	950,000,000	*935,000,000	800,000,000
Residential building nonfarm	475,000,000	*460,000,000	356,000,000
Nonresidential building nonfarm	276,000,000	*267,000,000	315,000,000
Industrial	141,000,000	*140,000,000	167,000,000
Commercial	82,000,000	*75,000,000	95,000,000
All other	53,000,000	*52,000,000	53,000,000
Farm construction	65,000,000	75,000,000	50,000,000
Public utilities	134,000,000	*133,000,000	79,000,000
Public construction	312,000,000	303,000,000	266,000,000
Residential building	9,000,000	*9,000,000	54,000,000
Nonresidential building (except military and naval facilities)	48,000,000	*45,000,000	35,000,000
Industrial	2,000,000	2,000,000	9,000,000
All other	46,000,000	*43,000,000	26,000,000
Military and naval facilities	24,000,000	*24,000,000	16,000,000
Highways	140,000,000	*135,000,000	93 000,000
Sewer and water	27,000,000	*27,000,000	26,000,000
Conservation & development	42,000,000	42,000,000	29,000,000
All other public	10,000,000	*10,000,000	3,000,000
Minor building repairs	208,000,000	*201,000,000	171,000,000
Residential building nonfarm	73,000,000	*70,000,000	47,000,000
Nonresidential building nonfarm	70,000,000	*68,000,000	69,000,000
Farm	65,000,000	*63,000,000	55,000,000
COTTON GINNING (DEPT. OF COMMERCE)—Prior to Nov. 1:			
Running bales	6,767,485	3,898,767	4,315,818
COTTON SPINNING (DEPT. OF COMMERCE—			
Spinning spindles in place Sept. 30	23,807,000	23,807,000	23,876,286
Spinning spindles active on Sept. 30	21,410,000	21,197,000	21,638,733
Active spindle hours, September	9,427,000,000	9,034,000,000	9,037,485,750
Average spindle hours per spindle in place September	396	379	379
EMPLOYMENT AND PAYROLL — U. S. DEPT. OF LABOR—Month of August:			
Estimated number of production workers in manufacturing industries—			
All manufacturing	12,596,000	12,276,000	12,101,000
Durable goods	6,394,000	6,309,000	6,160,000
Non-durable goods	6,202,000	5,967,000	5,941,000
Employment indexes—			
All manufacturing	153.8	149.9	147.7
Durable goods	177.1	174.7	170.6
Non-durable goods	135.4	130.3	129.7
Payroll indexes—			
All manufacturing	322.4	313.9	284.4
Durable goods	357.2	*350.4	316.1
Non-durable goods	288.4	*278.1	253.4
Estimated number of employees in manufacturing industries—			
All manufacturing	15,537,000	*15,209,000	14,876,000
Durable goods	7,781,000	*7,694,000	7,486,000
Non-durable goods	7,756,000	7,515,000	7,390,000
FACTORY EARNINGS AND HOURS WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR—Month of Sept.—			
Earnings—			
All manufacturing	$50.42	*$49.21	------
Durable goods	53.96	*52.56	------
Non-durable goods	46.79	*45.75	------
Hours—			
All manufacturing	40.3	*39.8	------
Durable goods	40.5	*40.0	------
Non-durable goods	40.1	*39.5	------
Hourly Earnings—			
All manufacturing	$1.251	*$1.238	------
Durable goods	1.332	*1.313	------
Non-durable goods	1.168	*1.159	------
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE—Month of August:			
Shipments (short tons)	62,404	64,162	67,903
For sale (short tons)	38,165	40,733	41,345
For producers' own use (short tons)	24,239	23,429	26,558
Orders booked, less cancellations, for sale (short tons)	33,244	26,591	41,935
Unfilled orders, end of month, for sale (short tons)	229,735	234,656	272,571
PRICES RECEIVED BY FARMERS—INDEX NUMBER—U. S. DEPT. OF AGRICULTURE—August, 1909-July, 1914=100— As of Oct. 15:			
Unadjusted—			
All farm products	289	286	273
Crops	261	254	244
Food grain	302	278	218
Feed grain and hay	284	297	222
Feed grain	327	346	249
Tobacco	357	352	410
Cotton	247	252	304
Fruit	166	181	208
Truck crops	238	179	151
Oil-bearing crops	344	311	255
Livestock and products	313	315	299
Meat animals	360	367	318
Dairy products	283	282	300
Poultry and eggs	251	246	257
Seasonally adjusted:			
Fruit	174	180	214
Truck crops	314	253	196
Dairy products	270	278	286
Poultry and eggs	227	236	237
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)—Month of August:			
Production (M sq. ft., 3/8-in. equivalent)	137,042	*107,574	126,631
Shipments and consumption (M sq. ft., 3/8-in. equivalent)	132,718	*102,457	124,891
Stocks (M sq. ft., 3/8-in. equivalent) at Aug. 31	37,995	*35,937	33,773
Consumption of logs (M. ft., log scale)	60,554	*48,206	56,527
Log stocks (M ft., log scale) at Aug. 31	187,264	*166,896	152,830

*Revised figure. †Corrected statement.

Implications of the Bill of Rights

(Continued from page 16)

be purchased or imported. They are products of time and of experience.

My emphasis on the fact that our civil rights are our most distinctive characteristic is to underline not our superiority but our responsibility. We must be alert that we do not emulate totalitarian regimes by curtailing the press, by supressing free speech, by persecuting a minority, whether racial or political. We must make sure our civil rights are extended to all groups, regardless of race, creed, color or political faith. We must make certain that the glory of our civil rights is not confined to their illustrious history but is found in their application in the voting booths, assembly halls, and courts of the country, in their observance throughout the precincts and county seats of the land, in the respect which the citizens of our villages and cities give to them.

The responsibility for making our civil rights an active, potent force in our national life is in large measure a special responsibility of the Bar.

A fairly recent episode in a western town illustrates what I mean, though it is, I hope and believe, an isolated one. A man was haled into court on a minor charge which could not be proved, even though he was not granted the privilege of having counsel defend him. But the prosecutor and the judge were convinced that the community should be rid of the man. Their prejudice against him was not color or race. Nor was he a vagrant. He was gainfully employed and had no police record. But he had physical characteristics which gave him an unwelcome appearance. And to some his ungainly, shuffling walk made him appear to be a menacing figure. The judge, the prosecutor and the sheriff had a conference. The judge instructed the sheriff to take the defendent to the county line and advise him that he would be jailed if he ever returned to that county. The sheriff obeyed.

This was an ignorant man — a man without friends, influence, money, or counsel. He was stripped of his liberties, not by private citizens but by a court. That was done not by the standards of law nor in accordance with constitutional procedural requirements, but by totalitarian methods. It is, of course, shocking to everyone when a court becomes a lawless agent of a community. But equally shocking to me was that in this instance no lawyer in the community raised his voice in protest.

We are apt to think of legislatures, of the police, or of other agents of the executive, as the tyrants to be feared. But judges too can be tyrants. And a bar which is cowed by a lawless judge is not worthy of its great traditions.

It was the fear of courts, as well as the fear of prosecutors, police, and legislatures, which led to the inclusion in our Bill of Rights of numerous procedural safeguards for criminal trials. They were, as Madison stated, safeguards interposed between the people and "the magistrate who exercises the sovereign powers." They were embedded in our charter of government to place them beyond legislative reach.

The requirement of indictment by grand jury, the protection against self-incrimination, the prohibition against unreasonable searches and seizures, the requirement for a speedy and public trial, the necessity that an accused be confronted with the witnesses against him, the right to compulsory process for obtaining witnesses in his favor, trial by jury, the right to counsel—these are among the basic safeguards provided by the Constitution for protection of an accused against his government. Life and liberty, not property alone, thus receive the protection of due process of law.

Procedural Safeguards Essential

History has shown that without procedural safeguards neither judges nor juries can be trusted to mete out justice, that injustices flourish where procedural requirements are relaxed. Antedating the Bill of Rights was a long record of arbitrary action by courts. Fresh in the memory of the Fathers was the free use by courts of criminal punishments to suppress speech, press, and religion, the whisking away of defendants to far away places for trial, the use of torture to exact confessions, and the like. The sponsors of the Bill of Rights agreed in large measure with the Whig philosophy of Lord Camden that the unfettered discretion of a judge is "the law of tyrants." The tyrannies which afflicted the administration of justice had been tyrannies which courts had silently approved or actively promoted.

Procedure is more than formality. Procedure is, indeed, the great mainstay of substantive rights. If accusation and proof were easy, if the right to counsel were denied, if proof were not subjected to close scrutiny, if the accused, rather than the prosecution, carried the burden — then racial, religious or political prosecutions could easily become the order of the day. Exacting procedural requirements prevent prosecutors, judges, and juries from taking short cuts. They stand as a barrier to hasty, inflamed community action. They are some guarantee that a man's day in court be a real and genuine opportunity to defend and not a mere ritual to conceal a predetermination of guilt. Without procedural safeguards of the character embodied in our Bill of Rights, liberty would rest on precarious ground and substantive rights would be imperiled. Without these protections the poor and the ignorant, those charged with heinous crimes, those whose ideas are despised by the community, those whose race, color, religion, or politics make them an unpopular or suspected minority would more likely be victims of discrimination.

History denies that these restraints defeat the ends of justice by crippling the prosecution and discouraging the detection of crime and the conviction of criminals. All they do defeat are the lazy habits of those police who prefer to use a whip rather than their wits to solve a mystery.

Those who champion the constitutional rights of minorities, who insist that members of all minority groups, including Communists and Fascists, be given a fair trial, who maintain that bar associations should actively concern themselves with protection in criminal trials of constitutional rights of those unable to protect themselves, are often severely criticized. They are, in fact, frequently dubbed Communists, fellow-travelers, or other subversive agents.

It is ironic that such criticism should be made, especially in legal circles. For both Communism and Fascism, as practiced, are obviously the negation of the whole philosophy of the Bill of Rights. Certainly he who maintains that the Bill of Rights should be enforced with vigor and given full vitality is championing the democratic scheme of things, not Communism or Fascism. He is a disciple of Thomas Paine and of Thomas Jefferson, not of Lenin or of Hitler. One might as well maintain that he who is charged with treason should have no defender, even though the Constitution surrounds him with special safeguards, and that he who defends him is likewise suspect.

Anglo-American Tradition of Liberty

If that had been the Anglo-American tradition, one of the most brilliant chapters in liberty would never have been written. I refer to the courageous and powerful advocacy of Thomas Erskine in Westminster Hall in the 18th century—a crucial chapter in history recently brought vividly to life by Stryker in his stirring book, "For the Defense." Erskine, without fear and with compromise, opposed his government, faced a nation aroused to fever pitch over the spectre of revolution, and defended without flinching the rights of Thomas Paine and other 18th century champions of liberty. The victories Erskine won gave freedom of speech and of press new vitality. Even the conviction of Thomas Paine, in spite of Erskine's brilliant defense, may well have had a sobering effect on English thought. In any event, it is plain that as a consequence of his moving advocacy, freedom of speech and of press became real guarantees that man could without fear of punishment criticize his rulers for their practices. Those freedoms became the tools whereby the people—the source of all the powers of government, as Thomas Paine eloquently maintained—could be a potent, active force in the affairs of state. They became the means of curbing a lawless or oppressive government, for promoting reforms, for making liberty more secure even for the humblest citizen.

Such was the power of advocacy of the great Erskine. The rewards of advocacy today in the field of civil liberties can be as enduring. Courageous advocacy by a militant Bar can give us, through consistent application of the Bill of Rights, renewed claim to the decencies of western civilization. Such performance on our part will, indeed, make the Bill of Rights an increasingly potent force in world affairs.

The illness of the world cannot be cured by material things alone. Men want food, of course. And food they must have. But as a wise Chinese philosopher and statesman has put it—a full rice bowl is the beginning not the end of man's struggle. Men also want freedom. And none has yet designed a more open road to freedom than that suggested by our Bill of Rights.

Perhaps none would appreciate as much as a lawyer the importance of the right to counsel. The full right to counsel in prosecutions for felonies was not recognized in England until 1836. But its importance was recognized by the colonies early in the history of this country. Thus, in 1669 the Colonial Assembly of Rhode Island enacted that any person who was indicted might employ an attorney to plead in his behalf. Before the adoption of our constitution, like provisons appeared in the constitutions of the several States. The importance of this guarantee of the Sixth Amendment has never been better stated than by Mr. Justice Sutherland in Powell v. Alabama, 287 U. S. 45, 68-69.

"The right to be heard would be, in many cases, of little avail if it did not comprehend the right to be heard by counsel. Even the intelligent and educated layman has small and sometimes no skill in the science of law. If charged with crime, he is incapable, generally, of determining for himself whether the indictment is good or bad. He is unfamiliar with the rules of evidence. Left without the aid of counsel he may be put on trial without a proper charge, and convicted upon incompetent evidence, or evidence irrelevant to the issue or otherwise inadmissible. He lacks both the skill and knowledge adequately to prepare his defense, even though he have a perfect one. He requires the guiding hand of counsel at every step in the proceedings against him. Without it, though he be not guilty, he faces the danger of conviction because he does not know how to establish his innocence. If that be true of men of intelligence, now much more true is it of the ignorant and illiterate, or those of feeble intellect."

Have Been Lax in Our Practices

At times, however, we have been lax in our practices, and all too often have failed to give an accused counsel either before he enters his plea or stands for trial. The Court in recent years has had occasion to pass on several cases involving the point. The relevance of the matter here is not so much what the Court has ruled but what local authorities have done to make sure that their trial courts conform to the constitutional standards.

In 1945 the Missouri Supreme Court, acting in conjunction with its Judicial Conference, took steps to make sure when a prisoner appears without counsel in a felony case that his right to counsel is protected. A new revised procedure was adopted for all such cases to provide that the prisoner be informed of his right to counsel and in fact have counsel before he pleads or stands for trial, unless an intelligent waiver is made. New forms of pleas of guilty and sentence and judgment, designed to make the record show precisely what transpired, were also adopted. The State thus protects itself against subsequent false claims of denial of the right to counsel. And an accused is protected against being a victim either of his own ignorance or of the laxity of a trial judge.

Missouri's action is a statesmanlike endeavor to satisfy the constitutional right to counsel in felony cases. The procedure wherever adopted cannot help but have a wholesome, cleansing effect. It is additional assurance that in America courts will not become adjuncts of the police. It is an added guarantee that justice will not lose by default in our courts; that he poor and the ignorant, as well as the rich and the educated, will be the beneficiaries of our standards for a fair trial.

Disregard of civil liberties by private groups is sometimes understandable. But courts and their officers have special responsibilities to maintain those rights. What they do sets the tone for the whole community. It is in and around the court rooms of the land, not in the history books, that the vitality of the Bill of Rights is to be found.

It is a special responsibility of the Bar to see to it that the administration of justice conforms to constitutional standards, that the shackles of the law are not placed on freedom of expression or on freedom of religion.

It is, of course, natural to find the Bar engrossed in those subjects which occupy the time of members in their practice of law. Most do not practice criminal law and administration of justice in the criminal courts is thus not prominent on the agenda.

But it is a healthy sign to find this attitude changing. Committees on the Bill of Rights are increasing. The realization is growing that while our democratic scheme of life is under mounting criticism and challenge by those who would destroy it, one of the most important tasks confronting us is to eliminate the justifiable criticisms which are leveled against it. If in practice we live up to the ideals of the Bill of Rights, we will have made great progress in that direction. We will have brought greater unity and cohesion into our national life. For we will have eliminated from the American scene many of the elements and influences which are divisive in character. Moreover, we will have won new prestige for a government of laws. When there is integrity in law enforcement practices, there will be respect for the administration of justice.

The Work of the Bar

The great work of the Bar in this field is not to be found in the cases which have reached the high tribunals. Those cases have the light of publicity already on them and have elicited the energies of counsel. The field which can most profitably be patrolled is the local one.

What goes on in the jails? How long are prisoners kept incommunicado before being booked? Are they booked on fictitious charges to conceal another charge not yet established? Do third-degree practices go on behind the closed doors of police stations? Are the odious general warrants reentering the American scene? Does the police system follow totalitarian lines by putting force ahead of brains in crime detection? Do prisoners — no matter what their race, wealth, or social standing—enjoy the right to counsel? Are juries drawn without discrimination? Is there censorship of ideas in the community?

Some committees are getting startling answers to some of these questions. And the information they have obtained is enabling them to proceed with intelligent, practical programs of reform.

None of these questions presents major problems in many communities. But in many others they do. Some of them can be corrected by simple procedural changes. Others involve more drastic reforms. Some may even entail a reeducation of a community. But whether the particular task is big or small, it has peculiar challenge to the Bar. It is in keeping with the great tradition of the Bar for it to become the vanguard of these reforms.

Madison in championing the Bill of Rights stated that "The prescription in favor of liberty ought to be leveled against that quarter where the greatest danger lies, namely that which possesses the highest prerogative of power." And so the Bill of Rights is not only a curb on all executive agencies, on the legislatures, and on the courts. It is in its ultimate reach a check on a majority of the people—the source of all sovereignty—in favor of a minority.

The Bar can reeducate America in that tradition. By its advocacy the Bar can give added assurance that we will not sacrifice the great purpose of the Bill of Rights even when we deal with the minority that seeks to confuse and divide us. It can make sure that neither race, color, religion, nor political faith will affect the measure of justice in America.

The Banks Under Federal Deposit Insurance

(Continued from page 14)

bank in a town or where existing competitors will not assume liabilities and assets are obvious. It is the logical vehicle for depositor and community protection, in our opinion, and will be used wherever possible.

In the early years of its operation, the corporation was forced by circumstances to devote the major part of its attention to bank assets. Despite the more than one billion dollars of RFC capital poured into the banks and despite the millions of dollars that were absorbed through stockholders' assessments and deposit waivers in the early thirties, there were still on our bank's books hundreds of millions of dollars of assets that were worthless or substandard when Federal Deposit Insurance Corporation began operations. During the first two years of its existence, after calm appraisal became possible, the corporation devoted its energies to locating and analyzing concentrations of these unsatisfactory assets throughout the banking system. As soon as authority was granted by the Banking Act of 1935, the corporation moved immediately, in conjunction with state bank supervisors and the Comptroller of the Currency to clean up those concentrations of deadwood.

Meanwhile, and again in conjunction with supervisory authorities, we set about preventing deterioration in assets that were then acceptable or that subsequently were to be acquired. We began, as you will recall, with requirements that charge-offs or valuation allowances be taken care of out of current earnings before stockholders' dividends were declared. Then, in a series of conferences culminating in 1938, supervising authorities reached agreement on improved methods of asset appraisal and classification which were designed to reflect intrinsic worth and to minimize the effect of day-to-day market fluctuations. Theretofore, it was common practice for supervisors to characterize one category of assets as "slow." The revised standards called upon examiners to classify assets basically in terms of relative credit risk. In addition, a fundamental change was made in supervisory appraisal of bond investments. For issues of investment merit valuation at market was abandoned and cost, less proper amortization, was substituted. These changes may fall short of perfection, but they are advances in supervisory methods that will help to make our banking system work in an era of economic change.

Then came the war and its upward pressure on prices, which enabled many banks to salvage something from assets that previously had appeared to be worthless. Parenthetically, I must say that the wartime boost in prices, in addition to helping the banks, was a great factor in the recovery record of the Federal Deposit Insurance Corporation on its outlays for protection of depositors. I shall cite that record later.

So, through earnings and through asset appreciation, the banks were able to streamline and to modernize their pouches and their portfolios. They benefited and we at Federal Deposit Insurance Corporation drew a few deep breaths in the knowledge that another housecleaning had taken place.

Upward Trend of Risk Assets

There currently is a sharp uptrend in banks on the so-called risk assets. Real estate loans increased more than a billion dollars between Dec. 31, 1946 and June 30, 1947. Commercial and industrial loans continued to rise, gaining $750,000,000 during the six months. Consumer loans grew 21% during the six months and the rate of growth will accelerate with the demise of Regulation W on Nov. 1.

We at the Federal Deposit Insurance Corporation regard this trend as healthful, rather than ominous. We think it highly desirable that banks assume risks, so long as they charge rates commensurate with the risks and so long as they make adequate provision out of earnings for that portion of the risk which is likely to materialize. We have urged special care on the part of bankers in extending real estate loans at present inflated prices; we have urged that, even with the abandonment of Regulation W, banks continue to require high downpayments and shorter periods of amortization. Since bankers associations almost unanimously have echoed these sentiments, we have little fear of a sudden flight into the "Never-never Land" of uncontrolled inflation by our banks.

Those factors I mentioned before—knowledge of past mistakes, alertness to new developments, and foresighted planning—all are working against the excesses which characterized previous periods of banking difficulty. In addition, we have vigorous and united supervisory agencies working to detect and arrest the development of any dangerous trends in bank assets. Finally, we have in Federal Deposit Insurance Corporation both a record of achievement that makes depositors confident in their security and a potential $4,000,000,000 reservoir that should allay their fears about any mistakes of judgment you bankers or we in Government might make.

In short, the bank asset problem was brought to check ten years ago, and still is under control.

Mistakes in the judgment of bank lending officers have become less frequent, but there still is in plentiful supply that "glue on the fingers" aspect of human frailty that makes so important the work of you men in your banks.

Better Auditing

It is not hard to see why we at Federal Deposit Insurance Corporation agree with your association's slogan, "The better the auditor, the safer the bank." In many cases in which we have been called upon to help depositors in the past, peculation by trusted officers and employees of the banks, in amounts that exceeded the bank's capital and its surety coverage, have been the direct cause of difficulty. With assets in good condition and under constant supervision, this source of loss will continue to be our greatest concern.

It is impracticable for a bank examiner, even in very small banks, to make anything like a complete audit during the course of a regular examination. A certain amount of audit procedure is followed and, as a rule, the smaller the bank and the less chance it has for introducing systems of internal audit control, the further the bank examiner's audit is carried. The examiner's chief concern, however, is to induce bank management to set up adequate internal controls and, in every case where the bank is large enough, to establish an independent auditing department.

During the ten-year period following enactment of the Banking Act of 1935, more than 1,200 irregularities were reported to prosecuting authorities by Federal Deposit Insurance Corporation examiners. These did not include irregularities found and reported by examiners of the other agencies. They ranged from nominal amounts to amounts big enough to bring about insolvency.

The two principal safeguards against these peculations are, of course, ample fidelity coverage and a well organized audit control designed to discourage employees from taking chances. The Federal Deposit Insurance Corporation is empowered by law to require all insured banks to maintain adequate fidelity coverage. The law gives the Corporation the right, in the case of a bank which refuses to provide adequate coverage, to purchase such coverage for the bank and to add its cost to the bank's Federal Deposit Insurance Corporation assessment. We have preferred so far, however, not to resort to this expedient but rather to rely upon the cooperative efforts of all State and Federal bank supervisory authorities to sell banks on the wisdom of full insurance protection against all types of losses. The results of these efforts during the past ten years have been gratifying, but there are too many banks that are carrying inadequate surety coverage, even at the reasonable rates prevailing today.

To further minimize the effects of "Human Frailty" I believe that every bank should provide its employees with "shock absorbers" against the more common financial emergencies that are likely to overtake salaried people. I am thinking of such things as group health, accident and life insurance and group hospitalization for employees and their families. This sort of protection can be carried at very reasonable rates, especially when its cost is shared by the bank and its employees, and its use would certainly remove one of the most common causes for stealing.

I believe also in the establishment of retirement plans for bank employees. There are very few banks where such plans can not be financed without too great a drain on earnings. Equitable promotion plans are another safeguard against rebellious wrongdoing. If every employee feels that his chances of promotion are just as good as those of his coworkers, he will have much more incentive to make the bank his lifework and much less temptation to steal what he thinks he never will be able to get rightfully.

In this connection, I recommend to your attention the booklet, "Safeguards Against Human Frailty," written by Vance Sailor, Chief of the Corporation's Division of Examination, sections of which I have paraphrased above. Colonel Sailor cites book, chapter, and verse on some of the cases that have caused the Corporation financial outlay during recent years and suggests remedies that you, as well as we, should urge upon the banks that have dealings with you and that come to you for advice.

Your association has done admirable and extremely valuable work in setting up standards of internal audit control for small banks that cannot afford a complete auditing department. You may be sure that we appreciate your efforts and that we shall do everything we can to help you spread the gospel.

In addition, we must urge that fidelity and other insurance be provided in amounts sufficient to protect banks against all insurable hazards. In this connection, the "fair" coverage recommended by the Insurance and Protective Committee of the American Bankers Association will be our goal.

Both True and Timely

"There are increasing burdens on municipalities just as there are on state and national governments. But if local government is to exist, it must be responsible and accept its own burdens without running constantly to the state and national governments for help.

"Scarcely a day goes by but what some locality in the state (of New York) wants the state government to take over the headaches caused by its own mismanagement. I decline to accept the philosophy that our people are unable to run their own affairs in their own communities. I do believe very deeply that the further government gets away from the people the worse it gets.

"Our job in this country is to bring government closer to the people and to keep its functions where they can keep their hands on them. Only in that way can expenses be kept within reason and only in that way can we keep the roots of our system firm and strong.

"If our local governments are going to wither away because of incompetence or because of financial control by a central government then we shall move as rapidly as our Left Wingers wish us to move in the direction of an all-powerful central government."—Governor Thomas E. Dewey.

Yes, all that and more.

Communities are much less likely to be extravagant and wasteful if they are dispensing funds they themselves must provide.

Profligacy is certain when funds are provided by some one else.

Questions Adequacy of Bank Lending Rates

Economics Dept. of Bankers Trust Company points to declining bank profits in 1947. Says banking is one business which has not been able to raise price of its product.

Net profits of the New York City banks in 1947 and 1948 are expected to be almost 20% lower than in 1946 and about 40% below the peak in 1945, according to a study prepared by the Economics Department of Bankers Trust Company, which was made public on Nov. 5. According to this analysis of the outlook for earnings of the 37 central reserve city banks in New York City, net profits after income taxes are expected to decline from $158 million in 1946 to $129 million in 1947, and to level off at about $128 million in 1948.

This decline in net profits, according to the report, raises a serious question as to the adequacy of bank lending rates. "Banking is one business which has not been able to raise the price of its product in the face of rapidly rising costs," the report states. It continues, "Even with some relaxation in the easy money policy of the Government in recent months, the increases in lending rates have been relatively minor. Banks are not getting a return on their loans sufficient to cover their increased operating costs, to build up capital funds, and to provide adequate reserves against the losses which will inevitably come when a change in the economic trend leads to business reversals. Banks must be prepared to meet the legitimate demands of expanding industry but this should be done on terms that will help to maintain a sound capital structure and a strong banking system."

The reduction in net profits from 1946 to 1948, the study points out, is expected to result largely from an increase in operating expenses and a sharp reduction in non-operating income. Current operating expenses are estimated to increase about $41 million or over 16% during the two years, while non-operating income is expected to decline throughout the period. Non-operating profits, which reached a peak of $89 million in 1945, dropped to $27 million in 1946 and are expected to fall to $8 million in 1947 and to less than $1 million in 1948. Most of this anticipated decrease, according to the report, will be due to lower recoveries and smaller profits on securities. Losses and charge-offs are not expected to increase substantially during the period.

A steady rise in income from loans is anticipated, according to the report, largely as a result of an expansion, over the two years, of about $1.3 billion in loans, chiefly business, real estate and consumer loans. Although the study foresees some increase in lending rates generally, the increases are expected to be relatively modest.

On the other hand, income from holdings of U. S. Government securities is expected to continue the decline which was evident in 1946. Holdings of Government obligations of the New York City banks are expected to drop from $12.6 billion on June 30, 1947 to approximately $11 billion by the end of 1948. The study anticipates that the banks will be able to earn somewhat higher rates on their holdings of short-term obligations but will be unable to replace redeemed bonds at terms attractive enough to maintain their average rate of income on bonds.

The report includes tables on various items of earnings, expenses and assets of the 37 New York City banks. It also gives the assumptions underlying the estimates. The study is based on the assumption that business will continue to be relatively active through 1948, and that there will be no run-away price rise or serious price collapse. The report assumes that while the monetary authorities will try to prevent conditions of great ease in the money markets, and in keeping with this policy will permit some further increase in the rates on short-term Government obligations, they are not likely to embark on a highly restrictive or contractionist credit policy.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Alden Wonderall Co., Minneapolis, Minn.
Oct. 31 (letter of notification) 37,300 shares of common. **Price**—$2 a share. **Underwriter**—Holley, Dayton & Gernon, Minneapolis. To pay liabilities and for working capital.

Allied Gas Co., Paxton, Ill.
Oct. 9 (letter of notification) 4,020 shares ($10 par) common. To be offered for subscription at $10 a share to common stockholders. Unsubscribed shares will be purchased by Merritt H. Taylor, President. For construction and expansion purposes.

• Allied Van Lines, Inc., Chicago
Oct. 31 (letter of notification) 29,000 shares of ($10 par) preferred. **Price**—$10 a share. No underwriting. For working capital.

American Cladmetals Co. (11/6-10)
Oct. 10 filed 1,000,000 shares ($1 par) common. **Underwriter**—Mercer Hicks & Co., New York. **Price**—$1.50 a share. **Proceeds**—To buy machinery and equipment for commercial operations.

American Fire and Casualty Co., Orlando, Fla.
Oct. 10 (letter of notification) 12,500 shares ($10 par) common. **Price**—$24 a share. Stock will be offered for subscription to stockholders on basis of one new share for each two shares held. **Underwriter**—Southeastern Securities Corp., Jacksonville, Fla. For investment in securities.

Americana Furniture, Inc., North Little Rock, Ark.
Oct. 23 filed 100,000 shares of 6% cumulative convertible preferred (par $5) and 100,000 shares (10¢ par) common and an additional 285,000 shares common issuable upon conversion of preferred and exercise of 35,000 common stock warrants to be sold to underwriters. **Underwriters**—Gearhart & Co., Inc., New York, and Herbert W. Schaefer & Co., Baltimore, Md. **Offering**—To be offered publicly in units of one share of preferred and one share of common. **Price** — $5.10 per unit. **Proceeds** — To finance completion of its factory and for working capital.

American-Marietta Co., Chicago (11/19)
Oct. 24 filed 130,0000 shares ($2 par) common. **Underwriter**—The First Boston Corp., New York. **Offering**—125,000 shares will be offered publicly and 5,000 to certain executive personnel. Price by amendment. **Proceeds**—To finance expansion of operations.

• American Steel & Pump Corp., New York
Oct. 31 filed 100,000 shares ($1 par) common. Underwriting to be filed by amendment. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind. **Business**—Holding company whose subsidiaries are engaged in production of castings.

Appalachian Electric Power Co., Roanoke, Va.
Oct. 29 filed $28,000,000 first mortgage bonds, due 1977, and 75,000 shares of cumulative preferred. **Underwriting**—The bonds will be offered at competitive bidding. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co. **Offering**—New preferred will be offered to holders of its outstanding 4½% cumulative preferred on the basis of one new share for each four shares held. **Proceeds**—For retirement of debt and partial financing of new construction.

Associated Telephone Co., Ltd. (11/12)
Oct. 16 filed $6,000,000 first mortgage bonds series D due 1977 and 150,000 shares of cumulative preferred stock (par $20). **Underwriters**—Names to be supplied through competitive bidding. **Probable Bidders**—Paine Webber, Jackson & Curtis; Stone & Webster Securities Corp., and Mitchum, Tully & Co. (jointly); White, Weld & Co.; Kidder, Peabody & Co., and Lazard Freres & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only). **Proceeds**—To reimburse treasury for capital expenditures. Statement became effective Oct. 31. **Bids**—Bids for purchase of securities will be received at company's office, Santa Monica, Calif., up to 8 a.m. (PST) on Nov. 12.

California Oregon Power Co. (12/1)
Oct. 28 filed 42,000 shares ($100 par) 4.70% series preferred and 42,000 shares ($20 par) common. **Underwriters**—Merrill Lynch, Pierce, Fenner & Beane, San Francisco, and E. M. Adams & Co., Portland, Ore. **Offering**—The preferred shares will be exchanged for outstanding shares of 6% preferred, series of 1927, on a share for share basis, with a cash adjustment. Preferred stock may be exchanged between Nov. 17 and Nov. 29. Unexchanged shares of new preferred and common will be sold publicly. **Price**—By amendment. **Proceeds**—To redeem unexchanged shares of old preferred.

California Water Service Co.
Oct. 21 filed $1,500,000 first mortgage 3¼% bonds, series C, to be sold through competitive bidding, and 15,652 shares of common stock (par $25). **Underwriter**—Common, Dean Witter & Co. Probable bidders for bonds: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Union Securities Corp. and Harris, Hall & Co. (Inc.) (jointly). **Proceed**—Will be used to retire $900,000 bank loans, to reimburse the treasury for expenditures on construction and for other corporate purposes.

Camden (N. J.) Fire Ins. Association (11/7)
Sept. 19 filed 100,000 shares ($5 par) capital stock. **Underwriter**—Butcher & Sherrerd, Philadelphia. **Offering**—Shares are offered to stockholders of record Oct. 22 in the ratio of one new share for each four shares held. Rights expire Nov. 6. Unsubscribed shares will be sold publicly. **Price**—$17 per share to warrant holders. **Proceeds**—To increase capital funds.
gram.

Carpenter Paper Co., Omaha, Neb.
Oct. 27 filed 40,000 shares ($1 par) common. **Underwriter**—Kirkpatrick-Pettis Co., Omaha. Price by amendment. **Proceeds**—To be added to general funds.

• Celotex Corp., Chicago
Oct. 31 filed $3,000,000 3¼% debentures, due 1960. **Underwriting**—Paul H. Davis & Co., Chicago, and Union Securities Corp., New York. Price by amendment. **Proceeds**—To repay bank loans and for working capital.

• Central Beverage Co., Scottsdale, Ariz.
Oct. 30 (letter of notification) 125,000 shares of common. **Price**—$1.15 a share. **Underwriter**—E. M. Fitch & Co., Inc., Philadelphia. For paying bank loans and for general corporate purposes.

Central Cooperative Wholesale, Superior, Wis.
Oct. 13 filed $750,000 of preferred stock. No underwriting. **Offering**—A portion of the stock will be offered for conversion of outstanding notes, on a dollar for dollar basis, and the balance will be offered to members and patrons eligible to become members. **Price**—From $25 to $25.75 from January to December, depending on the quarter in which the stock is sold. **Proceeds**—For construction of warehouse, expansion of inventories, and property additions.

Central Helicopters, Inc., Seattle, Wash.
Oct. 9 (letter of notification) $140,000 of 5% notes, due 1957, and 3,800 shares ($1 par) common. Notes to be sold at face amount and the common at $1 a share. **Underwriter**—H. P. Pratt and Co., Seattle, Wash. For reduction of current liabilities and purchase of additional helicopters.

Central Louisiana Electric Co., Inc., Alexandria, La.
Oct. 20 (letter of notification) 11,519 shares ($10 par) common. **Price**—$25.50 a share. Offered for subscription to stockholders of record Oct. 10 in ratio of one new share for each 9.6 shares held. Rights expire Nov. 17. To reimburse company's treasury.

• Central Power & Light Co.
Oct. 31 filed $6,000,000 first mortgage bonds, due 1977, and 40,000 shares of cumulative preferred stock (par $100). **Underwriters**—To be sold at competitive bidding. Probable bidders include Halsey, Stuart & Co. Inc. (bonds only); The First Boston Corp.; Kidder, Peabody & Co. The company plans to open bids for the issues on Dec. 8. Proceeds would be used for construction of additional generating capacity and for other facilities.

• Collene Laboratories, Inc., Newark, N. J.
Nov. 3 (letter of notification) 140 shares (no par) stock and $3,000 demand notes. To be sold through H. M. Collins, auctioneer (at auction block of Adrian H. Muller & Sons), 20 Vesey Street, New York, for the account of the sellers.

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.

Consolidated Edison Co. of N. Y., Inc. (11/18)
Oct. 17 filed $30,000,000 25-year 1st & refunding mtge. bonds, Series D. Underwriting to be determined by competitive bidding. **Probable Bidders**—Morgan Stanley & Co., The First Boston Corp., Halsey, Stuart & Co. Inc. **Proceeds**—To redeem $30,000,000 of 3½% 20-year debentures due 1958, at 102. **Bids**—Bids for purchase of bonds will be received up to 11 a.m. (EST) Nov. 18 at company's office, 4 Irving Place, New York City.

Consumers Cooperative Assoc., Kansas City, Missouri
Oct. 16 filed $1,000,000 4% non-cumulative common stock ($25 par); $4,000,000 of 3½% certificates of indebtedness cumulative; and $1,000,000 of 1½% loan certificates cumulative. No underwriting. **Offering**—To the public. Common may be bought only by patrons and members. **Price**—At face amount. **Proceeds**—For acquisition of additional office and plant facilities.

• Corporate Leaders of America, Inc.
Oct. 30 filed $10,000,000 of Corporate Leaders Trust Fund, series B, periodic payment certificates, and 433,528 participation; also $500,000 Corporate Leaders Trust Fund, series B, single payment certificates, and 22,383 participations. Sales agent is Corporate Leaders Sales Co., Inc.

• Delaware Power & Light Co.
Nov. 1 filed $10,000,000 1st mtge. coll. trust bonds, due 1977. **Underwriters**—To be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Harriman Ripley & Co.; The First Boston Corp. Proceeds would be used in connection with the company's construction program which involves an outlay of over $30,000,000 of additional generating, transmission and distribution facilities up to the end of 1949.

• Denver-Rangely Oil Interests, Inc., Denver, Colorado
Oct. 27 (letter of notification) 500,000 shares (10¢ par) stock. **Price**—7½ cents a share. **Underwriter** — H. J. Newton and A. B. Kamp & Co., both of Denver. To purchase oil and gas leases and drill test well.

Dodge Manufacturing Corp., Chicago
Sept. 30 filed $1,500,000 4% 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.

Doughboy Bottling Co., Pittsburgh, Pa.
Oct. 24 (letter of notification) 50,000 shares of 6% preferred ($5 par). **Price**—$5.75 a share. **Underwriter**—McLaughlin, MacAfee & Co., Pittsburgh, to acquire and equip a bottling plant.

East Utah Mining Co., Salt Lake City
Oct. 27 filed 1,075,000 shares (10¢ par) common. **Underwriter**—F. Eberstadt & Co., New York. **Offering**—To be offered to common stockholders at 30¢ a share. Unsubscribed shares will be offered publicly. **Proceeds**—To develop mining properties in Wasatch County, Utah. **Business**—Mining 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
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.

• Finch Telecommunications, Inc., New York
Oct. 30 (letter of notification) 500 shares of capital stock (par $1). **Price**—$4.50 per share. **Underwriter**—Littlefield & Co., Providence, R. I., will act as agent. **Proceeds**—To selling stockholder.

Forest Lawn Co., Glendale, Calif.
Oct. 7 (letter of notification) $295,000 3% debenture, series B, due 1967. To be sold to Forest Lawn Memorial-Park Association, Inc., at par, plus accrued interest. For capital improvements or investments.

Fraser Products Co., Detroit, Mich.
Oct. 21 filed 100,000 shares ($1 par) common. **Underwriters** — Campbell, McCarty & Co., and Keane & Co., both Detroit. **Price**—$7 a share. **Proceeds**—The shares are being sold by 14 stockholders who will receive proceeds.

Gabriel Co., Cleveland
Oct. 24 (letter of notification) 10,000 shares ($1 par) common, on behalf of Wm. H. Miller, a director of the company, to be sold at market. **Underwriter**—Sills, Minton & Co., Chicago.

• Gauch & Browner, Inc., East Orange, N. J. (11/12)
Nov. 3 (letter of notification) 250 shares of 8% cumulative preferred stock (par $100). **Price**—$100 per share. Underwriter, none. Purchase of merchandise, etc.

NEW ISSUE CALENDAR

November 6, 1947

American Cladmetals Co.........Common
New York New Haven & Hartford RR.........Equip. Trust Ctfs.

November 7, 1947

Camden Fire Ins. Co.........Capital Stock
Mass. Bonding & Insurance Co.........Capital Stock
Wisconsin Public Service Co.........Bonds

November 12, 1947

Associated Telephone Co. Ltd. 8:00 a.m. (PST).........Bonds and Pref.
Wheeling & Lake Erie RR.........Equip. Trust Ctfs.

November 13, 1947

Heyden Chemical Co.........Debentures
Peabody Coal Co.........Bonds

November 17, 1947

Liberty Loan Corp.........Pref. and Common

November 18, 1947

Consolidated Edison Co. of N. Y. Inc. 11 a.m. (EST).........Bonds
Interstate Department Stores, Inc.........Debenture
Rowe Corp.........Common

November 19, 1947

American-Marietta Co.........Common

November 25, 1947

Harbor Plywood Corp.........Common
Southwestern Investment Co.........Pref. and Common

December 1, 1947

California Oregon Power Co.........Pref. and Common

December 4, 1947

Phillips Petroleum Co.........Common

Graham-Paige Motors Corp., N. Y. (11/10-14)
Oct. 17 filed 233,320 shares ($1 par) common. **Underwriter**—Allen & Co., New York. Price by amendment. **Proceeds**—To repay bank loans and for working capital.

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.

● **Hanson-Van Winkle-Munning Co., Matawan, N. J.**
Oct. 30 filed 21,000 shares ($3.50 par) common. **Underwriting** — The registration said that "the initial public offering is being made by Van Winkle Todd, of Matawan, N. J., and Harry P. Barrand, of Stamford, Conn., as underwriters by sale on the over-the-counter market of 100 shares each at the market price at the time of sale. In the event that any of the holders of the warrants exchange any such warrants for other than investment and offer the shares received for public sale, such offerer may be deemed an underwriter as that term is defined in the Securities Act of 1933." **Offering**—The shares are to be issued upon exercise of warrants issued on June 28, 1946. **Price**—Warrant holders are entitled to purchase 21,000 shares of common at $12.875 a share on and after June 28, 1947 up to June 27, 1948, or $14 per share to June 27, 1949. **Proceeds**—For general corporate purposes. **Business**—Manufactures products in the electroplating line, metal polishing line and supplies for plating and polishing departments.

Harbor Plywood Corp., Hoquiam, Wash. (11/25)
Oct. 24 filed 538,005 shares ($1 par) common. **Underwriters**—Eastman, Dillon & Co., New York, and First California Co., Inc., San Francisco. Price by amendment. **Proceeds**—To pay off bank loans and to finance construction of new facilities.

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.

Heyden Chemical Corp. (11/13)
Oct. 22 filed $6,000,000 15-year debentures. **Underwriter**—A. G. Becker & Co., Inc. Price by amendment. **Proceeds**—To pay off a bank loan and for expansion and additional working capital.

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. Offering postponed indefinitely.

Hilo (Hawaii) Electric Light Co.
Oct. 27 filed 25,000 shares ($20 par) common. **Underwriting** — None. Unsubscribed shares will be sold at auction after Dec. 22, when subscription warrants expire. **Offering**—For subscription to common stockholders on the basis of one share for each two held. Price at par. **Proceeds**—To repay bank loans and finance construction.

● **Hungerford Plastics Corp., Murray Hill, N. J.**
Nov. 3 (letter of notification) 5,000 shares of common stock (par 25¢). **Price** (market)—$4 per share. **Underwriter**—Buckley Brothers, Philadelphia. **Proceeds**—To selling stockholders.

Hy-Klas Food Products, Inc., St. Joseph, Mo.
Oct. 17 (letter of notification) $200,000 of 6% certificates of debentures, 10-year maturity, and 7,500 shares of $10 par common. The debentures will be sold at face amount and the common at $10 a share. No underwriting. To build bakery building.

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.

Indianapolis Power & Light Co.
Oct. 9 filed 50,000 shares ($100 par) cumulative preferred. **Underwriters**—To be supplied by amendment (possibly Lehman Brothers). **Proceeds**—For new construction purposes.

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.

● **Interstate Department Stores, Inc. (11/18)**
Oct. 30 filed $5,000,000 15-year sinking fund debentures. **Underwriter**—Lehman Brothers, New York. Price to be filed by amendment. **Proceeds**—To repay bank loans and for general corporate purposes including the financing of new stores. **Business** — Operation of 48 retail stores in 14 states.

● **Keystone Steel & Wire Co., Peoria, Ill.**
Oct. 30 filed 41,270 shares (no par) common. **Underwriter**—Paul H. Davis & Co., Chicago. Price by amendment. **Proceeds** — Shares are being sold by National Lock Co., Rockford, Ill., a subsidiary. **Business**—Manufacture of steel wire and wire products.

Laurel (Md.) Harness Racing Association, Inc.
Oct. 23 filed $500,000 10-year 6% cumulative income debentures and 125,000 shares (1¢ par) common. No underwriting. **Price**—$1,001 per unit, consisting of $1,000 of debentures and 100 shares of common. **Proceeds**—Proceeds will be put in escrow and will not be used before definite dates for a meet have been assigned to the association by the Maryland Racing Commission.

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 (11/17)
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.

Lock Nut Corp. of America
Oct. 6 (letter of notification) 24,000 shares of 5% cumulative convertible preferred stock (par $12.50). **Underwriter**—Ray T. Haas, Chicago. **Price**—$12.50 per share. General 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. **Proceeds**—For expansion of business.

● **Massachusetts Investors Second Fund, Inc.**
Nov. 3 filed 400,000 shares of capital stock. **Underwriter**—Vance, Sanders & Co., Boston. Price based on market price. **Proceeds** — For investment. **Business** — Investment 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 Station, Pa. For expansion of business.

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 Telephone Co., Honolulu
Oct. 24 filed 150,000 shares ($10 par) preferred. No underwriting. **Offering**—The shares will be offered for subscription to common stockholders. **Price** — $10 a share. **Proceeds**—To pay off bank loans used to finance construction. **Business**—Telephone business.

Myer-Bridges Co., Louisville, Ky.
Oct. 24 (letter of notification) $250,000 6% cumulative preferred ($25 par). **Price**—$26.50 a share. **Underwriter**—The Bankers Bond Co., Louisville, Ky. To reduce bank loans and for working capital.

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 Nov. 6 on the basis of two shares of Nashville common in return for one share of Consolidated common and $18 cash. Rights expire Nov. 28. 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.

New England Butt Co., Providence, R. I.
Oct. 22 (letter of notification) 1,000 shares (no par) common. **Price**—$100 a share. **Underwriter**—Barrett & Co., Providence, R. I. For purchase of machinery and equipment and for working capital.

Northern Indiana Public Service Co., Hammond, Ind.
Oct. 29 filed 272,694 shares ($20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders on basis of one preferred share for each eight common shares held. Unsubscribed shares will be offered publicly. **Price**—$21 a share. **Proceeds**—To improve its public utility system.

Northwestern Public Service Co., Huron, S. D.
Oct. 28 filed 82,000 shares ($3 par) common. **Underwriting**—To be filed by amendment. **Offering**—For subscription by shareholders on the basis of one share for each five shares held. **Price**—By amendment. **Proceeds**—To be added to general funds.

Orange Concentrates Associates, Inc., Boston
Oct. 21 filed 108,000 shares ($1 par) common. No underwriting. **Offering**—The shares are owned by National Research Corp., parent of the registrant, and will be offered for purchase by its stockholders. **Price**—$7.75 a share. **Proceeds**—National Research will receive proceeds.

● **Pathe Industries, Inc., Cleveland, Ohio**
Oct. 31 (letter of notification) $300,000 of 5% convertible subordinated debentures, due 1957. **Underwriter**—Otis & Co., Cleveland. For additional working capital.

Peabody Coal Co., Chicago (11/13)
Oct. 23 filed $12,500,000 of 15-year series A first mortgage sinking fund bonds. **Underwriter**—Halsey, Stuart & Co., Inc., Chicago. Price by amendment. **Proceeds**—To finance construction of new mines and modernization of mining properties in Illinois.

● **Perfect Circle Corp.**
Oct. 30 (letter of notification) 5,000 shares ($2.50 par) capital stock. To be sold at market through A. G. Becker & Co., Chicago. The shares are being sold by Macy O. Teetor, of New Orleans.

● **Phillips Petroleum Co., New York (12/4)**
Oct. 31 filed 1,007,435 shares (no par) common. **Underwriter**—First Boston Corp., New York. **Offering**—For subscription by common holders of record Nov. 18 in the ratio of one new share for each five held. Rights expire Dec. 3. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—To repay bank loans and for working capital. **Business**—Oil and gas business.

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. Offering tentatively expected this month.

● **Pythian Hall Association of North America**
Oct. 31 (letter of notification) 2,000 shares each ($10 par) common and ($10 par) preferred. **Price**—$10 per unit. No underwriting. To erect building.

Reading (Pa.) Tube Co.
Oct. 28 filed 200,000 shares (no par) 50¢ cumulative class A and participating stock, 50,000 shares (10¢ par) class B stock, plus an indeterminable number of class B stock issuable upon redemption of the class A stock. **Underwriter**—Aetna Securities Corp., New York. **Offering**—Class A stock will be offered publicly and class B stock will be sold to stockholders. **Price**—$6 a share. **Proceeds**—To pay bank loans.

Rochester (Pa.) Glass Corp.
Oct. 17 (letter of notification) 1,000 shares ($100 par) common. **Price** — $100 a share. **Underwriter** — Kay, Richards & Co., Pittsburgh, Pa. To pay off debt and purchase equipment.

Rowe Corp., New York (11/18)
Oct. 27 filed 150,000 shares ($1 par) common. **Underwriter**—Hayden, Stone & Co., New York. Price by amendment. **Proceeds** — Shares are being sold by two stockholders—145,800 by Robert Z. Greene (President) and John F. Moran, of New York.

● **St. Mary's Groceries Inc., Leonardtown, Md.**
Nov. 3 (letter of notification) 4,000 shares each of 7% cumulative preferred and no par common. **Price**—$15 per unit, consisting of one share of each, to be sold through an officer of the company. For working capital.

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(Continued from page 45)

Sherer-Gillett Co., Marshall, Mich.
Oct. 24 (letter of notification) 10,000 shares ($1 par) common. **Price**—$6.50 a share. **Underwriter**—First of Michigan Corp., Detroit. For construction purposes and for working capital.

Silver Buckle Mining Co., Wallace, Idaho
Oct. 13 (letter of notification) 1,500,000 shares of (10c par) stock. **Price**—20 cents a share. **Underwriters**—F. E. Scott, Pennaluna & Co., J. E. Scott and Morris George, all of Wallace, Idaho, and John Erickson and Harold Gribble, both of Mullan, Idaho. For mine development.

● **Silverore Mines, Inc., Wallace, Idaho**
Oct. 28 (letter of notification) 1,345,000 shares of common. Company is selling 1,000,000 of the total and the balance is being sold by four stockholders. **Price**—15¢ a share. The company will offer the securities directly with the aid of L. E. Nicholls & Co. and W. T. Anderson, both of Spokane, Wash., as underwriters. The company will use its proceeds for mining operations.

● **Sligo Housing Corp., Inc., Bethesda, Md.**
Oct. 28 (letter of notification) 1,800 shares (no par) capital stock. **Price**—$23.22 a share. No underwriting. To purchase equity in apartment house buildings.

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.

Southwest Natural Gas Co., Shreveport, La.
Oct 20 (letter of notification) 25,000 shares of common on behalf of R. M. Craigmyle, President of the company. To be sold at market. **Underwriter**—Craigmyle, Pinney & Co., New York.

● **Southwestern Gas & Elec. Co., Shreveport, La.**
Nov. 5 filed $7,000,000 30-year first mortgage bonds, series B. **Underwriting**—To be determined at competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Glore, Forgan & Co.; Harriman, Ripley & Co. **Proceeds**—To finance construction program.

Southwestern Investment Co. (11/25)
Oct. 8 filed 15,000 shares of 5% cumulative sinking fund preferred (par $20) and 21,499 common shares (no par). **Underwriters**—Preferred: The First Trust Co. of Lincoln, Neb.; common: Schneider, Bernet & Hickman. **Purpose**—To increase working capital. **Offering**—To be offered for subscription to stockholders of record Nov. 8, the preferred at par and the common at $15 per share.

Spartan Tool & Service Co., Houston, Texas
Sept. 26 filed $1,200,000 of 4% subordinated debentures, due 1955, and 120,000 shares ($1 par) common. Above securities to be offered only in combination with certain securities of Well Service Securities Co., in units of $1,000 of subordinated debentures and 100 shares of common of the company and $92 principal amount of 4% 7½-year notes due 1955 and one share of common (par $1) of Well Service Securities Co. at $1,193 per unit. **Underwriting**—In addition, Well Service Securities Co.. an affiliate, will sell 110,000 shares of common of Spartan to Spartan's officers and employees at par. **Proceeds**—To provide working capital.

Speer Carbon Co., St. Marys, Pa.
Oct. 28 filed 80,000 shares (no par) common. **Underwriter**—Lee Higginson Corp., New York. **Offering**—To the public. **Price**—By amendment. **Proceeds**—Stockholders are selling 46,234 shares of common and company is selling the remainder. Company will use its proceeds to defray part of the cost of purchasing its leased plant at Punxsutawney, Pa.

Springfield (Mass.) Fire & Marine Insurance Co.
Oct. 29 filed 200,000 shares ($10 par) capital stock. **Underwriters**—The First Boston Corp., and Kidder, Peabody & Co., New York. **Offering**—The shares will be offered to stockholders on the basis of one share for each 2½ shares held. Unsubscribed shares will be sold publicly. **Price**—By amendment. **Proceeds**—To be added to company's capital funds.

● **Suburban Gas Service Co., Inc., East Syracuse, N. Y.**
Nov. 3 (letter of notification) 2,000 shares ($20 par) 5% cumulative preferred. **Price**—$20 a share. No underwriting. To retire indebtedness, expansion of business and working capital.

● **Syracuse Suburban Gas Co., Inc., Syracuse, N. Y.**
Nov. 3 (letter of notification) 250 shares ($100 par) 5% cumulative preferred. **Price**—100 a share. No underwriting. For equipment purchases.

Texas Eastern Transmission Corp., Houston, Texas
Oct. 24 filed an unspecified amount of (no par) common. **Underwriter** — Dillon, Read & Co., New York. Price by amendment. **Proceeds** — Proceeds from the sale of the common and $120,000,000 of first mortgage 3½% pipe line bonds, due 1962, which Texas Eastern plans to sell privately, simultaneously with the sale of common, will be used to repay $138,027,000 owed to the United States Government. The debt represents the balance due on the purchase price of "Big Inch" and "Little Inch" pipe lines. **Business**—Operation of the two pipe lines.

● **Thornton Lumber Co., Ravalli, Mont.**
Oct. 27 (letter of notification) 1,152 shares ($100 par) common and 1,848 shares ($100 par) 6% cumulative preferred. To be sold at par. **Underwriter**—L. A. Donahue, Billings, Mont. For payment of liabilities and construction of mill.

● **Trade Dollar Development Co., Las Vegas, Nev.**
Oct. 27 (letter of notification) 2,500 shares ($100 par) common. **Price**—$100 a share. No underwriting as yet. To acquire, expore and develop mining property.

● **Transcontinental Mercantile Corp., N. Y.**
Oct. 30 (letter of notification) 120 shares (no par) capital stock. Price, $100. No underwriting. Conduct of business.

Well Service Securities Co., Houston, Texas
Oct. 17 filed $110,400 of 4% 7½-year notes and 1,200 shares ($1 par) common. No underwriting. **Price**—The notes will be sold at face amount and the common at $1 a share. The securities are to be sold in combination with securities of the Spartan Tool & Service Co. (which see). **Proceeds**—The company will use proceeds from the notes for purchase of 110,000 shares of Spartan common and for other expenses. The common is being sold by C. P. Parsons, President of the company.

White Motor Co., Cleveland, O.
Oct. 28 filed 275,000 shares ($1 par) stock. **Underwriter**—Hornblower & Weeks, New York. **Offering**—For subscription by stockholders on basis of one share for each 2½ shares held. Unsubscribed shares will be sold publicly. **Price**—By amendment. **Proceeds**—For working capital.

Wickes Corp., Saginaw, Mich.
Oct. 20 filed 770,000 shares ($5 par) common. No underwriting. **Offering**—To be exchanged for stock of U. S. Graphite Corp., Wickes Brothers and Wickes Boiler Co. in connection with a plan to merge the three companies into the registrant.

● **Wilbur-Suchard Chocolate Co., Inc.**
Oct. 29 (letter of notification) warrants to purchase 10,611 shares of common stock (par $5). **Price**—$2 per warrant. Stockholders of record Nov. 17 will be given subscription rights (now transferable) to purchase 7,865 shares of stock on basis of one subscription right for each 16 shares held. In addition, non-transferable rights to subscribe for warrants to purchase not exceeding 2,746 additional shares of common, at $2 per warrant, will be issued about Nov. 28, 1947 to certain officers and employees. Warrants expire March 31, 1952. General corporate purposes.

Wisconsin Public Service Corp. (11/7)
Sept. 30 filed $4,000,000 30-year first mortgage bonds. **Underwriting**—Awarded Nov. 5 to Halsey, Stuart & Co. Inc. at 100.2099 for a 3% coupon. Bankers plan reoffering at 100¾. **Proceeds**—To repay short-term bank loans.

Prospective Offerings

● **Central Barge Co.**
The Truax-Traer Coal Co. is planning to sell to its stockholders its entire stock interest in Central Barge Co., a wholly owned subsidiary. A registration statement is expected to be filed shortly.

● **Central Illinois Public Service Co.**
Oct. 30 company petitioned the SEC for authority to sell at competitive bidding $10,000,000 first mortgage bonds, series B, due Sept. 1, 1977, to finance its construction program. Company contemplates additional electrical facilities to cost about $18,525,000 by the end of 1948. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Central Maine Power Co.**
The SEC has given company permission to borrow $7,000,000 for construction program. Loan will be liquidated from proceeds of $4,000,000 first and general mortgage bonds, series P, and $3,500,000 ($10 par) common stock to be sold at competitive bidding. The common stock would be offered initially to holders of the company's outstanding 6% preferred and common stock. Central Maine's parent, New England Public Service Company, which owns 77.8% of the company's common, has advised the subsidiary that it would waive its preemptive right to subscribe to the additional common stock. **Probable Bidders**—For bonds: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp. and Coffin & Burr (jointly).

● **Chesapeake & Ohio Ry.**
Company will receive bids for the purchase of $4,400,000 equipment trust certificates, dated Dec. 1, 1947, due annually Dec. 1, 1948-1957, at 3400 Terminal Tower, Cleveland, O., up to noon (EST), Nov. 19.

● **Commonwealth Edison Co.**
Nov. 3 company discloses that it plans to sell new bonds and stock or convertible debentures to the amount of $100,000,000 to finance its five-year expansion program which will total approximately $186,000,000.

● **Gulf States Utilities Co.**
Nov. 25 stockholders will vote on amending charter to increase authorized common stock from 1,909,968 to 5,000,000 shares and create 50,000 shares new preferred stock ($100 par). Probable bidders: Stone & Webster Securities Corp.

● **Interstate Power Co.**
Nov. 3 company, which recently failed to receive SEC approval of the sale at competitive bidding on a new bond issue and common stock, has filed an alternative reorganizaton plan providing for the negotiated sale of new securities. To this end the company asked the SEC for exemption from its competitive bidding rule with respect to the proposed sale of $20,000,000 of new first mortgage bonds, $5,000,000 of new debentures and not more than $1,500,000 common shares (par $3.50). A sufficient number of common shares will be sold to raise $3,635,500. There will also be outstanding a minimum of $1,000,000 of promissory notes. Proceeds from sale of new bonds, debentures and common stock would be used to pay, without premium, $26,035,000 of outstanding first mortgage bonds and to reimburse treasury for construction costs.

● **Minnesota Power & Light Co.**
Oct. 30 company, a subsidiary of the Electric Bond & Share Co., asked the SEC for permission to sell additional securities to finance construction. Company proposes to change its common stock with a stated value of $19.63 and a par value of $10 to no par common. The present capitalization consists of 2,000,000 shares, 550,000 of which are outstanding. According to the application, the financing program will require the sale of 100,000 shares of common at about $32 a share. Additional funds will be obtained by borrowing $1,000,000 from banks and the sale of $5,000,000 of 3% mortgage bonds.

● **New Orleans Public Service Co.**
Company, a subsidiary of Electric Power & Light Co., plans to offer common holders the right to purchase 199,642 additional shares (no par) common stock in the ratio of 26½ shares for each 100 shares held, at $25 a share. Parent, which owns 716,736 common shares of New Orleans, intends to purchase its proportionate share of new common. Proceeds of $4,991,050 will be used by New Orleans in connection with its construction program, which involves the expenditure of $9,000,000 to the end of 1948. New Orleans plans to sell first mortgage bonds during 1948 to provide additional funds required for the program.

● **New York New Haven & Hartford R. R. (11/6)**
Company will open bids Nov. 6 on $7,500,000 equipment trust certificates, due in 1 to 15 years, to finance up to 75% of the cost of equipment estimated at $10,000,000. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **New York Telephone Co.**
Oct. 31 company petitioned New York P. S. Commission for authority to issue $60,000,000 30-year refunding mortgage bonds to be sold through competitive bidding. Proceeds for capital expenditures. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

● **Pet Milk Co.**
Nov. 24 stockholders will vote on creating 150,000 shares of new preferred, junior to present issue. Probable underwriter: Kidder, Peabody & Co.

● **Potomac Electric Power Co.**
Oct. 30 company may sell about $5,000,000 of new bonds in the next couple of months to finance its expansion program. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Southern California Edison Co.**
Oct. 30 company applied to the California P. U. Commission for permission to issue and sell at competitive bidding a new issue of $40,000,000 cumulative preferred stock. Banking groups will be asked to bid on both price and dividend early in December. Proceeds of the issue will be used by the company to pay off borrowings amounting to approximately $30,000,000 drawn against its $75,000,000 stand-by bank credit agreements entered into with a group of California and eastern banks last July. Probable bidders include: The First Boston Corp., and Harris Hall & Co. (Inc.) (jointly).

● **Virginia Electric & Power Co.**
Oct. 28 reported company has under consideration plans for raising some $22,000,000 to finance its construction program. The offering, it is thought, may include $10,000,000 in bonds and approximately $12,000,000 in preferred stock. The financing plan, it is said, may be ready for the market by March next. Sale of preferred probably will be negotiated with Stone & Webster Securities Corp. as underwriter.

● **Western Light & Telephone Co.**
Oct. 30 reported company will sell 10,000 shares 5% preferred stock (par $25) through The First Trust Co. of Lincoln, Neb.

Wheeling & Lake Erie Ry. (11/12)
The company has issued invitations for bids to be considered Nov. 12 for $3,940,000 of equipment trust certificates. The certificates are dated Dec. 1, 1947, and will mature semi-annually from June 1, 1948, to Dec. 1, 1957. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Our Reporter's Report

Contentions of investment banking interests that the new issue market currently is not especially receptive to equity undertakings received more than a little confirmation from other quarters this week.

There are exceptions to the rule, of course, here as elsewhere, and from time to time when circumstances surrounding a given situation are in line with the ideas of the investor a preferred or common stock offering moves away quickly.

However, under prevailing circumstances even some of the well-established industrial corporations are a little less than keen about coming to grips with the equity market at the moment.

This was attested to when two large firms, one in the packing field and the other in motion pictures, applied to the Securities and Exchange Commission for authority to withdraw their registrations covering projected offerings.

Armour & Co., for example, after revising its original proposals to meet objections of certain stockholders, moved to end registration of 350,000 shares of new no par cumulative first preferred stock which it had proposed to offer to holders of its present $6 cumulative convertible prior preference shares.

Republic Pictures Corp. at the same time would withdraw registration for 184,821 shares of $10 cumulative convertible preferred and 277,231 shares of 50-cent par common.

Both companies cited "current economic conditions" and "unfavorable market conditions" as the reasons for their actions.

Spreads Widening

Bidding for two medium-sized public utility issues this week disclosed differences of banking opinion which were quite marked when their tenders were opened and compared.

In the case of Public Service Co. of Indiana's $15,000,000 of new first mortgage bonds, the successful bidder paid the company a price of 101.0799 for a 3⅛% coupon. The next nearest bid was 100.30 for the same coupon, or a difference of about $7.80 a thousand dollar piece. The lowest of the five bids received 100.153 was $9.27 a thousand under the top tender.

Meanwhile bidding for Portland General Electric Co.'s $6,000,000 of new first mortgage bonds brought a top bid of 102.081 for a 3½% rate. This was $9.02 a thousand better than the bid of the runner-up and $14.21 a thousand above the lowest of six bids tendered.

Big Issues Ahead

Indicative of the manner in which the war retarded the building programs of utility firms generally and the big metropolitan units in particular, Commonwealth Edison Co. of Chicago has advised a City Council committee that its expansion program over the next five years will require financing of at least $100 million.

This disclosure came out as the $186,000,000 program was discussed in the course of hearings on renewal of the utility's franchise.

To obtain funds the company plans to sell new bonds and also to issue stock or convertible debentures, officials informed the Council group.

Busy Year-End

Unless something develops to disturb the new issue market seriously, it appears that the remaining weeks of the year will prove relatively active right up to the holiday season.

Despite recent unsettlement as the seasoned market adjusts itself to slightly shifting money conditions, substantial potential financing is going into registration.

Among the largest of such undertakings is that of Appalachian Electric Power Co., subsidiary of American Gas & Electric Co., which registered for $28,000,000 of new first mortgage bonds, due 1977, plus 75,000 shares of cumulative $100 preferred stock.

The bonds will be put up for bids while the new preferred will be offered to holders of the current 4½% preferred. To round out the program to pay off $8,668,000 in bank loans and series A debentures, and provide for $64,850,000 construction funds the company will sell 30,023 shares of common to American G. & E. for $10,000,000.

Clog in Municipals

Municipal dealers' shelves are still far from free of accumulations built up over a period of months and the situation in new issues in this part of the money market remains a bit on the congested side, with concessions still seemingly necessary to move inventories.

Bidders, accordingly are decidedly wary on new issues at the moment as witness the fact that the State of Louisiana early this week rejected all bids for $10,000,000 of bonds, due serially from 1952 to 1976. Bids ranged from an interest cost basis of 2.67% down to a 2.74% basis.

Florida Ramie Products Stock Placed on Market

Batkin, Jacobs & Co. is offering to the public an issue of 100,000 shares of class A common stock (par $1) at $3 per share. The prospectus states that the stock is offered as a speculaion.

The company is purchasing its green ramie from plantations operated by the State of Florida as well as private growers. Florida is offering every encouragement to the company in order to establish ramie as a profitable crop and to provide cheap feed of excellent quality for dairy and beef cattle, and poultry, thereby encouraging dairying and raising of livestock and poultry throughout the State.

Ramie roots after the first planting continue to produce year after year without replanting. Under the climatic and soil conditions of the Everglades, the yield per acre is three to four 10-ton cuttings per year. The green ramie is harvested in the field by the company using its own special harvester-binders and it is brought to the company's eight-acre plant at Belle Glade, Palm Beach County, on special hauling equipment developed and owned by the company.

The company states that many manufacturers in the United States are known to be considering the use of ramie fibre either alone or in combination with other fibres. The company's manufacturing capacity is not sufficient to meet the present demand for its products. Chief among the purchasers is Johns-Manville Corp., which has contracted to purchase two-thirds of the ramie fibre produced by the company. In addition, proposals to purchase the company's fibre have been received from important foreign companies. Officials estimate there already is a market for as much ramie fibre as the company can produce and it is believed the selling price will make it possible to operate at a substantial profit.

F. R. Lushas & Co. Offers B. L. Lemke Com.

F. R. Lushas & Co., Inc. is making a public offering today (Nov. 6) of 75,000 shares of 50-cent par common stock of B. L. Lemke & Co., Inc., at a price of $3.62½ per share.

Proceeds from the sale will be used by the company, according to the prospectus, to increase its working capital to finance its expanding business.

B. L. Lemke & Co., Inc., was formed under New Jersey laws on March 30, 1946, as the successor to a business conducted under the name of B. L. Lemke & Co., established in 1935. It is engaged in the manufacture, distribution, processing and packaging of fine and medicinal chemicals, drugs and organic chemical intermediates used for pharmaceutical, nutritional, laboratory and industrial purposes for the domestic and foreign markets. The company entered the manufacturing end of the business for the first time in the latter part of 1943. Administrative offices are in New York City, and a plant is located in Lodi, N. J.

For the fiscal year ended March 31, 1947, the company reported net sales of $1,237,892, and net income of $35,318.

Washington . . . And You

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

President Truman at the moment is heavily absorbed in a desperate drive to duck a veto of the income tax cut. To duck it, he must try to prevent its passage. All Administration strategy is now directed to this end. Even the full foreign aid program must be risked to achieve this objective.

* * *

Despite the "shame, shame" approach of the White House aides to the prospective Republican move to cut income taxes, these aides privately recognize now that the GOP has the better of the political argument. They do not want to go to the country a year from this November and argue that it was necessary to maintain high taxes to put Europe's industry on its feet. So the idea now is to keep the President from having again to veto the tax cut by keeping the tax cut from getting to the White House door.

* * *

There is one central device to the new strategy. That is to push full foreign aid for all it is worth, and push it fast. That means that a four-year program must be slapped at Congress immediately. The program must be large, especially in its first year. Congress must be sold the idea that around $7 billion are needed right away, along with $1 billion for stop-gap aid. Approval of this large goal must be obtained.

* * *

And it must be obtained—passed—before Republicans can pass their income tax cut.

* * *

Then, according to the strategists, with such a large expenditure commitment on the books, Republicans wont have the stomach to pass the tax cut. Even their own consciences would rebel. Should they insist upon a tax cut after approving several billions for foreign aid, then even those obtuse gentlemen (as the Administration sees them) will realize that they will be responsible for a return to deficit financing. Republicans can't accept responsibility for a return of deficits. So they would fold up their tax cut plans and quietly march away.

* * *

This new Presidential pre-occupation explains a couple of big shifts in thought. Only two or three weeks ago the Administration was planning to push stop-gap aid first and Marshall plan second. That was founded on good political sense. The Administration knew it was not prepared with the solid background information it needed to "sell" a long-term foreign aid program. It would be enough of an accomplishment to get passed and passed quickly an appropriation to pay for food and fuel for Europe this winter.

* * *

So up until recently there was every indication that following stop-gap aid there would be a one-year European recovery program asked, along with a one-year contract authorization—to give continuity to recovery plans for the second year. It is even reported that the State Department had come around to that view. It looked like a surer way of guaranteeing a minimum legislative accomplishment.

* * *

Another shift is to decide to go "all out" for government economy. This decision had not been announced promptly. President Truman had the Budget Director pass the word that government agencies must achieve substantial cuts below their current expenditures. Any authoritative information as to what these cuts will add up to is top secret. However, it is reported that the President proposes to hold expenditures to $34 billion, exclusive of foreign aid.

* * *

Why a $34 billion spending limit without foreign aid is something to crow about, is hard to figure out. Certainly some of the current expenditure programs in foreign aid are non-recurring. But anyway it will look like Mr. Truman has cracked the $37 billion floor, which up until now has been regarded by the White House, judging by its belligerent defense of this floor, as something sacred. The important point is that it can be made to look like a substantial economy achievement.

* * *

Then, too, the Administration recognizes that the government surplus will be bigger (without foreign aid) than Mr. Truman guessed last August. The $4.7 billion surplus then estimated was based upon revenues $4 billion higher than the estimates of last January. The August figure was based on July income statistics. Inflation has carried national income higher. Estimates will have to go higher, too.

* * *

Maybe the Administration will admit officially the higher estimate in the coming January budget. The timing of this admission, however, will be determined by when it is politically expedient to do so.

* * *

So here is the budget package the White House will wrap up in its program to stop enactment of the tax bill: "We" have "cut expenditures to the bone." Even with $1 to $3 billion more revenues than last anticipated, "we" will have to forego tax reduction to meet our huge foreign commitments.

* * *

What the top Administration command has done has been to abandon the careful, cautious approach to foreign aid—an approach which probably would "sell." Instead it has decided to use foreign aid as the vehicle to flee from one of its worst potential embarrassments, the potential veto of the income tax cut.

* * *

Key to this change is no doubt the reactions of the traveling Congressmen. The Administration was pleased to find out how many ex-isolationists were firmly convinced the United States should help Europe to stave off communism—or rather, Russian hegemony. Finding that a "compromise" foreign aid would probably sell without compromise, the Administration decided to soup up the drive.

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Off-hand, it doesn't look like good political sense. It looks like playing politics with foreign relief. And it doesn't sound like a good method of staving off the tax bill. Yet it could work. If the rank and file of the touring Congressmen have got a great deal of religion in their feeling for foreign aid, Truman might get away with it. Only time will tell—provided the Administration doesn't again revolute completely its strategy in another week or so.

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The tawdry, naked details of the Luckman drive have been bared authoritatively for all to see. Unfortunately, the source of information preferred to remain anonymous.

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It is now clear and positive that Charles Luckman set up the entire advertising ballyhoo of his "waste less" drive before he came to Washington. It is also clear that not merely "some members" of the Food committee appointed as a front for the Luckman campaign, disliked approving the program which Mr. Luckman presented them on a platter, after consulting with himself and before consulting with them. Actually a majority opposed the program. They argued about it five days without approving it.

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Then, on a Saturday night, Mr. Truman called Mr. Luckman to the White House. Mr. Truman reported how much worse every day the European situation had got while the committee failed to agree to Mr. Luckman's pre-fabricated conservation drive. Besides, Mr. Truman had to go on the air the next night and he had to have a specific program. With the greatest reluctance (of course) Mr. Luckman called the next day all the members of the committee he could reach by phone, and passed the word that by royal command they were supposed to approve. Eighteen of them approved. Mr. Truman was able to put it on the air.

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Then, in only a few weeks, Mr. Luckman announced that his program would achieve its goal. The goal was to make possible the export of 500 million bushels of wheat (plus 70 millions of other food grains) versus the 400 million bushel limit set by the Cabinet food committee.

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It is beside the point that authoritative governmental sources declare that Mr. Luckman has hardly a shred of statistics upon which to predict that the food conservation program is a success. Provided present livestock feeding trends continue, the program will be a "success" because farmers simply will not feed wheat at $3 per bushel to livestock. It will be a success because other feeds at present prices discourage feeding to heaviest weights. Authoritative figures now demonstrate that farmers are feeding cattle and hogs to lighter weights, and culling less productive chickens and dairy cows. The grain will be available—IF—

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The one big "IF" is 1948 crop prospects. Already it is apparent that, due to poor winter wheat conditions, the 1948 wheat crop will be no bumper wheat crop like 1947. In proportion as grain crop prospects deteriorate, it will be harder to get wheat. If it looks like 1948 wheat will fall below a billion bushels, heaven and earth will not move wheat, regardless of price, from farm to export outlets. Then the Luckman program will appear to be a failure.

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Incidentally, you can count on something like the present relatively reduced scale of government wheat allocating about half the late summer or early fall) until more is known about 1948 prospects, particularly for winter wheat. You can also count upon the prospects that the Department of Agriculture knows that it was a big factor in bulling up grain prices, more than it admits. Henceforth the department will be a little more careful when and where it buys and in what quantities.

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Dr. Nourse's report on the domestic economy and foreign aid only confirms the objectives which newspaper men have guessed. (Allocate scarce materials, price control of key commodities, regulation of grain trading, etc.). It will be necessary to await Mr. Truman's message (or later) to the special session of Congress, to get specific details of proposals.

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Luckman's committee, net, provided a convenient political vehicle for dramatizing to the millions the need for foreign aid. It proved to be a readier device for propagandizing the need for foreign aid than a frontal, direct appeal.

BUSINESS BUZZ

"Oh, that reminds me, Boss—that Mr. Kelton has been waiting a very long time to see you!"