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What Price Easy Money!

By SHERWIN C. BADGER*

Second Vice-President and Financial Secretary, New England Mutual Life Insurance Co.

Mr. Badger lays inflation to low interest rates. Says deficit spending is harmful and leads to disaster. Calls Federal Reserve pegging of government bond market costly to Treasury and people.

I know some of the things I am going to say are highly controversial. However, I take a certain amount of courage from a remark which the Provost of Harvard University recently made when introducing former Vice-President Wallace. "Controversy," the Provost said, "is the essence of freedom." I take it that as free men we all of us are interested in exploring various viewpoints in the hope that as a result we may come nearer to the truth. The search for truth, I believe, has much to do with the preservation of our freedom.

Sherwin C. Badger

The particular conclusions I

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*An address by Mr. Badger before the National Association of Mutual Savings Banks, New York City, Nov. 10, 1947.

Modernists' Attacks on Savings: A Rejoinder

By WALTER E. SPAHR*

Professor of Economics, New York University

Executive Vice-President, Economists' National Committee on Monetary Policy

Dr. Spahr attacks Keynes' theories belittling economic value of savings. Holds idea, as followed by New Deal, has caused currency depreciation and other economic ills. Elaborates virtues of saving and denies practical possibility of oversaving. Favors free and fair competition as against government planned economy.

Recent years have brought attacks on savers and savings in the United States in a degree and in ways apparently never before seen in our history.

The attacks have come from various angles. An atmosphere has been developed to the effect that savers and accumulators of wealth in the United States are anti-social and that virtue lies with spenders and with the dissipators of wealth. Some of the attacks have been on the ground that there is an undesirable concentration of wealth. Some have been in accordance with the basic principles of Socialism. Some have been on the grounds that there was oversaving prior to the business recession beginning in 1929 and that these oversavings were a major factor causing that recession and depression. Closely related has been the notion that these savings were withheld from others, and that

Walter E. Spahr

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*An address by Dr. Spahr before the Ohio Savings and Loan League, Columbus, Ohio, Nov. 11, 1947.

Inflation and Credit Controls

By JOSEPH M. DODGE*

President, American Bankers Association

President, The Detroit Bank, Detroit, Mich.

ABA head, after pointing out need of wise direction and self-control of credit expansion, blames Government policies for fostering inflation, though urging measures against it. Sees tendency to put inflation blame on banks so as to install more credit controls. Lays enlarged volume of bank credit to high prices, and asserts, since Federal Reserve has not fully used all powers granted to it to control credit expansion, there is no need for enactment of additional credit control legislation.

As some of you may know, for the last year or more, at the various bankers meetings around the country, I have been talking about the fundamental principles of our business and the relationship of these to the conditions of the times and the problems of the day. The basic theme of these comments has been the danger to the economy from the banks' permitting an unwise or extravagant expansion of the use of private credit and the danger to the future of the banking business if this should take place.

Joseph M. Dodge

Soon after the Convention in Atlantic City, I attended the Iowa Bankers Association meeting held at Des Moines. At their meeting, I told them that in my opinion there are two issues creeping up

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*An address by Mr. Dodge before the Mid-Continent Trust Conference of the Trust Division of the American Bankers Association, Chicago, Ill., Nov. 6, 1947.

EDITORIAL

As We See It

A Breath of Fresh Air

At points the President's Committee on Foreign Aid in its current report on European recovery and American help apparently accepts and repeats much of the popular dogma in support of large scale political bribery with which we find ourselves quite out of sympathy. In other sections, however, it brings the notion of American aid down to earth in a way which we believe will earn the admiration and gratitude of realists everywhere—outside of Russia, that is. In this respect, and in the degree that it gets its feet on the ground and keeps them there, this group and the able American citizens who compose it have made a real contribution to an understanding of present-day world problems.

Where else has there been such plain common sense so plainly spoken as in these sentences:

"Postwar experience has abundantly proved that if money demand is vastly in excess of the supply of goods, the effects of 'repressed inflation' are almost as bad as the disease itself. Germany is merely the most horrible example of an attempt to restore economic life without giving people a money they can trust. In this situation, the rapid spread

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Debt Management and Government Securities Prices

By H. FREDERICK HAGEMANN, JR.*
President, National Rockland Bank, Boston

After noting the heavy increase in currency and bank deposits as inflationary factor, due to Treasury war financing, Mr. Hagemann expresses belief sharp credit restrictive measures such as followed World War I will not come in present period. Sees present move of Federal Reserve aimed at more stringent credit control accomplishing little, unless contraction of reserve bank credit more than offsets both the expansion occurring in private credit and the inflow of gold.

A great deal has been said of late about high prices of commodities and the high cost of living. Congressional investigations have been held into the reasons for the high-price level, but little public attention has been given to one of the main causes of the upsurge in prices, namely the tremendous increase that has occurred in the means of payment; (1) Currency in circulation and (2) Bank Deposits.

H. F. Hagemann, Jr.

A study of history clear back to the time of the Greeks and Romans reflects that at any time there is a general increase in the price level of the economy of any country, and where the relationship between the prices of various commodities stays the same, that it is logical to look to fiscal and monetary factors as to the price rise, rather than to the supply and demand factors in any given industry or commodity. Sharp increases in grain prices, for instance, while influenced somewhat by supply and demand, by crop conditions, and by government buying for shipment to Europe, are basically a reflection of the deterioration of the purchasing power of the dollar. The Chicago Grain Exchange was criticized as being responsible for the high grain prices, and that is reminiscent of the time back in the Greek Empire when a number of grain speculators were put to death for increasing the price of grain and the government officials were very much chagrined, after having put them to death, that grain prices continued to rise because of basic difficulties in the Greek currency.

World War II Financing

That part of the cost of the war that could not be raised by taxation or thru the sale of bonds to non-commercial bank investors had to be secured thru the sale of bonds to commercial banks. This borrowing by the government from the commercial banks greatly increased bank deposits, particularly during and immediately following the war. In order for the commercial banks to be in a position to absorb large amounts of governments, Federal Reserve Credit had to be greatly expanded.

Since the end of the war borrowing by private corporations, individuals, and states and municipalities has created additional new bank deposits.

According to the July, 1947 Federal Reserve Bank Statistical Chart Book the combined total of all deposits of all banks in the United States, and all currency in circulation, increased from $78 billion on Jan. 1, 1942 to $165 billion on Jan. 1, 1947. In 1929 the total means of payment had a corresponding high of just under $60 billion.

The officials of the Federal Re-

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*An address by Mr Hagemann before Northeastern Federal Savings League, Swampscott, Mass., Oct. 6, 1947.

Preliminary Outlook for 1948

By JOHN H. G. PELL
President, Wall Street Investing Corporation

Holding it is logical to expect a long stalemate involving this country in continued heavy armament expenditures, heavy coal and grain exports, continued foreign gifts and diplomatic disappointments, Mr. Pell predicts Federal fiscal policies will be less deflationary in 1948, investment in plant and equipment will be at high levels, and overall production will not be increased. Foresees some significant technological changes.

World movements are measured in decades rather than in weeks: since a trend, once started, may be expected to continue for a considerable lapse of time, the split of the world into two hostile camps, is likely to become more easily recognizable as the years roll by. At present, the United States, leader of the liberal - capitalistic section, possesses unchallengeable military, productive, and financial strength, but there are weaknesses in our armour which our Soviet opponents may be expected to see and fully exploit. De Tocqueville remarked that democracies are not well suited to the conduct of foreign affairs, because they lack speed, mobility, and continuity. The Soviets have a particular appeal for the underprivileged, embittered, and hungry, and unfortunately, there are many millions of such people in central Europe and in Asia today.

John H. G. Pell

Instead of expecting a dramatic *denouement* in the nearby future, a financial crisis here, a revolution there, a major war engulfing all, it may be more logical to expect a long drawn out stalemate which will involve this country in continued heavy armament expenditures, continued exports of grain and coal, continued gifts to friendly governments, and continued diplomatic disappointments.

During the long period of the cold war, some mitigation of the gloom and discouragement will result from the tremendously improved methods of interoceanic travel and communication, the development of tariff unions, and exploitation of the opportunity to encourage tourist travel both in the British Isles and on the continent.

Social-Political Trends

There are social-political trends which, like other world movements, are slow to start, slow to change their course. The economic outlook is profoundly affected by these trends which have a way of cutting across party lines and lasting longer than any group who may attain temporary political success.

Looking at population statistics, for example, you observe that there are about 143 million people in the United States, quite evenly divided between men and women (although a surplus of 6% of men in 1910 had declined to 0.7% in 1940, and may have become a slight deficit by now) and also divided (by statisticians) into about 46 million "spending units."

The increase in the population has been steady since the census was first taken, but whereas, during the period between the Civil War and World War I a large part of the increase resulted from immigration, this source of new blood has declined to a trickle: in the recent past the population increase has been caused by a

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The Dow Theory Not a "Gadget" To Be Followed Blindly

By THOMAS W. PHELPS
Partner, Francis I. du Pont & Co.
Members, New York Stock Exchange

Mr. Phelps, noting balanced opinions on stock market trend, denies Dow theory is to be used blindly. Says wide latitude is left for individual judgment in its application. Lists reasons for expecting higher prices, as: (1) high production level; (2) good outlook for profits; (3) low average of industrial stocks on basis of 1947 earnings and assets; (4) high dividend returns compared to bond yields; and (5) large demand for risk capital in relation to supply. Concludes "bears seem to be risking more than bulls."

For more than a year the Dow-Jones industrial and railroad stock averages have refused to penetrate jointly either their October, 1946, lows of 160.49 and 44.00, respectively, or their February, 1947 highs of 184.96 and 53.65. On May 19, 1947, the rails tried to bring in a verdict for the bears by selling down to 40.43 but the industrials balked at 161.38. On July 25, 1947, the industrials attempted to find for the bulls by rising to 187.66 but the rails turned back at 51.92.


Thomas W. Phelps

There results one of the longest periods of inconclusive price movements on record. When the averages finally do break through together, the ensuing advance or decline is likely to be unusual too. The market is not so giddy that it takes a year to get ready just to go shopping.

It is the hardest thing in the world to tell in advance which way the stock market will emerge from a trading range. Price fluctuations within such a range often are meaningless or misleading. The very existence of a trading range is evidence that moneyed opinion is evenly balanced as between those expecting higher and lower prices. Facing such a problem the investor may wait for the averages to agree, or he may fall back on Dow's dictum that, "The one way to forecast the market is to comprehend the tendency of events both as applied to general business and as they bear upon any stock in which dealings are contemplated."

To wait for the averages to confirm a bull market in the present situation means to hold cash until the industrials and rails jointly sell above 187.66 and 53.65, respectively. To buy before that happens, on the basis of supposed comprehension of the tendency of events, means to risk incurring whatever losses may develop while the industrials and rails are declining through 160.49 and 40.43, respectively, in exchange for gaining whatever profits are to be found en route to 187.66 and 53.65. The former policy means shutting one's eyes to all profit possibilities in the year-old trading range in exchange for eliminating all risk of loss in that same area. The latter policy means taking a calculated risk. The closer purchases are made to the lower side of the trading range the less is the risk of loss in relation to the chance of profit in event the market advances to the upper side of the trading range.

Latter-day interpreters of the Dow theory notwithstanding, Dow never intended to create a technical "gadget" to be followed blindly. He was trying to improve economic thinking, not to obviate it. Hence it should not be surprising to find at times that the Dow theory leaves wide latitude for individual judgment, as in the present instance (between the October, 1946-May, 1947, lows and the February, 1947-July, 1947, highs) though setting limits beyond which one's errors of judgment may not take him.

If we grant that it is not "unorthodox" for a Dow theorist to think, we are ready to consider some of the influences which may determine whether the stock market finally will emerge upwards or downwards from the past year's trading range. Here are five reasons for expecting the ultimate triumph of the bulls:

(1) The outlook for a high level of production and trade seems good. Deferred demand for durable and semi-durable goods at home, foreign demand made effective by the Marshall Plan, and the necessity to maintain armaments point toward a continued high level of industrial activity during 1948.

(2) The outlook for profit margins seems at least fair. Probably the greatest threat to them, and to our whole free enterprise system, is the CIO-sponsored drive for price controls in peacetime, because if the CIO ever gets in position to dictate both wages and prices it will be in position to decide how much, if any, profit to leave between the two. It seems unlikely that a Republican Congress will permit anything of that sort in 1948. The high level of industrial activity indicated for the coming year argues against a commodity price collapse which might wipe out operating profits with inventory losses. A better balance between supply and demand in some lines may put pressure on some prices, but the same influences should make for more efficient production due both to an improved flow of materials and to increased productivity on the part of labor. Some industries report improvement along both lines already.

(3) No matter how bright the outlook for business and profits, the stock market may decline if

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What the Marshall Plan Involves

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

Republican leader, asserting Marshall Plan is inflationary and implies continuation of high taxation, urges it be carefully considered with view to effects on our economy. Lays blame for terrible world economic conditions on Administration's foreign policy and charges enormous waste in foreign aid and domestic government expenditure. Criticizes President's Economic Council and points out present tax burden already endangers our free economy. Opposes return to price controls, but advocates aid to Europe "in reasonable amounts."

The President has called us in special session next week to deal with two matters which were not before the regular session—the rapid increase in prices during the past four months and the question of emergency aid to Europe. The President himself had removed nearly all price control before the Republicans took over on Jan. 1 of this year, although he could have continued it in many fields until July 1, 1947. Up to June there was reasonable belief that prices and wages had reached a point of stabilization — until the failure of the corn crop, the failure of European crops, and the tremendous effect of a greatly expanded export demand. Since Congress adjourned prices have resumed their rise, particularly in the agricultural field. I fully agree with the President that the situation is a serious one for many families in this country and that definite changes in government policy are called for, most of them executive rather than legislative.

Robert A. Taft

As far as the President's request for more European relief is concerned, the Congress at its first session appropriated what was requested by the Administration up to July, and included in the $36 billion budget about $4 billion for Europe.

At the special session of Congress I do not see how we can confine our consideration to the questions of inflation and emergency aid to Europe. I do not understand how we can intelligently consider either of these problems without analyzing what is proposed in the more permanent Marshall Plan, and also considering the effect of the present huge government expenditures and the corresponding tax burden on prices and business activity. I do not say that we can or should complete these matters before Christmas, but they must surely be given consideration in order to reach an intelligent conclusion on prices and emergency aid.

Marshall Plan Inflationary

The Marshall Plan is, of course, inflationary and means that prices will be higher than they otherwise would be. The very threat of the plan has contributed to the price rise. The emergency aid program raises many of the same questions which must be dealt with in providing permanent aid. When the President spoke of emergency aid to the Congressional leaders in September, it was apparently confined to enough food, fuel and fertilizer to carry France and Italy through the winter. More than half the funds required for that program were found without Congressional action.

The emergency plan now presented calls for a much greater sum and covers all kinds of assistance to France and Italy, increased sums for the occupied areas, and the taking over in full of the British obligations in the British zone in Germany. In fact, for France and Italy it seems to be a six-months' edition of the Marshall Plan. Therefore, it raises al the questions raised by the Marshall Plan itself as to the character of goods to be shipped, the conditions to be attached, and the type of organization to administer the plan.

Nor can we act on prices without considering the effect of the huge government expenses and the abnormal export demand, still unrestrained by any exercise of the President's legal power to limit exports. We cannot consider Europe unless we also consider the proposals for aid to China and our undertakings to Latin America. Who knows what these are? Where is the Wedemeyer report? Emergency aid to Europe has priority — but let's stop fumbling in the dark. Surely we have gone far enough on a piecemeal basis. Before anything else is done Congress ought to have the whole story, both foreign and domestic, if we are going to have a policy at all instead of drifting with the tide.

The so-called Marshall Plan presents a complicated mixture of foreign and domestic policy. It involves huge taxes from the American people and government expenditures. It affects the prices to be paid by 40 million families. How far shall we make a present to other peoples of the fruits of our labors? Do the advantages to be gained in foreign policy outweigh the disadvantages at home? We have seen in the past three months the development of a carefully planned propaganda for the Marshall Plan, stimulated by the State Department by widespread publicity and by secret meetings of influential people in Washington and Hot Springs.

Yet only two weeks ago Secretary Marshall himself pointed out that there was as yet no Marshall Plan at all. We knew only what the foreign nations had asked for. But the propaganda machine is ready to ballyhoo the Marshall Plan, whatever Secretary Marshall finally says that it is. Let us have all the facts and debate them fully. The people have been urged and persuaded too often to accept on faith and without question the foreign policy of the Administration. Anyone who has opposed the policy of the moment has been labeled an obstructionist and an isolationist.

Criticizes Administration's Foreign Policy

But the terrible economic condition in which the world finds itself today is the result of the Administration's foreign policy at Teheran, at Yalta and at Potsdam; and the idiotic Morgenthau policy we have pursued for the past two years in Germany. Prior to the entrance of Senator Vandenberg into the picture our attitude toward Russia was one of complete surrender. We were told

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*An address by Senator Taft before the Ohio Society of New York, New York City, Nov. 10, 1947.

The Federal Tax Outlook

By ROSWELL MAGILL*
Former Under Secretary of the Treasury
Chairman, Special Tax Study Committee of the House Ways and Means Committee

Asserting we cannot count on tremendous production, full employment and high national income to continuously make present Federal budget bearable, leading tax authority calls for a reduction to $25 billion. Says crushing tax burdens can be eliminated, if expenditures are prudently reduced and tax injustices removed. Advocates revising present steep surtax rate schedule and adoption of community property principle for husbands and wives. Says we should aid Europe but not act as Santa Claus. Reviews recommendation of Special Tax Study Committee of House of Representatives.

To speak with assurance about problems of domestic tax policy these days involves a degree of omniscience that few of us possess. There was a time when a speech on tax policy could be introduced merely by a paragraph on Federal expenditures. That paragraph stated that if expenditures could be brought under control, particularly WPA expenditures, and the federal budget balanced, then taxes could be revised and reduced. It is still true that if expenditures could be brought under control, taxes could be greatly reduced, but the problem of expenditures has become much more complicated. Today the demand for relief expenditures comes not from our own citizens, but from across both oceans, and it is fantastically greater in amount than ever Harry Hopkins dreamed. In addition, every day's events witness the pressures of many other insoluble problems that vitally affect the American budget and tax picture. How much of an Army and Navy can we and must we maintain? How much can we and should we pay down the federal debt? How long can we expect the present unprecedented levels of employment and national income to continue?

Roswell Magill

A tax lawyer is no expert on world politics. He strains his capacities when he discusses tax economics. Yet some premises about items in the budget have to be laid down if questions of tax policy are to be discussed at all. I shall make mine explicit, even though I cannot debate them here with you this morning.

Actual Federal expenditures for 1947 were $42.5 billions, and we wound up the year with a net surplus of $753 millions, about the same as the surplus in 1929 and 1930, the last preceding fiscal years in which the budget was balanced. The President recommended budgetary expenditures of $37.5 billions for 1948, and retention of present taxes, which he estimated would produce (with other miscellaneous receipts) $1.3 billions more than enough to balance the budget. The Congress trimmed the budgetary expenditures somewhat; indeed, the Appropriations Committee of the House did a much more careful and thoughtful job of analyzing proposed expenditures by each department and bureau than it has been given credit for. Nevertheless, the President has recently stated that expenditures in the current fiscal year will probably be around $37 billions. Receipts may total $42 billions, leaving around $5 billions for debt reduction or tax reduction. The President includes $3.6 billions for "international affairs and finance."

It is evident that if Federal expenditures can be further reduced, as they certainly should be, money will be available for such other purposes as debt reduction or tax reduction. We must not let ourselves become complacent about present Federal budget levels. Not only are expenditures four or five times what they were in the thirties (and the thirties was not a period notable for rigid economy), they are far above what fiscal students have estimated to be necessary.

Several studies came out a few years ago, forecasting Federal budgets of $15 to $22 billions, with $18 billions as a general average. Tremendous production, full employment, and unexpectedly great national income have combined to make present Federal budgets bearable, but can we count on all three factors to continue for the indefinite future? I have not seen an investment advisor who thinks so. Therefore, we should be well advised to continue to trim Federal expenditures all we can, to get the budget down nearer to a level we can afford in an average year, not merely in an unusually prosperous one. A $20 to $25 billion budget is certainly possible for a normal year, without undue curtailment of proper government functions.

The Federal budgetary expenditures present to a layman an immensely complicated maze. If ever there is justification for a citizen leaving the subject to the experts, there is here. Yet it must be evident that we must not leave the determination of the size of the budget merely to Federal bureau chiefs. Any bureau

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*An address by Mr. Magill before the American Institute of Accountants, Miami Beach, Fla., Nov. 6, 1947.

The State of Trade and Industry

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

Total industrial production advanced moderately the past week with moderate increases reported by many manufacturers. Employment and payrolls too, held at high levels, though in the case the former, some types of skilled labor continued to be scarce. Shipments of raw materials, it was reported, were fairly prompt although the supply of freight cars remained limited.

With the removal of Regulation W on Nov. 1, last, it was expected in some quarters that wide credit expansion would result, but according to the American Bankers Association, consumer instalment credit in most sections of the nation has expanded very little during the first week of credit decontrol.

From the Association's nation-wide survey it was found that practically all sections reported that lenders are requiring down-payments of 33⅓% with 24 months to pay for new cars and down-payments of 33⅓ to 40% with from 12 to 18 months to pay on used cars. In Colorado and some of the Pacific states, however, a few dealers are asking only 25% down with 24 months to pay.

With respect to expansion of credit for business authoritative sources reveal that no abatement in this form of credit has occurred. It has been found on the contrary that for the 16th consecutive week, commercial, industrial and agricultural loans of New York City member banks of the Federal Reserve expanded. The latest gain, one of $90,000,000, lifted the total of such loans to a high record of $5,086,000,000; this compares with $3,898,000,000 a year ago.

The contents of the report to President Truman of The Harriman Committee on Foreign Aid were disclosed at the week-end with the committee expressing great concern over the impact its proposed foreign spending program would have on the domestic economy. A comprehensive European aid program that could cost the United States $5,750,000,000 in 1948 and as much as $17,000,000,000 through 1951 was advocated.

Convinced that inflation is the immediate economic danger to the United States, the committee pointed out that one view held the persistence of high food prices since the war has been due chiefly to domestic demand and that the influence of food exports has been minor and secondary.

In a dissent from this view the report states:

"This commitee believes this opinion overlooks the importance of marginal demands and that it is the extra food withdrawn from the domestic supply by exports which has made the real difference."

In September the class I railroads had a net railway operating income of $47,979,446 compared with $67,510,230 in the same month of 1946, according to reports filed by the carriers with the Association of American Railroads.

Estimated net income, after interest and rentals, for September last, amounted to $21,150,000 as compared with $39,600,000 in September, 1946. Net railway operating income for the first nine months of 1947, before interest and rentals, totaled $557,744,853 as against $366,819,199 in the like period a year ago with net income, after interest and rentals, in the like period of 1947 estimated at $316,000,000 compared with $105,000,000 in the corresponding period last year.

In the 12 months ended Sept. 30, 1947, the rate of return on property investment averaged 3.60%, compared with 1.94% for the 12 months ended Sept. 30, 1946.

Total operating revenues in the first nine months of 1947 amounted to $6,327,777,373 as against $5,621,219,215 in the similar period of 1946, or an increase of 12.6%, while operating expenses totaled $4,958,593,663 as compared with $4,712,544,961 in the corresponding period of 1946, or an increase of 5.2%.

A spurt in consumer buying resulted from cooler weather in many sections of the country and interest in holiday merchandise increased considerably. Retail volume in the week rose moderately above the level of the preceding week and was well above that of the corresponding week a year ago. Price resistance was reported to have increased in some areas with consumers continuing to insist upon quality.

Wholesale volume too, advanced, moderately above the levels of both the preceding week and the corresponding week a year ago. The further increase in optimism was accompanied by the sustained heavy demand for most types of goods. Some scarcities persisted though deliveries were generally improved.

STEEL OPERATIONS SCHEDULED AT HIGHER RATE FOR WEEK AND YEAR AGO

There will not be any complete steel allocation system set up to carry out the heavy industry section of the Marshall Plan. New controls on exports will be created. But the program will be launched

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Observations . . . .

By A. WILFRED MAY

A PROFESSIONAL ATTITUDE IN INVESTING

(Fifth of a series of articles on Investing Techniques)

In considering the various investing techniques, possibly the most unique approach is that of the *Investment Counsel.* His functioning and reception in the community of investors has most interesting and significant implications.

A. Wilfred May

This relatively new profession actually had its genesis shortly after the close of the First World War. Scudder Stevens and Clark, in the East, and Clifford and Company in the West, in 1919 severally formed partnerships for investment banking, but within a few months they began transforming those activities to fill the void in the financial community which had arisen from the absence of any agency solely representing the private buyer of securities. Before the war-time flotation of Liberty Bonds the purchase of securities had been rather closely confined to professional buyers as banks, insurance companies, and trustees, for investment rather than speculative purposes. Private buyers had mostly entrusted their funds to savings banks, mortgages, and other local investments. All this was changed by the War Bond campaigns and the subsequent stock market boom of the 1920's. Before the termination of that boom there were only 4 or 5 more firms that were entitled to be called investment counsel (although many individuals haphazardly operated under the title)—that is, who gave to investors seeking income and capital appreciation, unbiased, continuous, personalized supervision over their securities and advice on their general and specific financial problems.

There ensued the 1929 bursting of the stock market bubble, with the evaporation of the easy-money illusions of the New Era, coupled with the objective fact of the rapid growth of our industry's capital structure and of the complexity of the concomitant securities factors, such as taxation. Morover, the advent of the Federal securities legislation with disclosure as its cornerstone released an avalanche of corporate data under which the unaided lay investor has found himself hopelessly engulfed. As a result this profession, acting as an engineer or as an expert adviser on legal matters, began in a real way in the 1930's, until now it comprises about 200 genuine individual firms.

The Incidence of Federal Regulation

Investment counsel were brought under Federal control in 1940 through one of two titles of the Act (H.R. 10065) providing for the registration and regulation of investment companies and investment advisers. The law differentiates between "investment counsel" and "investment advisers," the latter being the generic term of which the former is one type. **The counsel are defined as those getting their major income from managing accounts, through the giving of continuous advice as to the investment of funds on the basis of the individual needs of each client, without engaging in other activities, related or unrelated, as brokerage or banking, or issuing bulletins or other services.** They as well as all other investment advisers are forbidden to receive compensation based on clients' capital appreciation, and to act as a principal in security transactions with their own clients, or to act as a broker, without written disclosure thereof.

The Basic Nature of the Profession

The counsellor, in line with his making of investment management a genuine profession, works for a fixed fee—not on any contingent arrangement geared to the client's capital gains, nor even to his investment income, nor to the client's or his own activity. This is important not because of inference that contingent arrangements prevent integrity and conscientious service—in fact they may cause bending over backward—but instead because the **straight fee arrangement makes it crystal clear to the client that the fee is being earned irrespective of activity or income.**

Psychological Advantages

The most important advantage I would ascribe to this "system" is the escape from the subjective emotional difficulties intertwined with individuals' forecasting. As a medical doctor disqualifies himself from being his own patient because of the interference with his expert judgment injected by his subjective emotions; likewise even the emotionally-involved investment expert, no matter how able, cannot possibly do himself justice in ministering to himself as the client. The strong manic-depressive and other psychological elements abounding in the stock market environment make this all the more important.

Along the same lines, with the factors affecting investments so numerous and ultra-complex, the investment counsel, apart from

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Chambers Buffalo Mgr. For Kalb, Voorhis Co.

BUFFALO, N. Y.—Kalb, Voorhis & Co., members of the New York Stock Exchange, announce that Arthur L. Chambers has been appointed resident manager of their newly opened office in the Rand Building. Mr. Chambers was formerly Vice-President of Herrick, Waddell & Co., Inc., in charge of their Buffalo office.

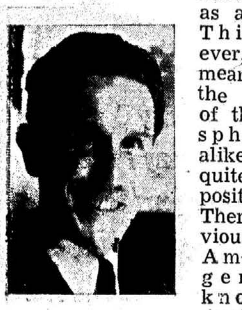
Economic Profile of the Americas

By DR. RAMON BETETA*

Secretary of the Treasury, Republic of Mexico

Asserting the Americas constitute a unity and are complementary to each other, Dr. Beteta deplores disruptions to international trade because of isolated actions, aimed at each separate nation increasing exports and reducing imports. Cites Mexico's efforts to equalize balance of payments by restricting imports and defends industrialization program, but forecasts disaster if all countries followed same policy. Advocates freedom of exchange and deplores Europe's exchange restrictions. Sees solution of the Americas' problem on hemispheric basis only and looks for substantial capital flow from U. S. to Latin America. Says economic liberalism is no longer practicable.

The subject I have chosen for this talk—the economic profile of the Americas—takes for granted that we accept the fact of the unity of the Americas. The existence of this unity was made evident by the war, but it had been recognized before whenever the New World was mentioned as an entity. This, however, does not mean that all the countries of this hemisphere are alike; in fact, quite the opposite is true. There are obviously two Americas, generally known as Anglo-Saxon America and Latin America. These terms, however, place no emphasis on the differences between the two Americas growing out of race and origin, nor do they explain the other and more fundamental dissimilarities I shall mention later, however much these may be partly the result of the former. From the economic viewpoint, which is the phase we are interested in today, I should like to describe one of the Americas as being fully industrialized, completely developed, technically wise, having a surplus of capital, most of the gold of the world and the highest standard of living. This is *Creditor America*. The other America is composed of agricultural and mining countries; it is undeveloped but growing; it has an incipient yet essential industry; it has tremendous natural resources and a low standard of living; it is lacking in technical knowledge and in domestic capital; it is sparsely populated. This is *Debtor America*.



Ramon Beteta

*An address by Dr. Beteta at 34th National Foreign Trade Convention, St. Louis, Mo., Oct. 21, 1947.

The two Americas constitute a unity, not of similar but of complementary economies; the former, with capital that seeks investment, the latter with natural resources in need of capital for its development. Production is possible only when human labor, aided by capital and technique, is applied to natural resources. If we seek the economic prosperity of America as a whole, we must see that the above forces work together.

What is the situation of the Americas in a world in which foreign trade has been dislocated? We might summarize it by saying that each one of the separate countries of America is attempting to solve its own individual problems in an isolated manner, with varying results, but with evident danger of stopping international trade altogether.

What's Happening in Mexico

Let me try to describe briefly what is happening in one of these countries—Mexico. I choose Mexico because I know more about it than about the others, and because I believe that what is taking place in Mexico is typical of what one finds in other parts of what I have called Debtor America.

During the war there was an increase in Mexico's exports as the need for raw materials increased with the war effort. These exports created a growing reserve in Mexico's central bank, because there was not a proportional increase in imports, due to the restrictions which the United States found it necessary to impose in order to concentrate all her might on the production of armaments, munitions and other goods essential to fighting a war. The repercussion in Mexico's internal economy was what is vaguely known as inflation, due, in turn, to two factors which worked hand in hand; first, the increase in currency in circulation as the result of the continuous influx of foreign monies,—some deriving from payments against our exports, others representing repatriated or refugee capital; and second, the fact that the amount of goods available for purchase did not grow in relation to the growth of money. A third factor contributing to inflation was the shifting of a part of agricultural production from foods for local consumption to other products for exportation. Thus an accumulated demand was created which could not be satisfied during the war and which remained as a threat to the monetary reserves in the central bank.

The lack of sufficient importations and the higher prices for industrial goods acted as a stimulus to industrialization, and a number of new industries were started. Like all inflationary processes, that which Mexico suffered gave an illusory appearance of prosperity which hid the true sacrifice the people at large were making. Protests, however, were few as everybody understood the necessity of making sacrifices to win the war.

Then peace was declared. The necessary adjustments could not be made immediately. Some of the trends were reversed, others remained. Thus, exportations decreased, both in quantity and in price, while importations rose irregularly on certain products. At the same time, internal prices did not go down; on the contrary, in certain instances local prices were affected by the higher prices paid for articles which were imported. The continuous rise in the price of imported goods was particularly painful for struggling infant industries, for, regardless of contracts already signed, suppliers of machinery and equipment con-

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From Washington Ahead of the News

By CARLISLE BARGERON

A friend with whom I frequently play golf has been pretty critical of this European relief business, as he called it. Invariably when I ran into him he would ask: "What's Truman trying to do to us with this Marshall Plan?" A business man, he is not wordy; rather he is given to monosyllables and to wrapping up his attitude on public and governmental problems in such a rhetorical package as the above. He didn't expect me to tell him what Truman was trying to "do to us." It was simply his way of expressing his disagreement with what was going on.

Carlisle Bargeron

Well, you can imagine my surprise when recently he greeted me with the statement that we had to do something about Europe. Things were pretty terrible over there, he said, people are starving and Communism is about to take the continent in its grip.

I asked him where he had learned these stark facts and he said that, well, he had learned them and something had to be done and pronto.

Then he confided that President Truman had called him in and asked him to serve on the citizens' "voluntary" food conservation committee for Washington to promote meatless Tuesdays and poultryless Thursdays. This was before poultryless Thursdays were reduced to eggless Thursdays.

Pursuing the engaging proposition of Truman having called my friend in, I learned he was exaggerating somewhat. Truman had called in Charles Luckman who in turn had set up committees all around the country and my friend had been asked to serve on one of these committees. Thereupon he had come to be a convert for European relief. He had come to see the seriousness of the situation over there.

My friend is in the furniture business, and I asked him how he would feel if all of a sudden somebody should get the idea that Europe needed lumber to rebuild its homes and factories so it would get back on its feet and keep Communism from spreading over the continent, so that Russia would not get the atomic bomb and destroy all civilization, and then some go-getter, or dynamic sort of fellow, would be called to Washington to prevent "voluntarily" the use of lumber in this country so we could send it to Europe to head-off all of these dire happenings.

My friend said he could not possibly see anything like that happening and insisted that the whole food conservation program is voluntary, that people don't have to go without meat or chickens or eggs if they don't want to. This is the difference between a police and a democratic state, he said.

I asked him how he would feel if this dynamic fellow to save lumber for Europe, should call all the furniture dealers together and tell them that they had to voluntarily cut down on the sale of furniture and those who didn't agree would have their names published in all the papers of the country, and the people would be urged not buy furniture, and finally maybe if the furniture dealers didn't subscribe wholeheartedly to this voluntary program, the President might allot all the lumber to other purposes and keep the furniture people from getting any, or maybe their income tax returns could be investigated.

My friend said he couldn't see how furniture dealers could be compared with poultry and liquor dealers, and besides we simply had to wake up and do something about Europe, and although he is a Republican, he is solidly behind the President in this non-partisan undertaking and has bet $1,000 that he will be reelected because, in this humanitarian effort, he will get all the voters of a foreign strain and in the spending of all this money we will all be prosperous and everybody will be making money and people will figure they shouldn't change horses in the middle of such a prosperous stream, and anyhow something has got to be done about the starving people of Europe otherwise the Communists will get them and then drop an atomic bomb on us and destroy civilization.

My friend is 60 years old and I pointed out to him that irrespective of what the Russians did, his civilization was bound to come to an end in the next 15 years even if he lived to a ripe old age. And he said well, his children would be able to say that their old man served on a Presidential committee and he wanted them to be proud of him.

You can multiply my friend a thousand-fold or a ten thousand-fold over this country, people who will hit the ceiling at any suggestion of any restriction being placed on their business or any limitation being placed on their profits or incomes. But they will gleefully place them on the other fellow, the landlord, the merchant, the poultry raiser.

It is utter nonsense, of course, to speak of the food conservation program as voluntary. It is voluntary insofar as the housewives or the consumers are concerned. They can demand their meat and poultry and eggs.

But browbeating has been used on the producer. The poultry people, after a long struggle and considerable expenditure of money, have gotten out from under after making certain promises to cut down on production. The distillers have never had a chance. They have been treated as more or less engaged in an illicit business. Why?

Guthrie & Schofield to Be Reed Co. Partners

WORCESTER, MASS. — Elwin A Guthrie and Eugene C. Schofield will become partners in Reed & Company, 8 Foster Street, members of the New York and Boston Stock Exchanges, on Nov. 15. Both have been with the firm for many years, Mr. Guthrie in charge of the trading department.

The interest of the late Ann Putnam Reed in the firm ceased Oct. 10.

N. Y. Municipal Bond Club And Forum to Hear Tobin

A joint luncheon meeting of the Municipal Bond Club of New York and the Municipal Forum of New York will be addressed by Austin J. Tobin, executive director of the Port of New York Authority. He will speak on "Financing the Airports and Marine Terminals of the Port of New York." The meeting will be held Friday Nov. 14 at the Grand Ballroom of the St. George Hotel in Brooklyn.

The Outlook for National Income

By S. MORRIS LIVINGSTON*
Chief, National Economics Division, U. S. Department of Commerce

Pointing out business capital needs will continue large for several years as an offset to decline in heavy wartime government expenditures, Commerce Department economist looks for continued high consumer demand maintaining present level of business. Cites cashing of terminal leave bonds and high rate of expenditure of consumer income, despite high prices, as factors contributing to boom, but warns economy will become more vulnerable in 1948, with some possible decline in national income.

Appraisal of the outlook for the national income necessarily stems from an analysis of developments since the last Agricultural Outlook Conference and an evaluation of present tendencies. For this purpose it is convenient to talk in terms, not of the national income, but of the gross national product.

S. Morris Livingston

As most of you know by now, the gross national product is the market value of all goods and services produced. It is larger than the national income because there is included in the value of these goods and services the costs, such as depreciation and business taxes, which do not accrue to any individual as income.

All of the goods and services produced go to four broad markets. These are government purchases, business capital outlays, our net exports and consumer expenditures. These four markets determine whether aggregate demand is more or less than sufficient to absorb all that can be produced.

The sharp decline in government expenditures for goods and services from the wartime peak of $100 billions to less than $30 billions had already occurred at the time of the last Conference. Since then this one of the four markets has been a stable rather than dynamic influence in the economy. Including State and local governments, outlays are at a slightly higher rate today than they were a year ago, but a slightly smaller share of the increased dollar value of total national output. Efforts at further reduction of the Federal budget have been offset elsewhere by rising prices and resumption of peacetime public works construction.

Any major changes in government expenditures for goods and services in the coming months will occur only as the result of new legislation—such as the foreign aid program.

Business Capital Outlays

Business capital outlays can be divided into three categories: equipment, construction and inventories. Outlays for producers' durable equipment rose rapidly from an annual rate of $6 billion in the Spring of 1945 to $18 billion in the Spring of 1947. Since then they have leveled off.

These outlays are at a very high rate. If continued indefinitely, they would be more than sufficient to maintain the country's physical plant and provide for a normal growth in capacity. That, however, does not necessarily preclude a continuation, or possibly even some further increase, over the present rate in 1948.

Any near-term reversal of general business trends is not likely to originate with a decline in equipment outlays. Unfilled orders are still large, although no longer increasing. The backlog of demand for some types of equipment is running out, but demand for other items appears sufficient to absorb more than can be produced in the coming months. Expenditures for these items will tend to expand as production bottlenecks are eliminated.

On the other hand, equipment outlays from here on are likely to reflect rather than offset any weakness developing elsewhere in the economy. In general, the as yet unsatisfied demands are not so urgent but what any serious doubts as to the future trend of business, or of prices, could produce hesitation all along the line.

Construction activity, including residential construction, also rose rapidly from an annual rate of less than $3 billion in the Spring of 1945 to over $10 billion in the Spring of 1947. At that point there was some hesitation induced by the sharp run-up of costs and by the hope or expectation that those costs would come down in the near future. The urgency of the demand, however, prevented any significant decline. In spite of high costs the upward trend in activity has been resumed.

Construction Activity

Construction is likely to be an element of continuing strength in the economy. The backlog of deferred demands is still large—although much of that demand is deterred, not only by high costs, but also by uncertainties as to costs and completion dates and other disadvantages of building under present conditions of inadequate supplies of materials

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*An address by Mr. Livingston at the 25th Annual Agricultural Outlook Conference, Washington, D. C., Nov. 3, 1947.

Our National Resources and European Relief

By CHARLES J. BRAND
Economic Consultant, Washington, D. C.

Mr. Brand, stressing adverse effect on U. S. resources by failure to restore Germany's agricultural production, gives examples of how certain of our natural products are being gradually exhausted. Points out because uneven distribution of resources among nations is inevitable, it has been fertile cause of international conflict. Warns resources here and abroad should be wisely used and not wasted during peace or overdrained during war.

Germany is our greatest world problem. (Or is Russia?) The German Empire died with World War I. Germany as a nation died with World War II.

It was lack of resources within her borders and lack of ability to buy abroad that caused Germany to make the most determined effort ever undertaken by any nation to achieve self-sufficiency. Coal, synthetic nitrogen, and potash were the only resources of which she had an adequate supply. The Ruhr and the Saar made her practically self-sufficient as to coal. Her coal and lignite deposits and the hydrogenated gasoline produced from them gave her relative sufficiency in fuels.

Charles J. Brand

Nitrogen, phosphorus, and potash are absolutely indispensable to efficient agricultural production.

Up to the time of the bombings of World War II, Germany had the largest synthetic **nitrogen** fixation industry in the world. Prewar she used 630,000 metric tons of pure N a year, and exported her surplus to a score of countries including our own. Postwar (1945-46) use was cut to 137,500 tons. The shortage of fertilizer nitrogen alone in terms of pure N was about 500,000 tons. As one pound of nitrogen can be depended on to produce 20 pounds of grain, 500,000 tons are sufficient to produce crops equivalent to more than 300,000,000 bushels of wheat under good farm practices. German farming when it functioned normally produced about twice as much wheat per acre as American, Canadian, or Australian farming. The greatest nitrogen factories, including Leuna at Merseberg, the largest in the world, are now in the Russian Zone.

What the German plants are doing, three growing seasons after the end of the war, is a mystery. With millions of Germans starving to death, Germany's nitrogen fixation industry remains so inadequately restored that America has been shipping considerable tonnages of her insufficinet supply and our government plans to increase exports still further. (A month after this address was made, the Harriman Report on Wheat Exports Problem in its recommendation numbered five said immediate attention should be given to increasing exports of nitrate fertilizers from the United States to Western Europe.)

As to **phosphorus**, Germany has no phosphate deposits. The greater part of her need has always been obtained from the waste basic slag (about 4,000,000 to 6,000,000 tons) of her steel industry. Prewar, two-thirds of her iron ore was imported, and at peak production she produced about 28,300,000 tons of steel (1939). This was cut back to about 5,800,000 tons under the Morgenthau feature of the Potsdam agreement, and is now to be elevated to about 10,700,000 tons. In 1938-39 Germany consumed 762,582 metric tons of phosphoric acid; in 1944-45, 145,265 tons. This is a deficiency of about 600,000 tons.

Cut back as it is, the steel industry cannot supply the agricultural need for phosphorus, and until that need is adequately met the nations occupying western Germany will have to continue to feed and clothe her in large part. The Russians have possession of all of Eastern Germany, the chief food-producing area, and also of Romania whence Germany drew a large part of her wheat imports.

As to **potash**, the German reserves, hitherto considered the largest in the world, are about three billion metric tons of K_2O. Prior to the war Germany was the only nation that used potash adequately. We use probably 1/20th of the quantity that is removed from our soils each year by erosion, leaching, oxidation, and cropping, but Russia uses less than 1/10th of what we do. Economic disorganization has cut German potash consumption from 1,392,000 metric tons in 1940-41 to 750,000 tons in 1944-45. Sixty-one per cent of German mining capacity is now in the Russian Zone of Occupation, 22% in the British, 14% in the American, and

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Public Utility Securities

Texas Eastern Transmission

Texas Eastern Transmission was incorporated in Delaware last January and became the successful bidder for the "Big Inch" and "Little Big Inch" war emergency pipe-lines, and related properties, the price being $143,127.000. Payments of $5,100,000 were made, and the company is now effecting its major financing through Dillon, Read & Co. The capitalization on completion of the current financing will consist of $120,000,000 1st Mortgage Pipe Line 3½% bonds due 1962 (being privately sold to insurance companies) and 4,600,000 shares of common stock (par value $1). Of the latter amount, 3,564,000 shares are being currently offered to the public through the Dillon Read syndicate.

The Inch Lines were used during World War II to transport oil and oil products, and to adapt them to transport gas it has been necessary to install compressor facilities. Without such facilities capacity was about 140,000,000 cubic feet a day. With the facilities already installed, capacity is about 265,000.000, and by Aug. 1, 1948, this will be increased to 433,000,000.

The "Big" Line extends from Longview, Texas to Phoenixville, Pennsylvania (22 miles from Philadelphia); the "Little" Line from Beaumont, Texas to the Linden, New Jersey area (12 miles from New York City). Two connecting lines link Phoenixville with the Philadelphia area and the Linden section. Texas Eastern Pipe Line system originates in the Gulf Coastal plain. Including northeast Texas and northern Louisiana, gas reserves in this area are estimated at over 70 trillion cubic feet. Ralph E. Davis, gas expert, in a report to Dillon Read & Company (incorporated in the preliminary prospectus) states that:

"The estimated gas requirements to meet the increased load of Texas Eastern Transmission Corporation, the increased load of Tennessee Gas Transmission Company including the requirements of the projected line to Boston. Massachusetts, the estimated load of Trans-Continental Gas Pipe Line Company, Inc. and of Texas Gas Transmission Corporation, would total approximately 600 billion cubic feet per year, some of which supply would become available from gas now being flared. My belief that the natural gas reserves of this region are sufficient to meet the growing requirements for more than 30 years is based on the above broad picture, with due consideration given to the prospective undiscovered reserves."

A good part of the Texas Eastern Gas will be diverted in Ohio and western Pennsylvania to companies serving those states. Columbia Gas will take 150,000,000 cubic feet, Consolidated Natural Gas 125,000,000 and three other companies serving the Appalachian area 65,000,000, leaving about 77,000,000 for the Philadelphia area where it will be used by the Philadelphia Gas Works (U.G.I.) and Philadelphia Electric, where it will doubtless be used for mixing purposes.

It is of course difficult to estimate the company's revenues and net earnings until the FPC has passed upon the rate base and the allowable rate of return. Assuming that estimated eventual original cost is used, this would approximate $169,000,000 (though part of this may not prove useable) for natural gas operations. If this entire amount is considered a rate base, possible rates of return and corresponding share earnings for the common stock would be as follows:

	5½%	6%	6½%	7%
Amt. of return (mill.)	$9.3	$10.1	$11.0	$11.8
Int. on bonds (mill.)	4.2	4.2	4.2	4.2
Balance	$5.1	$ 5.9	$ 6.8	$ 7.6
Amt. per share on 4,600,000 shares	$1.11	$1.28	$1.48	$1.65

Assuming that the company was operating practically at capacity on the basis of present contracts, it is estimated that earnings would be in the neighborhood of $1.60, but of course such earnings would be subject to eventual regulation by the Federal Power Commission and a possible reduction in rates. Based on the original offering price of 9½, earnings estimated at 6% on rate base ($1.28) would make the price-earnings ratio about 7.4 times; and assuming share earnings of $1.60, the ratio would be 5.9.

These relatively low ratios are largely explained by the dividend outlook. Because of bond indenture provisions that no dividends can be paid until earnings of $10,000,000 have been made, payments appear unlikely for at least two years. The eventual dividend rate will be governed not only by earnings that may be allowed by the FPC, but also by the cash requirements for sinking funds and betterments (largely provided by the depreciation charge, however).

Kenney & Powell Form New Investment Firm

Formation of the investment securities firm of Kenney & Powell to deal in general market securities, with offices at 25 Broad Street, New York City, has been announced. Partners of the new firm are D. Raymond Kenney and Alfred L. Powell. Mr. Kenney began his Wall Street career with Blyth & Co. Inc., in 1929, and recently has been associated with C. E. de Willers & Co. Mr. Powell was with W. L. Burton & Co. before entering the service and also was recently connected with C. E. de Willers & Co.


D. Raymond Kenney Alfred L. Powell

Hugh D. MacBain to Join Mellon National Bank

PITTSBURGH, PA.—Hugh D. MacBain, Vice-President of the First Boston Corporation, will leave that organization to become Vice-President of the Mellon National Bank and Trust Company on November 15, according to an announcement by Frank R. Denton, Vice-Chairman of the Bank.

Hugh D. MacBain

Mr. MacBain entered the investment banking field in 1925 with Wood, Struthers & Co., New York City. In 1935 he became associated with Shields & Co. He became Vice-President in charge of sales and syndicate operations of Mellon Securities Corporation in 1937 and was appointed Vice-President of the First Boston Corporation in 1946 when Mellon Securities Corporation was merged with First Boston. He was a governor of the Investment Bankers Association of America from 1943 to 1946.

Howard L. Newell Now With J. R. Woodhull & Co.

(Special to THE FINANCIAL CHRONICLE)

DAYTON, O.—Howard L. Newell has become associated with J. R. Woodhull & Co., Third National Bank Building. He formerly conducted his own investment business in Dayton and prior thereto was an officer of Feight-Yeager & Co., Inc.

E. N. Jesup Dead

Edward N. Jesup, Vice-President and director of Lee Higginson Corp., New York City, died of a heart attack on Nov. 2.

Dealer-Broker Investment Recommendations and Literature

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

Airlines—General study of the industry containing analyses of 18 leading domestic airlines—Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York 5, N. Y.

Cement Company Common Stocks in 1947—Analysis of present investment position—E. W. Axe & Co., Inc.—Tarrytown Press, P. O. Box 147, Tarrytown, N. Y. —Paper—$1.00 (50¢ to Public Libraries and non-profit institutions).

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.

New York City Bank Stocks—Earnings comparison of 19 New York City Bank Stocks for third quarter of 1947—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Ohio Municipals—Report on voting on Ohio Bond issues, with some conclusions as to future supply—J. A. White & Co., Union Central Building, Cincinnati 2, Ohio.

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.

Tax Saving Through Stock Switching—Discussion—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

Television—Report on industry, its development and outlook—Gross, Rogers & Co., 458 South Spring Street, Los Angeles 13, Calif.

* * *

American Telephone & Telegraph Co.—Table on related values—New York Hanseatic Corp., 120 Broadway, New York 5, N. Y.

Columbia Gas & Electric vs. Consolidated Edison Co.—Comparison—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Commonwealth & Southern Corp.—Detailed memorandum—Bear, Stearns & Co., 135 South La Salle Street, Chicago 3, Ill.

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

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

Fuller Manufacturing Co.—Circular—Riley & Co., First Wisconsin National Bank Building, Milwaukee 2, Wis.

General Instrument Corp.—Analysis in current issue of "Electronic & Communication Digest"—Frank T. Stanton, 343 North Fullerton Avenue, Montclair, N. J.—$5 per quarter.

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.**

International Salt Co.—Memorandum in current issue of "Market Comments"—Bennett & Palmer, 165 Broadway, New York 6, N. Y.

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

Northern Indiana Public Service—Circular—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Northwest Utilities—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, 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.

Square D Company—Analysis—G. H. Walker & Co., 1 Wall Street, New York 5, N. Y.

Sterchi Bros. Stores, Inc.—Memorandum—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

United Aircraft Corp.—Special Review—John H. Lewis & Co., 14 Wall Street, New York 5, N. Y.

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

COMING EVENTS

In Investment Field

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.

Dec. 5, 1947 (San Francisco, Calif.)
San Francisco Bond Traders Association Christmas Party and installation of officers.

March 5, 1948 (New York City)
New York Security Dealers Association 22nd Annual Dinner at the Waldorf Astoria.

November, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

Cabell Halsey With Paine, Webber Firm

Paine, Webber, Jackson & Curtis, 25 Broad Street, New York City, members of the New York Stock Exchange and other leading exchanges, announce that Cabell Halsey has become associated with the firm in the municipal bond department. Mr. Halsey in the past was with B. J. Van Ingen & Co., Inc.

Money and the Special Session

By THOMAS I. PARKINSON*

President, The Equitable Life Assurance Society of the U. S.

Recalling U. S. went off gold standard to obtain a stable managed currency, Mr. Parkinson indicates how objective has failed, and greatest sufferers have been life insurance policy holders. Urges policy holders do something about getting the monetary authorities and Congress to curb rising inflation.

The President has called a special session of Congress. He does not have the constitutional power as the Governor has in many of our States to limit a special session to particular subjects designated by him, but in his call he has indicated the reasons for summoning a special session. One of his reasons is the current rise in prices and the need for some action with respect to inflation.

T. I. Parkinson

It is to be hoped that he and the members of Congress will at least recognize the fact that high prices are the result of an inflation of our currency and the resulting increase in our money supply. It cannot be too often repeated that the average amount of money available to the people of this country in the years just before World War II was approximately $50 billions and is now $165 billions. That total money supply results from $137 billions of bank deposits and $28 billions of circulating coin and paper money.

Mr. Szymczak, member of the Federal Reserve Board, who is just back from dealing with the financial and monetary problems encountered by our occupation forces in Germany, said in a talk to the District of Columbia Bankers a few days ago that our money supply is increasing at the rate of $9 billions a year. How can we expect to stop the increase in prices if we continue the increase in the number of dollars available for spending?

Surely we are all prepared to realize now that the purchasing value of the dollar and, therefore, the cost of things bought with the dollar varies with the volume of dollars in use. We cannot expect one of $165 billions to buy as much as one of $50 billions used to buy. If we want more dollars jingling in our pockets — though these current paper Federal Reserve Notes don't have much jingle in them—we might as well stop growling because it takes more of them to buy what we want. If, then, prices are to be a serious consideration of the special session of Congress, both the President and the Congress must give serious and immediate attention to the question whether we do not now have too much money and the ways and means of preventing its increase or bringing about its decrease.

Promise of A Stable Standard

When we went off the gold standard we were promised a managed currency, the purchasing value of which would remain stable for at least a generation. President Roosevelt promised that in so many words. We have had no management of our currency and we have no manager or management today. Whether the amount of money constituting our money supply increased yesterday depends not on anything done by the Treasury, by the Federal Reserve Board or by the Federal Reserve Banks. It depends entirely on what the banks of the country, acting individually, each in its own interest, chose to do in the matter of making loans or buying bonds. If the Bank of America in California yesterday went on the market and bought long-term Government bonds in order to increase its earnings, it increased the money supply by the amount of its purchase. If the National Bank of Wichita chose to buy an unusually large amount of farm loans to increase the bank's earnings, it increased the money supply by the amount of that purchase. If a Chicago bank chose to buy the new Chicago Transit Authority Bonds with the like purpose of increasing the bank's earnings, it increased the money supply by the amount of that purchase. If a New York bank chose to make a 10-year loan to a Standard Oil Company, it increased the money supply by the amount of the loan. These results are inherent in banking operations.

But the worst of our present position is that each one of these banks was able to get the funds with which to make its purchases or its loans by dumping its short-term Government bonds into the Federal Reserve Bank without asking anybody's permission and using the proceeds to adulterate our currency. It is as if the farmer were permitted, in his own discretion, to add as much water as he chose to the milk which came from the dairy house before selling it to his customers. The whole public suffers in the higher cost of living resulting from the continued over production of that which we use for money.

It is true the United States Treasury enjoys currently a lower rate of interest on its obligations because of the great flood of money which Government fiscal and monetary policies have produced. But the effects of this penny-wise-pound-foolish policy are coming home to roost. The policyholders of the life insurance companies are the chief sufferers. They represent 70 million citizens of this country who have purchased life insurance for themselves and almost as many more dependents. They are, in fact, almost the entire population.

Insurance Policyholders Suffer

Now, the detriments which our life insurance policyholders are suffering are very simple and very severe. First, the volume of money reduces the interest rate not only on Government bonds but on all kinds of high grade securities in which life insurance funds are and ought to be invested. The decrease in the interest yield on life insurance assets has been so great that there has been a real increase in the net cost of life insurance to those who own it. This increase in net cost is due to the inability of the companies to pay the dividends which they might pay with better interest yields on their investments.

A decrease of one-half of one percent in the interest yield on invested assets means an annual loss to the life insurance policyholders of this country of $225 millions. In addition to this greater cost of the insurance protection which they are providing for themselves and their families, the life insurance policyholders of this country have suffered from the increased volume of money a decreased buying power of the dollars paid to them or to their beneficiaries under their life policies. Note that it is not the com-

(Continued on page 23)

*A statement of Mr. Parkinson released through the Continental Press Syndicate, Brightwaters, N. Y.

Future of Real Estate Lending

By FRANK C. RATHJE*

President, Chicago City Bank & Trust Co.

Former President, American Bankers Association

After reviewing mortgage lending situation, Mr. Rathje points out conventional type of mortgage on single and multiple housing is disappearing and giving way to insured or controlled mortgaging. Stresses prevalence of loan amortization and return to single-home as contrasted with multiple-unit financing. Argues for shorter periods of loan amortization, and contends weak spots in present situation are forced-ownership class of borrowers and present high construction costs. Warns of effects of socialized housing on mortgage lending.

I have been asked to speak today on the subject: "The Future of Mortgage Lending in the United States." I assume we are interested primarily in real estate mortgages on urban property, and that our chief concern is to explore the techniques of lending to be employed, as well as to consider the future value of urban real estate.

Frank C. Rathje

It is to be recognized that both elements have been subject to evolutionary change over the past few decades. Not only has our concept of making a mortgage been revolutionized, but the type and nature of the real estate with which such loans are secured has likewise been radically changed.

Years ago, the process of urban mortgage lending contemplated our making a loan to an individual who was the owner of either a single or multiple family unit or business building. It involved an appraisal of the sound value of the property which was to be pledged as well as the credit of the individual who was signing the mortgage. In virtually every instance, the property had already been built and the credit of the borrower established. In conformity with sound banking practice, a decision was then made as to the appropriate ratio of loan to value, as it was determined by competent appraisal. The time of repayment was not of too great concern. Very often, there was no amortization provision over the term of the mortgage—a term which barely exceeded 10 years.

While it is true that prior to 1930 our economy had experienced many periods of depression, there never had been a time when the dynamics of a growing nation had failed to support property values sufficient to sustain the security of a well-made real estate mortgage.

Changes in Urban Real Estate Security

In this connection, it is interesting to note several changes which have taken place in urban real estate, especially as they have affected its stability and value as security for a debt. Prior to World War I we thought of residential building, whether they were single-family homes or the modest apartment buildings, then popular, as capital goods. The value of residential buildings was related principally to the structure itself and was more closely tied to the costs of its reproduction and its location than to the economic status of its individual users. Our experience had been that reproduction costs rose steadily and that the growth of our cities produced higher land values—a combination of facts which validated our belief in the safety of mortgage loans.

During the lush days of the 20's, however, we began to see a change in the process of determining the collateral value of real estate. Instead of relying on the reproduction costs and location, we adopted the so-called income yardstick of value. Under this device, during the course of a hitherto unknown prosperity, we linked the value of real estate to its rental income. This was the step which removed property value from the strictly capital goods classification to what may be termed the consumer goods category. It was probably the first step in producing the important changes which came about in the 30's and which so vitally affected the techniques of mortgage lending.

From the point of view of the mortgage patterns, the 20's also produced radical changes. In previous periods, the great bulk of real estate borrowing had been done by individuals who, as noted before, used their credit and real estate collateral in connection with single-family homes, small apartment houses or business buildings. The 20's saw the rise of the corporate borrower. This corporate borrower was different in three ways from its predecessor, the individual borrower.

First, it offered no background of credit rating. In fact, its security was limited strictly to the real estate pledged.

Secondly, it generally borrowed on a proposed building, the value of which was estimated by the process of capitalizing the current purchasing power for living space by its proposed consumers.

Thirdly, the mortgage, in such cases, was divided into segments called mortgage bonds, which were sold to the public on the successful sales argument that mortgage investments had proved exceptionally safe over the entire period covering the history of our country. Many mortgage houses had been in business, claiming to have operated for a long period of years without a loss to an investor.

It may be argued that this promotional type of mortgage lending was not the bulk of the mortgage lending activity of the 20's; that by far the greatest bulk of the mortgage money found its way into single-family homes. This is true, however, the widespread construction of multiple family rental buildings financed by the issuance and sale of gold bonds set the stage for events which followed.

Effect of 1929-1934 Depression

When the depression of 1929-1934, with its heavy unemployment and sharp reduction of consumer purchasing power, became a plague in the real estate markets of the nation, values which were dependent almost entirely upon the maintenance of this purchasing power, depreciated tragically. The impersonal relationship between the corporate borrower and the split mortgage holder made compromise and negotiation impractical. The lack of interest of the apartment dweller made him a ruthless trade for lower rentals. As a result, the corporate borrower defaulted and the economic consequences of the weight of an over-supply of rental space dragged down in value not only the multiple rental unit but the single-family home as well. This resulted in a wave of defaults and foreclosures.

The seriousness of the depression, in terms of social and economic disaster, gave rise to an entirely new philosophy. Everyone realized that it was wrong for people to be victimized by a system over which they had no apparent control. It was felt that society should somehow assume an economic responsibility for its own maladjustments. To that end, the Home Owners Loan Corporation was created and several of our States adopted mortgage moratoria. It was not that the authorities urged that mortgage debts should be forgiven, but rather that our social conscience bothered us sufficiently to make us feel that real estate borrowers in the home and farm owner classifications should be given time and a chance to solve their mortgage problems.

In the security of our present relative prosperity, we sometimes forget the situation in which mortgage lending found itself in 1933. Our individual activities were so concerned with the chores of defaults and foreclosures that we were diverted from the realization that there was virtually no real estate or mortgage activity. For example, new mortgages recorded in Cook County, Illinois, dropped from an average of practically $1 billion per year in the five years ending with 1929 to less than 90 millions in 1932. On the other hand, foreclosures in the same county increased from virtually none in 1925 to an average of $44.5 millions per month in the record year of 1932.

When the smoke of the depression began to clear in 1933-1934, the fear of foreclosure was still very much alive in the minds of the mortgage lending agencies. There was a natural reluctance against opening the doors to real estate credit. As a result, few loans were being made, and those were restricted to the conventional type, on conservative valuations to persons of demonstrated credit and then only in modest ratio to the depressed values then prevailing.

Post-Depression Loan Policy

This post-depression policy of conservatism in lending, however, was at odds with the thinking of the body politic. The action of the government in providing a solution of the banking crisis had convinced the people, the politicians, and the planners as well, that they could solve their economic problems by governmental action. This philosophy, which was born out of the Home Owners Loan Corporation and the Reconstruction Finance Corporation, was responsible for the creation of the Federal Housing Ad-

(Continued on page 25)

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

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

The stock of Corn Exchange Bank is the only one in the accompanying list of 17 leading New York City bank stocks which currently is priced higher than at the close of 1946. Average market decline of the 17 stocks thus far in 1947 is 10.3%; this compares with a decline of the American Banker index of 9.7%, from 44.3 to 40.0. The Dow Jones Industrial Average over the same period moved from 177.20 to 181.54, a gain of each of the 17 stocks, based on 2.4%. The following table shows asked prices as published in the the individual performance of New York "Times."

	—Asked Price—		%	Annual	Current Yield
	12-31-46	11-7-47	Change	Div. Rate	%
Bank of Manhattan	30	26⅜	—12.1	$1.20	4.5
Bank of New York	380	355	— 6.6	14.00	3.9
Bankers Trust	45¼	41¼	— 8.8	1.80	4.4
Central Hanover	106½	98½	— 7.5	4.00	4.1
Chase National	40½	37¾	— 6.8	1.60	4.2
Chemical Bk. & Tr.	47¼	44¾	— 5.3	1.80	4.0
Commercial	45¾	42	— 8.2	2.00	4.8
Continental	20⅛	16½	—18.0	0.60	3.6
Corn Exchange	56¾	57¼	+ 0.9	2.80	4.9
First National	1,675	1,345	—19.7	80.00	5.9
Guaranty Trust	343	270½	—21.1	12.00	4.4
Irving Trust	19⅛	16¾	—12.4	0.80	4.8
Manufacturers Tr.	60	53⅞	—10.2	2.60	4.8
National City	46⅝	42¾	— 8.3	1.60	3.7
New York Trust	101½	92½	— 8.9	4.00	4.3
Public	45½	41¾	— 8.2	2.00	4.8
U. S. Trust	755	645	—14.6	35.00	5.4
AVERAGE			—10.3%		4.5%

Guaranty Trust has suffered the greatest depreciation, with a drop of 21.1%; it is closely followed by First National with a loss of 19.7%, and Continental with 18.0%. Other stocks which have sustained greater than average declines are: Bank of Manhattan, Irving Trust and U. S. Trust. Stocks which have shown greater resistance to the downward drift, as evidenced in percentage declines less than the 10.3% average, include Bank of New York, Bankers Trust, Central Hanover, Chase, Chemical, Commercial National, Manufacturers Trust, National City, New York Trust and Public National. Corn Exchange registered a gain of +0.9%. The three next strongest stocks to Corn are Chemical, —5.3%; Bank of New York, —6.6% and Chase, —6.8%.

At current low market levels, many attractive yields are provided, as noted in the accompanying table; the average yield of the 17 stocks is 4.5%. Most of these banks covered dividends by very substantial margins in 1946. Narrowest coverage was by First National with a ratio of 1.3, followed by U. S. Trust with 1.4. These compare with Bank of Manhattan's and Manufacturers Trust's ratios of 2.8 each. These ratios are based on net operating earnings plus net security profits. Other high ratio banks were: Central Hanover, 2.4; Corn Exchange, 2.3; National City, 2.3; New York Trust, 2.4; Public National, 2.5.

At this point it is pertinent to refer to a revised report by Bankers Trust on estimated earnings of 37 New York City banks for 1947 and 1948. This report places net operating earnings (before taxes) in 1947 at 16% below 1946, and for 1948 at 12% below 1946. After adjustment for non-operating profits and taxes, total net profits in 1947 and 1948 are placed at 18.8% and 19.3% respectively, below 1946. Net dividend coverage is estimated at 1.63 in 1947 and 1.62 in 1948, compared with 2.1 in 1946.

These figures are based on aggregates for 37 banks, and offer no possibility of discrimination or selection. It is of interest to note, therefore, that if, for example, Bank of Manhattan and Manufacturers Trust's ratio of 2.8 should be adjusted in 1947 for the 18.8% decline in earnings estimated in the report, dividend coverage would be 2.3. On the other hand, First National's ratio of 1.3 would be reduced to approximately 1.1, and the 1.4 of U. S. Trust would approximate 1.2.

The generally conservative dividend policy of New York City banks has resulted in a steady and substantial growth of book values over the past several years. For example, since Dec. 31, 1939, Bank of Manhattan's book value has increased from $23.26 to $32.06, a growth of 37.8%; Chase National's, from $32.26 to $43.09, 33.5%; Corn Exchange's from $45.42 to $57.70, 27.0%; National City's from $27.38 to $47.86, 74.8%; Manufacturers Trust's, from $36.05 to $59.31, 64.5%; and Public National's from $42.28 to $53.64, 26.9%. Manufacturer's gain includes some additional financing and National City's some transfer from reserves. The average gain of the six book values cited is 44.1%.

G. E. Parks Joins Mercer Hicks; Firm Opens New Haven Br.

Mercer Hicks & Co., 150 Broadway, New York City, securities dealers, announce the association with the firm of G. Everett Parks as retail sales manager and Chancey W. Hulse as manager of its New Haven office, 205 Church Street.

Mr. Parks was formerly sales manager for the New York office of Buckley Brothers and was with R. S. Dickson & Co.

Mr. Hulse was previously New Haven manager for Pulis, Dowling & Co. Prior thereto he was with Cohu & Torrey and Craigmyle, Pinney & Co.

Ralph Davis Director

Ralph W. Davis, partner of Paul H. Davis & Co., Chicago, and George H. Spiers, President of Seismograph Service Corporation of Delaware, have been elected directors of Seismograph Service Corporation.

Associate Curb Member

The Board of Governors of the New York Curb Exchange announce the election of Samuel N. Kirkland of the firm of Jenks, Kirkland & Co., as an associate member. Jenks, Kirkland & Co. also hold memberships on the New York and Philadelphia Stock Exchanges.

Correction

In reporting the annual dinner of the New York Security Dealers Association to be held March 5, 1948, the firm affiliation of Walter Murphy was given incorrectly. Mr. Murphy is head of Walter Murphy, Jr. & Co., of New York City.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF NEW YORK

The following candidates have been nominated for officers of the Security Traders Association of New York for the year 1948:

President—T. G. Horsfield, Wm. J. Mericka & Co., Inc.

First Vice-President—Frank A Pavis, C. E. Quincey & Co.

Second Vice-President—Andrew R. Steven, Jr., Bond & Goodwin, Inc.

Secretary—John J. O'Kane, Jr., John J. O'Kane, Jr. & Co.

Treasurer—Wellington Hunter, Aetna Securities Corp.—

Directors (Two Year Terms)—Leslie Barbier, G. A. Saxton & Co., Inc.; Harry L. Arnold, Paine, Webber, Jackson and Curtis; Charles M. Zingraf, Laurence M. Marks & Co.


T. Geoffrey Horsfield


Frank A. Pavis


Andrew R. Steven, Jr.


John J. O'Kane, Jr.


Wellington Hunter

Trustees of Gratuity Fund (Two Years)—Joseph C. Eagan, Frank C. Masterson & Co.; John D. Ohlandt, Jr., J. Arthur Warner & Co., Inc..

National Committeemen—Stanley Roggenburg, Roggenburg & Co.; O. D. Griffin, Lord, Abbett & Co., Inc.; Edward J. Kelly, Carl M. Loeb, Rhoades & Co.

National Committeemen Alternates—Walter F. Saunders, The Dominion Securities Corp.; Cyril M. Murphy, Mackubin, Legg & Co.; John F. McLaughlin, McLaughlin, Reuss & Co.; Richard F. Abbe, Van Tuyl & Abbe; Otto A. Berwald, Berwald & Co.

Nominating Committee (Four Members to Be Elected)—Bertrand L. Burbank, White, Weld & Co.; Wilbur R. Wittich, Maxwell, Marshall & Co.; C. Jerome Aal, Young, Aal & Golkin; T. Frank Mackessy, Abbott, Proctor & Paine; Clifford K. Channell, The First Boston Corp.; John C. Blockley, Harris, Upham & Co.; Nathan A. Krumholz, Siegel & Co.; Thomas S. Evans, Lee Higginson Corp.; P. Fred Fox, P. F. Fox & Co.; Salvatore J. Rappa, F. S. Moseley & Co.; Cornelius B. Sheridan, Mitchell & Co.

The Nominating Committee presenting the slate consisted of—Walter Murphy, Jr., Walter Murphy & Co.; James T. McGivney, Hornblower & Weeks; Milton Van Riper, Mackuden, Legg & Co.; George V. Hunt, Starkweather & Co.; Chester E. de Willers, C. E. de Willers & Co., Chairman.

SAN FRANCISCO BOND TRADERS ASSOCIATION


Collins L. Macrae, Jr.

The San Francisco Bond Traders Association will hold its annual Christmas party on Dec. 5, at which time the new officers will be installed.

Newly elected officers are:

Collins L. Macrae, Wulff, Hansen & Co., President; J. B. McMahon, Merrill Lynch, Pierce, Fenner & Beane, Vice-President; Walter Vicino, Blyth & Co., Inc., Secretary-Treasurer, and Earl Thomas, Dean Witter & Co., Houston Hill, Jr., J. S. Strauss & Co., Thomas W. Price, E. H. Rollins & Sons, Inc., and Conrad O. Shafft, Shafft, Snook & Cahn, directors.

THE CINCINNATI STOCK & BOND CLUB

The latest industrial inspection by the Cincinanti Stock and Bond Club was held October 28 at the two local plants of the Sport Products Co., Inc.

The club met for a cocktail party and buffet supper after the inspection.

This was one of a series of trips through local industries which has been arranged for the club by J. E. Bennett, J. E. Bennett & Co., Chairman of the Special Events Committee.

Secretary Marshall Outlines European Aid Program

Tells Senate Foreign Relations Committee interim cost to March 31 will be close to $600 million and total costs over four years may aggregate $20 billion. Separate program proposed for China's relief.

On Nov. 10 and 11, Secretary of State George C. Marshall appeared before the Senate Foreign Relations Committee and outlined the Administration's plan for immediate and long-range relief for Europe and China. The Secretary told the Committee of the urgency of immediate aid to prevent starvation and economic collapse in Europe, particularly in Italy, Austria and France, and recommended an immediate appropriation of $597,000,000 to be used to March 31st. The funds would be used mainly to furnish food, fuel, fertilizers, fibers, seeds and medical supplies. Secretary Marshall told the Committee that existing agencies are capable of handling this form of relief and Congress should not delay the program by setting up a new agency at this time.

George C. Marshall

As to long-range aid, Secretary Marshall said Congress would be asked to provide $1.5 billions for the last three months of the current year, i.e. from March 31 to July 1, and about $6 billions during the fiscal year ending June 30, 1949. Additional aid thereafter would be required covering a total period of about four years, and the total overall cost would range between $17 and $20 billions. The aid program would cover all nations of Western Europe together with Greece and Turkey. Aid to China and the Far East would be set up in another program, but an immediate gift for China of $60 millions is contemplated.

While Secretary Marshall admitted it would be up to Congress to decide on the method of administering the program, he stressed the point that since the program is a part of our foreign policy, any new agency will have to have the widest practical flexibility in its operations and use of funds. On this point, President Truman is expected to submit a specific proposal when Congress convenes on Nov. 17. Secretary Marshall, however, recommended that a special U. S. Ambassador, to serve on the 16 nation recovery organization, be appointed. Republican party leaders, however, have already given notice that they will insist on a separate agency to dispense expenditure of relief and reconstruction funds, which will report directly to the President or the Congress.

Secretary Marshall recommended that both outright gifts and loans, as the case may require, be used in dispensing appropriations. Repayment should be required where there was ability to repay. Repayment should be required of loans made to purchase industrial machinery and raw materials, as distinguished from aid in form of food, fuel and other necessities. The Secretary said he was in favor of having private investment participate in the program.

As to where the food, equipment and raw materials will be purchased, Secretary Marshall said his plan was to have purchases made outside the United States as far as possible, as this will "tend to protect the home economy against inflationary price movements which might result from concentrated buying in our markets."

Secretary Marshall pointed out that it is proposed where reconstruction financial aid is granted, the nation receiving such aid would be required to negotiate an agreement with the United States regarding steps to be taken to bring about its own economic recovery. This would include such matters as currency stabilization, increased production of basic commodities, and reciprocal trade agreements.

Pacific Coast Securities Company Is Formed

SAN FRANCISCO, CALIF. — Pacific Coast Securities Company is being formed with offices at 519 California Street. Officers are President: Leonard A. Talbot; Vice-President: D. O. Hannaford; and Secretary, Edward R. Bunting. Mr. Talbot and Mr. Hannaford are partners of Hannaford & Talbot.

Joins Staff of John Dane

Special to THE FINANCIAL CHRONICLE

NEW ORLEANS, LA. — Anees Mogabgab, Jr. has become affiliated with John Dane, Canal Building, member of the New Orleans Stock Exchange.

With Woolfolk, Huggins

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Allen M. Steiner has become connected with Woolfolk, Huggins & Shober, 839 Gravier Street, members of the New Orleans Stock Exchange.

Illinois Brevities

A study drafted by the Chicago Stock Exchange disputed beliefs that dual listing of stocks in both the Eastern and Central Western markets is always beneficial. Until enough shares are outstanding in the hands of the public, an issue is "definitely harmed by being traded in two markets," the report said. Listing on the New York Stock Exchange or Curb Exchange is not always beneficial to an issue, it was stated.

The study was made by the Chicago exchange's staff in order to find out why some issues trade well with Chicago and New York listings while others offer thin markets and wide spreads.

It suggested that the New York and Chicago exchanges consider three proposals. They were that the Chicago board limit dual market trading to issues that meet certain requirements, that the New York board limit its listings of regional issues to those having enough shares in public hands, and that both exchanges study their single listings to find the best market place.

* * *

International Harvester Co., celebrating its 100th anniversary, dedicated a new $3,500,000 manufacturing research building. The research center was set up in a one-story, 230,000-square foot building purchased from the government.

William R. Odell, Jr., Harvester Treasurer, disclosed that the company plans a public offering of securities in the "next few months" to finance its expansion program. The underwriting syndicate will be managed jointly by Glore, Forgan & Co., Harris, Hall & Co., Inc., and William Blair & Co.

Although no decision has been reached as to the type or amount, the investment bankers and the company were reported planning a debenture issue, and $85,000,000 was advanced as the most likely amount. Harvester's expansion program involves the expenditure of $100,000,000 to $150,000,000.

* * *

Plans to merge two newspapers specializing in business news—the New York "Journal of Commerce" and the Chicago "Journal of Commerce"— were disclosed last week. An executive of the Chicago paper said completion of the transaction with the Ridder interests was not expected for several days. Under terms of the planned merger, John D. Ames is to remain as publisher of the Chicago "Journal of Commerce."

* * *

Chicago department stores and mail order retailers expressed confidence that pre-holiday sales this year would equal or better those of last year. However, they were less inclined to make optimistic predictions for 1948. Costs have been rising, they pointed out, to the extent that relatively small sales declines might hurt profits seriously.

* * *

Halsey, Stuart & Co. Inc. headed a group of underwriters which on Nov. 6 publicly offered $15,000,000 of first mortgage bonds, series G, 3⅛%, due Nov. 1, 1977 of Public Service Co. of Indiana, Inc. at 101.625 and interest, the net proceeds to be used to pay costs of completing a "construction program". Among the underwriters were A. C. Allyn & Co., Inc., Harris, Hall & Co. (Inc.), The Illinois Co., Martin, Burns & Corbett, Inc., Mason, Moran & Co., Mullaney, Ross & Co., Alfred O'Gara & Co., Patterson, Copeland & Kendall, Inc. and F. S. Yantis & Co., Inc., also of Chicago.

* * *

On Oct. 23, an underwriting syndicate headed by Straus & Blosser of Chicago and First California Co. of Los Angeles publicly offered 150,000 shares of $1 par value common stock of Ero Manufacturing Co. at $7 per share, for account of selling stockholders. Sills, Minton & Co. and Holley, Dayton & Gernon, also of Chicago, participated in this offering, which was oversubscribed.

* * *

On Oct. 30, an underwriting syndicate headed by Kebbon, McCormick & Co., Chicago, publicly offered 20,000 shares of 5% cumulative preferred stock ($50 par value) of Lyon Metal Products, Inc. at $51.25 per share. Of the 20,000 shares of 5% preferred stock, 15,764 shares were initially offered by the Lyon company to holders of its presently outstanding 7,882 shares of 6% preferred stock on the basis of two 5% preferred shares plus $10 in cash in exchange for each 6% preferred share held. This offer expired on Nov. 10. The net proceeds of the new issue are to be used (a) to redeem on Feb. 1, next, at $112.50 per share and dividends all of the 6% cumulative preferred stock of $100 par value then remaining outstanding, and (2) to increase working capital.

* * *

On Nov. 6, a banking group headed by Kuhn, Loeb & Co., and including among others, A. C. Allyn & Co., Inc., Bacon, Whipple & Co., A. G. Becker & Co. Inc., William Blair & Co., Central Republic Co. (Inc.), Julien Collins & Co., The Illinois Co., and Kebbon, McCormick & Co., publicly offered 150,000 shares of no par value $4.25 cumulative preferred stock of General American Transportation Corp. at $98 per share and accrued dividends. The net proceeds will be used to repay $5,700,000 bank loans, and to increase working capital.

* * *

Included also in an investment banking group headed by Blyth & Co., Inc. of New York (which has underwritten an offering by Indianapolis Power & Light Co. to holders of its common stock whereby the common stockholders of record Nov. 5 may subscribe on or before Nov. 19, 1947 to 214,451 shares of additional common stock at $22 per share at the rate of one new share for each four shares held) are A. C. Allyn & Co. Inc., A. G. Becker & Co. Inc. and Central Republic Co. (Inc.) The net proceeds will be applied toward the cost of the Indianapolis company's construction program.

* * *

Kebbon, McCormick & Co., Paul H. Davis & Co., A. C. Allyn & Co. Inc. and Farwell, Chapman & Co. also were included among a group of investment bankers which on Oct. 29 offered $10,000,000 2¾% sinking fund debentures due Oct. 1, 1967 and 100,000 shares of no par value $4 cumulative preferred stock of Minnesota Mining & Manufacturing Co., the debentures being priced at 100¾ and interest and the preferred stock at $102 per share and dividends.

* * *

Borg-Warner Corp. reports consolidated sales totaling $205,881,315 for the nine months ended Sept. 30, 1947. These were double the total for the corresponding period last year and were 3½ times the sales reported for the first nine months of 1940, the last prewar year. Consolidated net profits of $15,707,583 were reported for the first nine months of the current year. In the same period in 1946 net was $4,152,014. Current assets as of Sept. 30, 1947 totaled $95,698,966, and current liabilities $29,464,396, a ratio of 3.25 to 1.

The directors on Nov. 7 declared a quarterly dividend of 75 cents per share and a special dividend of $1 per share on the common stock, both payable Jan. 2, 1948 to holders of record Dec. 10, 1947. During the current year, the company paid 40 cents on Jan. 2, 50 cents each on April 1 and July 1, and 65 cents on Oct. 1. The common stock received $1.60 in 1946.

* * *

The common stockholders of Household Finance Corp. of record Oct. 29 have been given the right to subscribe on or before Nov. 17 for 222,485 additional shares of common stock of no par value at $17 per share, on the basis of one new share for each 10 shares held. The net proceeds will be added to working capital.

It is also reported that Household Finance Corp. plans to issue and sell approximately $5,000,000 additional preferred stock through Lee Higginson Corp., New York, when the common stock offering is completed.

Net income for the first nine months of 1947 was $6,797,453, equal, after preferred dividends to $2.93 per common share, as compared with $4,340,768, or $1.87 per common share, in the corresponding period in 1946.

With White-Phillips Co.

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL.—Frank C. von Ach has been added to the staff of the White-Phillips Company, Inc., 38 South Dearborn Street.

With W. C. Gibson & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Howard H. Bentley has become connected with W. C. Gibson & Co., 231 South La Salle Street.

Frederick O. Cloyes With Cruttenden & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Frederick O. Cloyes has become associated with Cruttenden & Co., 209 South La Salle Street, members of the New York and Chicago Stock Exchanges. Mr. Cloyes was formerly Chicago manager for Geyer & Co., Inc.

Frederick O. Cloyes

Michael Dary With Francis I. du Pont & Co.

CHICAGO, ILL. — Michael L. Dary, for many years with Bache & Co., is now associated with Francis I. du Pont & Co., 200 South La Salle Street, as a customers man.

Michael L. Dary

Harry G. White Is Now With F. S. Moseley & Co.

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL.— Harry G. White has become associated with F. S. Moseley & Co., 135 South La Salle Street. Mr. White was previously with Central Republic Company and E. H. Rollins & Sons, Inc.

With Paul H. Davis & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—James W. Fitzgerald has become associated with Paul H. Davis & Co., 10 South LaSalle Street. He was previously with Ames, Emerich & Co.

Milton Goldberg Joins Staff of Stern & Co.

Milton Goldberg, formerly with Herzfeld & Stern, has become associated with the New York Stock Exchange firm of Stern & Co., 25 Broad Street, New York City.

Age and Opportunity

By ROGER W. BABSON

Mr. Babson, in speaking of handicaps of middle aged in obtaining positions, points out old employees are most faithful and steady. Suggests separate unions for younger and older employees.

At the suggestion of a friend of mine, G. H. C. Anderson of Dallas, Texas, I have been making a study of how one's age affects his or her opportunity to secure a position.

Middle-Aged People Handicapped

This study indicates that it is very difficult for an employment agency to place women over 35 years of age, or men over 40 years of age who are now under Social Security benefits. One employment agency reports it can so place in a Union Shop only "one such woman out of every 30 applicants."

Roger Babson

The few middle-aged people after securing positions are able to keep them better than the younger ones. The older ones are both more loyal and industrious, although they work more slowly and are more subject to accidents. In my own business here, where we employ about 150, we give a preference to the older persons; but our work requires accuracy and headwork, rather than speed or work with one's hands.

What Personnel Managers Report

One who has interviewed representative employment managers in 17 different kinds of businesses, averaging over 400 employees per firm, reports as follows: 30 years of age for both males and females is the maximum accepted for beginners in office or clerical jobs; 36 years is the maximum for female beginners in department stores; while 43 years is the maximum for male beginners in warehouses, etc.

Those above these ages now holding positions should do everything possible to retain their present positions, especially as these statistics apply during a period of prosperity when there is a distinct demand for additional help by most employers. Of course, these ages do not apply to common labor or to housework, etc., for which the demand is so great that age is not considered. Moreover, the non-union concerns are usually willing to employ all ages because they are free to pay them according to what they produce.

Newspaper Advertisements

Anyone who questions the above statements may telephone those who are advertising for additional help in the Sunday newspapers. From a hasty study of the "Help Wanted" columns, one would think that there is a great demand for help of any age. If, however, you will answer any of these advertisements, you will find that the first question is "How old are you?"

This is now a very serious situation; and when hard times come, will become most pathetic.

It surely means that there will be a resurrection of the Townsend Plan, the Anderson Plan and other pension programs which are being put forth. Whether these will be a solution to the problem is debatable, but they surely are worthy of careful study. It seems logical that the first step should be for married women, with husbands having a job, to retire from the scene. Surely this is a step also in the solution of the Youth Delinquency.

A Labor Union Suggestion

A study which I have made of strikes shows conclusively that the "hotheads" are the younger persons in these labor unions. The older ones wish to avoid strikes, but for some reason they do not attend the labor meetings and do not get elected as officers of the unions. Hence, when the strike is settled, if the concern does not take back all its employees, the older ones are the ones left out.

It would be a smart thing, both for employers and wage workers, to have two unions. One union could take in those below 35 and one union could take in those above 35. Either group could strike without involving the other group. Unless the older employees of many concerns resort to such a setup they surely will be left out in the cold before many years. I believe in collective bargaining and in properly organized unions with equal pay for both sexes on a piecework basis; but with two unions—one for the young, inexperienced and the other for the older ones. Moreover, for the protection of the public and consumers, these employees should be so staggered that—in case of a strike of only one group—the entire plant need not shut down.

Brooks Weber to Be Davies & Mejia Partner

SAN FRANCISCO, CALIF. — Brooks D. Weber will be admitted to partnership in Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges. Mr. Weber has been with the firm for some time as manager of the sales department.

With F. L. Putnam & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—George W. Jones is with F. L. Putnam & Co., Inc., 77 Franklin Street, members of the Boston Stock Exchange.

Railroad Securities

The Gulf, Mobile & Ohio common stock has been attracting considerable buying interest in the past week or so. A number of analysts have been recommending these shares particularly as an exchange medium from other low priced rail stocks that have been showing little in the way of earning power under present boom conditions and where dividend prospects are remote if not non-existent. It is true that no dividend has been paid on the Gulf, Mobile & Ohio common since the inception of the present company in 1940. Nevertheless, it is generally expected in financial quarters that an initial distribution will be authorized by directors before the year is out.

There have been two important developments in the Gulf, Mobile & Ohio picture this year. One was consummation of the merger with the bankrupt Alton. This merger extended the system lines to Chicago, giving it a through route from the Gulf of Mexico at New Orleans and Mobile to the Great Lakes. It is true that the past earnings record of the Alton has been far from inspiring and it remains to be seen whether or not this acquisition will add anything to system earnings under normal economic conditions. Nevertheless, the property was acquired without the assumption of any more than nominal additional fixed charges so the move can hardly detract from the system credit. Also, it is confidently expected that extension of the system all the way to Chicago will bring material traffic benefits. This was found to be true when the original Gulf, Mobile & Northern lines were extended north to St. Louis in 1940 through merger with the Mobile & Ohio.

The second major development in the picture was the completion earlier this year of the road's comprehensive dieselization program. This diesel operations have been extended to the newly acquired Alton lines. There can be no argument as to the substantial benefits the system has derived from this new motive power. Not all operations are diesel. Instead, the company has installed sufficient diesel equipment to handle what is considered the potential normal volume of traffic. This is to avoid any substantial expensive idle diesel time when traffic declines, as it presumably inevitably will, from present peak levels.

Reflecting installation of the new equipment the transportation ratio was cut to 32.5% for the first nine months of the year and the transportation ratio to 75.1%. In the nine months through September 1946 these ratios were 39.4% and 88.7%, respectively. The cut in the transportation ratio was larger than for any other major road in the country. Moreover, it is indicated that the transportation ratio for the current nine months was lower than that of practically any other major carrier with the exception of such roads as Norfolk & Western and Virginian. The ratio was lower than that of the traditionally highly efficient carrier, Chesapeake & Ohio.

The road has also benefited this year from an increase in traffic and revenues. With the dual influence of higher gross and more efficient operations the company reported net income of $3,186,305 for the period through September. This contrasts sharply with a net loss (pro forma combined results of Gulf, Mobile & Ohio and Alton) of $2,654,278 sustained a year earlier. It is now estimated that earnings for the full year will probably be in excess of $3 a share and this is what has fostered the hope that a dividend may be forthcoming. Last year even with a substantial tax credit the combined results did not provide full coverage of the preferred dividend.

There is one other factor leading to the generally constructive attitude towards the company's securities. That is the belief that the future traffic picture is encouraging. This is based on the growth characteristics of large parts of the service area and the expectation of a continuing high level of, if not actual expansion in, the movement of export and import freight through the Gulf ports.

Geo. F. Thomas II With Boyd & Co.

CLEVELAND, OHIO — George F. Thomas II has joined the research staff of Boyd & Co., investment counselors, 1700 Union Commerce Building. During the past war he served as a Lieutenant (j.g.) with the U. S. Navy in the Pacific area. Mr. Thomas is a graduate of University School, Harvard College, and Harvard Graduate School of Business Administration.

Geo. F. Thomas, II

Brennan & Brummer to Be Formed in New York

The New York Stock Exchange firm of Brennan & Brummer will be formed in New York City as of Nov. 20. Partners will be George F. Brennan and Harold M. Brummer. Mr. Brennan, who will retire from partnership in Bull, Holden & Co., will acquire the Stock Exchange membership previously held by Mr. Brummer who has been active as an individual floor broker.

W. P. Moncreiff With Norman Mesirow Staff

(Special to The Financial Chronicle)

CHICAGO, ILL. — W. Philip Moncreiff has become associated with Norman Mesirow, 135 South La Salle Street, member of the New York Stock Exchange. In the past he was a principal of Moncreiff & Tittle.

Investment Policies for a Trust Institution

By CLARENCE D. COWDERY*
Vice-President, The Boatmen's National Bank of St. Louis

Pointing out stocks are becoming more general for investment of trust funds, Mr. Cowdery notes opportunities for capital appreciation in equities not found in bonds and mortgages. Stresses importance of fitting trust investment policies to needs of beneficiaries but without neglect of investment risks, and advocates, where equities are held, holdings should be reduced on rising market, reversing process in falling market. Advocates diversification, both as to geographical location and industries.

When we open our Bibles to the first chapter of the Gospel according to St. Matthew, we read the genealogy of the Saviour beginning with Abraham, followed by the names of a long list of progenitors. Like Abraham, as every trust man knows, the trust business has begotten an unending line —a line of investment problems, the solution to which must be fathered by the investment policies of trustees. Unfortunately for us, no universal savior has been begotten. It is with a full realization of this fact that I shall discuss some policies which may be helpful in reaching a solution of the most frequently occurring investment problems.

Clarence D. Cowdery

Primarily, the investment policies of a trust institution must emanate from its basic duties as a fiduciary, which are well known to everyone in this audience. A few years ago, while serving as a member of the Trust Education Committee of the Trust Division of the A. B. A., I had a part in revising the Trusts 1 textbook used by the American Institute of Banking in teaching the trust business to bank and trust company personnel. The review of the investment responsibilities of trustees presented in this text is most helpful as a starting point in the development of investment policies. It should be required reading for every new officer and director of a trust institution.

It is elementary to state that the investment policy for each trust account must be governed by the terms of the trust instrument under which it was established. Any limitation on the investment power of the trustee must be scrupulously observed or the trustee may find himself in trouble. True, a corporate trustee may rightfully feel that any restrictive provisions in the terms of a trust which prevent it from exercising its best business judgment are unwise and a severe handicap in its administration; but to disregard them, however poorly conceived, is a breach of trust for which the trustee will be held liable even though motivated by the best intentions. The trustor, and not the trustee, is responsible for such restrictions and the trustee's judgment cannot be substituted for that of the trustor by failing to comply.

One of the most important guides to the formulation of an investment policy for fiduciaries is consideration of the needs of beneficiaries. Needless to say, they are of infinite variety. The needs of a widow with surplus income (if that is possible) and with no dependents are vastly different from those of another widow whose income is meager and who has several small children to support and educate. The needs of children differ widely because of differences in age, sex, physical condition and aptitudes. These circumstances cannot be overlooked by a trustee when determining an investment policy for its respective trusts. Other facts to be considered in each case are the minimum income needed, the tax bracket of the beneficiary and the duration of the trust.

After a study has been made of the trust instrument and the needs of the beneficiary of a particular trust, the trustee will be in a position to determine what investment objectives are indicated. In some accounts where income is ample and is taxed in high brackets, tax exempt securities are required to constitute a large part of the investment portfolio. Stocks of strong companies having unusual possibilities for growth, even though offering a low yield, are more suitable than others which offer higher yields equally secure but without the growth factor.

In other accounts where income is scant, maximum income must be sought. Municipals are an extravagance which these accounts cannot afford because they derive no benefit from the premium paid for tax exemption and should be replaced by securities with higher yield. Stocks with yields below average obviously are unsuitable and any stocks held should be those offering reasonable certainty of income and maximum yield. Preferred stocks of companies enjoying stable incomes may be used advantageously when obtainable at satisfactory yields. Well secured deeds of trust with an adequate yield are especially desirable but unfortunately at the present time, the supply in many parts of the country falls so short of the demand that they are very difficult to obtain.

A good policy followed by many companies is to work out a general investment pattern for each trust account at its first review by the investment committee. A decision is then reached as to the proper size of investment unit — that is, the maximum amount to be invested in securities of one company or in any real estate loan. The committee also decides upon the approximate proportion of the trust fund to be invested in each general class of securities — how much in bonds, governments and corporates; how much in mortgages and how much in common and preferred stocks. Decisions on these points serve as a useful guide at all subsequent reviews of the account and help maintain well balanced portfolios, but they should also be subject to review and change, if flexibility of policy is to be maintained.

Another basic duty of a trust institution underlying many of its investment policies, is its duty to minimize investment risks. It is required to adhere rigidly to a policy which forbids the purchase or retention of property for speculative profit. No matter how good its intentions may be, or how tempting the chances for gain, neither a trust nor a trustee can afford the risks incurred in speculative ventures. This is especially true today when speculative benefits to a trust are limited by present tax laws which reduce net gains and greatly restrict tax benefits from losses. A trustee should also bear in mind that in trust accounting, the liability of a trustee for loss resulting from a speculative trust investment cannot be reduced by showing profits realized on other investments it made for the same trust. Consideration of these facts clearly shows that a trustee who speculates with trust funds has the cards stacked against him and is asking for trouble.

Investment risks may also be minimized by obtaining proper diversification of investments in each account. Besides limiting the dollar value of each investment unit as mentioned previously, there are other methods of diversification to consider. It is accepted practice to diversify investments with respect to industries, selecting those for whose products and services there is likely to be a continuing demand through all phases of an investment cycle. Manufacturers of food, clothing, soap and utility companies are excellent examples.

It is also well to diversify as to the geographical location of industries so that a disaster, a labor disturbance, or other unsettling condition in one part of the country, will not affect the entire investment portfolio of any account. Selecting investments with staggered maturities is another form of diversification. It is beneficial as it permits reinvestment of funds at various stages of an investment cycle, thereby obtaining an average yield throughout each cycle.

Greatest success in administering trust accounts can be achieved through a constant study of general market trends, seeking favorable opportunities to trade up the quality of each investment portfolio, thereby disposing of poor grade securities and acquiring those of higher grade. Market observers know that such opportunities often occur in a bull market when prices of poor and medium grade securities more nearly approach those of better grade.

In accounts where equities are held, it is well to plan to reduce holdings in stocks on a rising market and to increase holdings in bonds, reversing the process on a falling market. A good deal of courage may be required to follow this policy which is needed to protect asset values. It is evident that if a part of the stocks are sold while the market is rising, that the sale price may be considerably lower than the ultimate high reached in the price movement. Co-trustees and beneficiaries may be hard to convince as to the wisdom of such sales, and some may be severely critical after higher prices are reached, but nevertheless, I believe it is a sound policy to make them. No one can expect to make every sale at the top of the market and unless some sales are made at various stages of the advance, there is serious danger that values may shrink so rapidly that sales opportunities will vanish. Best results are obtainable in most instances by following a definite policy determined in advance of the price rise.

Every corporate fiduciary undoubtedly recognizes its duty of undivided loyalty to its trusts, but now and then, we find such institutions brought into court over an alleged violation of this duty. Why does this happen? Evidently, these companies have failed to enforce an investment policy under which their interests and the interests of their trust beneficiaries may not conflict. Their dif-

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*An address by Mr. Cowdery before the 16th Mid-Continent Trust Conference of the Trust Division of the American Bankers Association, Chicago, Ill., Nov. 7, 1947.

The Marshall Plan Must Succeed!

By PHILIPP H. LOHMAN*

Chairman, Commerce and Economics Department, University of Vermont

Dr. Lohman, asserting total number of dollars involved in European aid is secondary, advocates implementation of Marshall Plan as last hope for liberty in Western Europe. Points out Western Europe is not a poor area and by production and proper interchange of goods and commodities, problem of economic distress can be solved. Advocates economic union of Western Europe, with establishment of sound currencies, as essential.

To use the words of our Secretary of State General Marshall, we have been for some time engaged in a cold war with Russia. We have made two main moves so far. One, the so-called Truman Doctrine pertaining to our efforts in maintaining the independence of Greece and Turkey is a purely defensive move. The other step we have taken is the so-called Marshall Plan which very definitely is an attack. The Marshall proposal recognizes that there exists today a divided Europe. The countries east of this boundary line we in a sense recognized as being within Russian economic if not political territory. But even within this territory, Russia's satellites are looking west. Tito, for example, has trouble with his 5-year Plan. His experts have recently practically told him that if he wants to reach the industrial goal set, he must get from the West all the credits, equipment and technical aid he needs. And that he must make a 50% cut in the planned expenditures in Yugoslavia for social services, transport, housing and similar improvements. To show you how far Tito's Yugoslavia is back, economically speaking, marching in the rear, take his 1951 goals for copper, lead, and zinc ore production. These goals are below prewar capacity—primarily the result of Tito removing most key employees with Western connections when he expropriated these mine properties. Poland and Czechoslovakia, too, are at least economically speaking, looking westward. For the goods they need for industrialization simply cannot be obtained from Russia. But at any rate, the Marshall Plan reconciles itself more or less to the presently existing division in Europe, but holds out U. S. economic aid to the other European nations. General Marshall asked the Western Europeans to tell us exactly how much aid they need and also to show to us that they are doing their utmost toward helping themselves. And that is where, I think, the proverbial rub comes into the picture.

P. H. Lohman

Dollars Secondary

In the first place, the total number of dollars involved in our European aid is certainly secondary. It is not a question of having a special session of Congress argue over the question whether we ought to give ten or twenty billion dollars. Money cannot be the criterion. If $10 billions are appropriated, but won't get Europe on her feet, whereas $20 billion would have done that, then obviously the $10 billion plan is the more expensive plan. Secondly, while we must make a long commitment, such commitment should be open to periodic review. Above all, Europeans must go to work and think of themselves as, at least, economically a unit. Let's not rush into this Marshall or any other plan—what we are after is above all success.

European nations are today weak and tired and would like to buy on the cuff what they either cannot or do not, at this time, produce. Self-help is not a very popular policy at any time and it is certainly not now in Europe. The balancing of budgets—sound money is impossible without budget balancing — longer hours, harder work—these are all steps which Europe must take but hesitates to take. Above all, there is just simply too much thinking of individual nations rather than a Western European community of nations. Here are some of the things that worry Undersecretary of State Mr. Clayton. France, with big ideas of her own future, tries to get as much as possible for French industries under the Marshall Plan—in guise of a European plan. And the British, very eager to trim the requests of smaller nations, estimated their needs in terms of dollars far above what U. S. experts thought necessary.

Britain's Position

Oh, well, we are all human and, I for one, can understand how the British must and do feel. For example, our abrupt ending of lend-lease is still a sore spot with the British. They feel we should have continued that for a while. Then, of course, our loan to Britain in 1945 is now a most provoking topic. They feel we burdened them with too many conditions. Then we kicked out OPA; our rising prices for food meant the British had to pay more for food, raw materials and manufacturing goods in this country—thus cutting the purchasing power of the loan. Then, of course, we feel the British ought to give up the idea of treating British trade within the Commonwealth more favorably than our exports. Again the present British austerity keeps the average man and woman constantly mindful of our high standard of living. Their food supply is smaller and more monotonous; they cannot afford to smoke as much as they used to; and their favorite relaxation, American movies, are also being curtailed. Naturally this gives rise to irritation and anti-American feeling, all quite understandable.

But the suit will have to be cut according to the cloth available. Britain simply must sell a large percentage of her production abroad in order to buy the foodstuffs, raw materials and machines she needs to rebuild her economy. That means the British folks at home can't get these goods. The Socialists simply must reduce expenditures—and again I don't mean for monetary reasons, I mean simply because labor and machines can't be spared for public works, new plants, schools, hospitals. Food subsidies need to be cut if not eliminated. Higher prices would drain off excess purchasing power and drive home the gravity of the economic crisis. I don't believe the average British worker is quite aware of the severity of the economic situation facing his country. Read, for example, a recent Sunday New York "Times" article on the crisis that

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*From an address by Dr. Lohman at the Southwest District Meeting of the International Relations Committee of the Vermont Federation of Women's Clubs, Burlington, Vt., Sept. 23, 1947.

We Must Help Abroad in Businesslike Way

By THOMAS E. DEWEY*

Governor of the State of New York

Maintaining we have no alternative except to act in present emergency, Republican leader insists our aid must be on following bases: (1) Reconstruction loans directly for business purposes, administered under close supervision of American business men; (2) all aid supervised by special bi-partisan board; (3) allocation on instalment basis pursuant to recipients' conformity to stated programs; (4) loan proceeds devoted to building productive resources; (5) definite statement of long-term policy by Congress, and (6) accompaniment of relief by explanation of American achievements under free enterprise.

We meet during a period when most reasonable men are concerned for the future of our domestic affairs and are genuinely troubled as to the proper course of our Nation in foreign affairs. Internally the Nation is suffering the cruel effects of an inflationary rise in the cost of living as a sole result of the economic ignorance of the National Administration. In foreign affairs, from Teheran through Yalta to Potsdam and since, we have seen our government giving aid and comfort to Communist conquest. In Germany, the industrial heart of Europe, we have applied economic policies which have undermined recovery in all Europe. In the Orient, we have seen our own government turn against our wartime Chinese allies and order them, under pain of losing American support, to accept into their government the very Communists who seek to destroy it.

Thomas E. Dewey

We have seen reconstruction falter because people did not work, either because they were unable, from lack of food, or unwilling, for lack of anything to buy with the wages they earned. We have seen Socialist experiments which we confidently believe to be tragic errors but which are the inevitable result of frustration and despair.

While Europe and China are struggling along at a bare subsistence level, their confused peoples turn from one promised remedy to another with a rising sense of loneliness and desperation.

In the face of such a dismaying picture it is not unnatural that sentiment in our own country should be confused. Many thoughtful people are saying we should withdraw from the world. They say Europe and China are finished and we should not dissipate our strength in trying to save them.

Meanwhile, a great program is being prepared for consideration by the Congress to help stabilize Europe, while nothing is yet proposed concerning China. It is very easy, out of sentiment, to accept uncritically any program to aid starving millions of people and to help preserve free governments. It is equally easy to say we cannot afford any program at all on top of our own staggering war debt and destructive levels of present income taxes. The serious economic and diplomatic blunders of the National Administration make it even more difficult to reach sound decisions calmly and without partisanship. But I earnestly believe that is our duty.

Despite the blunders of the Administration, real progress has been made in some directions. The bi-partisan foreign policy, which I had the honor to inaugurate during the summer of 1944, has been notably successful where it has been followed. Through the distinguished leadership and labors of Senator Arthur H. Vandenberg and Mr. John Foster Dulles, we were prevented in the early days of the peace from scuttling our other friends, as was done in the case of China, and our prestige in the United Nations has steadily mounted. I do not believe this country will ever know the tremendous debt of gratitude it owes to the unselfish labors and high patriotism of Senator Vandenberg and Mr. Dulles.

The Attack On U. S.

It has been well said that we are in a cold war. We are in it for the simple reason we are being attacked by all means short of war. The attack is by the most violent form of propaganda, falsehood, political penetration and economic sabotage. The whole system of political and economic freedom for which our country stands, is under attack by those who would establish a world-wide rule of a police state.

This attack is being hurled against us by able and purposeful men who know what they want and propose to get it. We need to understand their objectives. They are boadly two: First, to intimidate free governments everywhere into accepting Soviet leadership and, secondly, to mislead or intimidate the American people into refraining from giving aid to those who need it. The Soviets believe the way to block our policy of restoring economic health to the world is to shout that this policy of ours will lead to war. Of course, the simple truth is that the only risk of war comes from the Soviet attempt to establish police states and dictatorship over people who have known and love freedom. The surest way to avoid war is to create a strong and determined world of free nations. The risk of war is that the Kremlin will repeat the mistake of other despots in 1914 and again in 1939—the mistake of believing that free people cannot or will not resist slavery.

No Come-Back From Communism

Nevertheless, there is a school of thought which says we should leave our friends in Europe and Asia to work themselves out of the mess alone or in the alternative that "They are done for anyway. Let them try Communism if they want to and then they will come back to free governments." But the unhappy fact is that once a Communist dictatorship is set up, there is no peaceful escape. Moreover, after the spiritual and physical devastation of six years of total war people cannot easily

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*An address by Governor Dewey at the 30th Annual Banquet of "Forbes Magazine," New York City, Nov. 5, 1947.

Canadian Securities

By WILLIAM J. McKAY

As a matter of necessity and enlightened self-interest U. S. dollars will be employed to rescue Western Europe from economic and political disaster. There will be a consequent immediate drain on the resources of this country and a threat to the domestic standard of living. The benefits of this more or less enforced policy are indirect and for the most part will be postponed until its purpose is achieved. In the meantime it is highly desirable to consider more positive means of maintaining and if possible of raising the present economic level.

The scope for expansion from within has been largely exhausted and the foreign field in general with its many pitfalls has little attraction for the private investor. There still exists however one outlet for the profitable investment of U. S. capital where the ultimate returns might very well be comparable to those realized in earlier eras of colonial development. The situation in question has already been well explored but hitherto it has been overshadowed by the immense scope of the domestic field. Previously there appeared to be no end to the enormous wealth of readily available natural resources of this country. Today, however, with possible raw material shortages on the immediate horizon and with the spectacular increases of the last decade in population, productive capacity, and the volume of capital funds, the need for fresh fields for expansion becomes increasingly acute.

The answer to this problem unquestionably lies in the known and unknown undeveloped resources in the vast empty spaces of Canada. Much remains to be done however before this conception could be put into practical effect. Canada also must look beyond the immediate necessities and plan more boldly for the future. Great as is the problem of Canada's immediate U. S. dollar shortages, the Dominion's dearth of population is even more serious from the long-range point of view. It is true that there has been a recent change in the previous official outlook towards immigration, but the present world conditions are now propitious for a revolutionary approach towards the solution of this problem. The British Isles are patently overcrowded and the excess of population militates against an early British economic recovery. The D. P. situation also constitutes an international problem that could be turned to Canadian account. Canada is now devoting serious attention to increased production for the U. S markets but without increased man-power little progress can be achieved in this direction.

Another essential requirement is an ample supply of capital funds to finance new projects. This also can not be adequately furnished from domestic sources. It is therefore to this country that Canada must look for her capital needs. Under present conditions however a free flow northwards of U. S. funds is not likely to materialize. An important prerequisite is the removal of restrictions on foreign capital within the Dominion. At first sight this appears impossible of immediate accomplishment, but it must be remembered that in view of this country's existing vested interest in Canada, sympathetic consideration would be given to any Canadian proposal for a practical solution of this embarrassing problem.

The situation is now ripe for strong Canadian initiative in these directions especially as any progress made towards the realization of these objectives would also contribute to the success of the current international relief measures. As already mentioned the benefits that would also accrue to this country are incalculable. The dormant mineral resources of Canada's virtually unexploited two million square miles of Laurentian Shield constitute natural long-term reserves for U. S. industry. The predicted age of wood gives added significance to the Dominion's unrivaled wealth of virgin forest. Last but by no means least, Canada with almost unlimited reserves of cheap hydro-electric power, with over half of the world's fresh water for industrial purposes within her borders, and with cheap land for factory-sites, all these contribute to make the Dominion an industrial paradise without consideration of the abundant supplies of easily accessible raw materials for almost every type of industrial enterprise.

During the week the external section of the bond market remained quiet and almost unchanged but the internals eased slightly in sympathy with the decline in free funds following a further spate of unconfirmed currency rumors. Canadian stocks staged a rally independently of the New York market with steels, base-metals and papers in strong demand. Favorable drilling reports also created renewed interest in the speculative mining group.

E. M. Adams Co. Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, OREG. — William E. Jordan is with E. M. Adams & Co., American Bank Building.

Toronto Exchange Asks Reports of Short Sales

C. P. McTague, Chairman of Ontario Securities Commission, and R. J. Breckenridge, President of the Toronto Stock Exchange, have issued the following joint statement with reference to reporting short sales:

"With the approval of the Ontario Securities Commission and after thorough consideration of the situation with respect to short - selling procedure in Ontario, the Toronto Stock Exchange has amended its short-selling regulation by providing that every short-selling order shall be marked short and shall be reported accordingly to the floor-trader whose duty it shall be to see that the regulation is observed.

C. P. McTague

"A sale against a valid and subsisting option to purchase is not a short sale within the meaning of the regulation.

"The exchange is requiring its member firms to make fortnightly reports of all outstanding short positions on their books in listed securities. The returns will be summarized by the Exchange and a statement of the aggregate short positions in each issue will be made public through the press. The first statement will be as of Friday, Nov. 14."

Report World Bank May Need More Capital

If asked to participate in Marshall Plan, it will need more funds from members. Only about $½ million now available for lending.

It is reported from Washington that an official of the International Bank for Reconstruction and Development has given notice that if the institution is to participate substantially in the Marshall Plan it will require additional capital from its member nations. At present, the Bank is reported to have only $500,000,000 available for lending and although there is a theoretical lending capacity of $8,225,100,000 based on its subscribed capital, the actual cash thus far paid in amounts to but $1.6 billion. Since the United States backing of the Bank is fixed at $3,175,000,000, it is pointed out that this amount, plus its limited cash resources, represents the lending power of the institution as the Bank is now constituted.

It is generally held, that the Bank's borrowing power, as represented by bond issue floated in U. S., cannot exceed slightly more than the $3 billion presented by the United States Government's portion of the Bank's capital. Pressure for loans from the Bank is increasing. An application for a loan from Poland has been under consideration, but in view of that country's refusal to participate with the Western European nations in the Marshall Plan, it is considered unlikely that it will receive an accommodation. France's application for an additional $250,000,000 is also reported to have been held up, pending new developments in that country. It has been pointed out from time to time by the officials of the Bank that it is not empowered by its charter to provide loans for emergency relief but is limited to the financing of specific projects.

President's Committee Reports on Foreign Aid

Committee, headed by Secretary of Commerce Harriman, issues elaborate report in which it estimates needed appropriation of $5¾ billion for European aid in 1948, and a total during four year period of some $17 billion. Holds such assistance will call for anti-inflationary fiscal policies in U. S. and a new agency to administer aid extended.

The committee of 19 distinguished citizens, appointed by President Truman on June 1 to serve under the chairmanship of Secretary of Commerce W. Averell Harriman, to determine the facts concerning the kinds and amounts of our resources available for economic assistance to foreign countries and to advise on the limits within which the U. S. might safely and wisely extend aid, issued its report on Nov. 8. The lengthy document, comprised in two volumes, covers in detail all elements of the problem, and concludes that in our own self-interest as well as a means of preventing the collapse of Europe and a defense against Communism, that this nation should afford relief during 1948 to the extent of $5¾ billion and a total outlay of about $17 billion, extending over a period of four years. Immediate aid should be supplied in the form of food, clothing and fertilizer, while assistance for permanent rehabilitation should come later. The committee pointed out that steel and similar construction materials needed are now in short supply in this country and therefore cannot be spared immediately. It also recommended a new governmental agency to administer the aid program.

W. Averell Harriman

Summary of Report

The summary of the committee's report follows:

I. PRINCIPLES

The President's Committee on Foreign Aid was asked to determine the limits within which the United States could safely and wisely extend aid to Western Europe. It has approached this assignment in a spirit of realism.

We believe that the future of Western Europe lies very much in its own hands. No amount of outside aid, however generous, can by itself restore to health the economies of the 16 nations which met at Paris in July. Except in Western Germany, where the United States has direct governmental responsibility, the success of any aid program depends ultimately on hard work and straight thinking by the people and the governments of the European nations themselves.

The 16 nations, and Western Germany, comprise over 275,000,000 men and women. They possess great agricultural and industrial resources. Even at its present depressed state, the production of this area is vastly greater than any aid which this country can provide. Such aid must be viewed not as a means of supporting Europe, but as a spark which can fire the engine.

The committee is also aware that the volume of aid required from the United States is of such proportions that it will place a substantial burden on the people of the United States. For all its resources, the United States is no limitless cornucopia. The population of this country represents something less than 7% of the population of the world. This country has heavy responsibilities at home as well as in Europe, in Asia and in our own hemisphere. The aid which we give represents, to be sure, only a small fraction of our total production. But at the present time there is no slack in the American economy and every shipment abroad of scarce goods—especially food which Europe must have—adds to the inflationary pressure at home.

Danger in Inflation Stressed

The committee regards as nonsense the idea which prevails to a considerable degree in this country and abroad, that we need to export our goods and services as free gifts, to insure our own prosperity. On the contrary, we are convinced that the immediate economic danger to the United States is inflation, which means, among other things, a shortage of goods in relation to demand. We believe that our goal should be to bring about a condition where exports from this country are more nearly balanced by a return flow from abroad of services and materials essential to our own economy. We also believe that the European nations desire to achieve such equilibrium in the interests of their self-respect and prosperity. To make this equilibrium possible should be a major objective of any program of aid.

The interest of the United States in Europe, however, cannot be measured simply in economic terms. It is also strategic and political. We all know that we are faced in the world today with two conflicting ideologies. One is a system in which individual rights and liberties are maintained. The opposing system is one where iron discipline by the state ruthlessly stamps out individual liberties and obliterates all opposition.

Our position in the world has been based for at least a century on the existence in Europe of a number of strong states committed by tradition and inclination to the democratic concept. The formulation of the Paris report is the most recent demonstration that these nations desire to maintain this concept. But desire is not enough. The democratic system must provide the bare necessities of life now and quickly rekindle the hope that by hard work a higher standard of living is attainable. If these countries by democratic means do not attain an improvement in their affairs they may be driven to turn in the opposite direction. Therein lies the strength of the Communist tactic: it wins by default when misery and chaos are great enough. Therefore the countries of Western Europe must be restored to a position where they may retain full faith in the validity of their traditional approaches to world affairs and again exert their full influence and authority in international life.

II. POLICIES

The success of any program for aid which may be adopted will depend on the policies which this country and the European nations pursue. It should be made a condition of continued assistance under such a plan that the participating countries take all practicable steps to achieve the production and monetary goals which they have set for themselves in the Paris report. Failure to make genuine efforts to accomplish these results would call for cessation of further assistance.

However, aid from this country should not be conditioned on the methods used to reach these goals, so long as they are consistent with basic democratic principles. Continued adherence to such prin-

(Continued on page 32)

Sterling Devaluation Fears

By PAUL EINZIG

Noting speculation abroad regarding possibility of sterling devaluation, Dr. Einzig reports no such fears in Britain. Admits confidence in sterling is lacking in foreign countries, but points out devaluation would not now help British exports as in 1931. Holds British guarantee against loss on sterling balances would diminish sterling crisis

LONDON, ENG.—There has been lately a revival of speculation abroad on the possibility of a devaluation of sterling. In Britain itself there is no sign of any such fears. Indeed, the London "Times," in its Nov. 4 issue, gave publicity to the complaints of an American visitor who was very annoyed because London shops were not prepared to accept payment in dollar notes. In practically every other country in the world he would have experienced no such difficulty; indeed, he would probably have obtained a favorable "black" exchange rate. But to the average Briton the pound is still the pound, in spite of suspension of convertibility and other difficulties. It was this spirit that kept the fall of sterling within reasonable bounds in 1931. Although there is a minority which seeks to evade the law to secure foreign currencies, the overwhelming majority of British people is just not interested in foreign exchange.

Dr. Paul Einzig

This confidence in sterling is not shared in foreign countries. There the suspension of convertibility gave rise to a wave of distrust—much worse than could conceivably have arisen if convertibility had not been attempted at all. The persistently adverse trade balance and the drain on the gold reserve that has continued in spite of the suspension of convertibility resulted in a widespread belief that sooner or later sterling would have to be devalued. This belief is largely based on the ignorance of the facts of the situation. In 1931 sterling was distinctly overvalued. Today, according to an American expert report endorsed by the Federal Reserve Board, it is decidedly undervalued. While in 1931 a devaluation of sterling was bound to help British exports, today it would make very little difference to the volume of exports, owing to the limited supplies available for sales abroad. On the contrary, it would reduce the foreign exchange proceeds of exports, and would therefore widen rather than reduce the gap in Britain's balance of payments.

All this is fairly obvious. Nevertheless there are many people abroad who believe that sooner or later Mr. Dalton would decide to devalue, because of the inadequate success of the export drive. This belief is based on the assumption that no American assistance would be forthcoming to Britain. On that assumption it seems reasonable to anticipate that the gold reserve would be exhausted sometime during 1948. It is believed that when that stage is reached sterling would have to be devalued. This is, however, by no means certain. Unless by that time the sellers' market has given way to a buyers' market, and Britain has accumulated large stocks of goods which she is unable to sell abroad, there would be no point in devaluing the pound. If there are no more dollars, dollar imports would simply have to be discontinued.

Those who expect a devaluation of sterling sometime next year assume, however, that in the course of the next 12 months the situation on the world market would undergo a fundamental change. Competition would become once more very keen, and a currency undervaluation would once more enable Britain to increase her exports, as it did in 1931. It would of course be absurd to devalue a currency which is already undervalued. The British Government would undoubtedly do its utmost to avoid such a solution. In any case, it does not appear likely that such a fundamental change in the world market situation would occur so soon.

One of the reasons for the devaluation fears lies in the reluctance of foreign governments to agree to holding large amounts of inconvertible sterling. Were it possible to induce the rest of the world to hold some hundreds of millions of pounds of new balances, in addition to the billions of pounds of old balances, it would go a long way towards solving Britain's balance of payments problem in 1948. And by 1949 conditions might change in Britain's favor.

Foreign governments are reluctant, however, to acquire new sterling balances, and their reluctance is largely due to Mr. Dalton's unwillingness to give them a guarantee against losses arising through a devaluation of sterling. His negotiators argue that such a guarantee is unnecessary, for there is no question of any devaluation. The foreign government's answer is that if that is so, then the British Government would run no risk in granting the guarantee. They feel that Mr. Dalton has not the courage of his convictions, and that they cannot reasonably expect to have more confidence in sterling than Mr. Dalton himself appears to have.

Once more considerations of prestige appear to prevail in London official circles. It would be bad for sterling's position as an international currency if exchange guarantees were given. From a point of view of practical expediency, however, Britain stands to gain a great deal and to lose very little by meeting the foreign governments' insistent demand in this respect.

If by guaranteeing the holders of sterling acquired from now on it would be possible to induce foreign governments to accept such guaranteed sterling in payment for the export surpluses of their countries to Britain the crisis of the British balance of payments would diminish. It would be possible to maintain imports without using up the gold reserve. And even from the point of view of prestige, a decision to guarantee new sterling balance might be helpful. For such a guaranteed sterling would come to be used extensively in international payments even though it remains inconvertible. This solution should go a long way towards satisfying the American demand for multilateralism, without having to sacrifice to that end the last remains of the British gold reserve.

Grimsditch With Gross, Rogers & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Norman V. Grimsditch and Richard Goorgian have become associated with Gross, Rogers & Co., 458 South Spring Street. Mr. Grimsditch was formerly with Fairman & Co. and Carter H. Corbrey & Co. Mr. Goorgian was with Francis V. Nixon & Co.

The United States and World Petroleum Outlook

By L. F. McCOLLUM*

Coordinator of Producing Activities, Standard Oil Co. (New Jersey)

Standard oil official points out increasing world needs for petroleum and importance of larger supplies for world recovery. Says U. S. proven oil reserves are now greater than at any time, but there has been little change in productive capacity, because of lack of needed drilling material. Says U. S. oil industry is not threatened by foreign imports, though new sources of oil must be had outside U. S. Stresses foreign activities of U. S. oil companies and advocates keeping domestic oil industry strong.

The whole world needs more oil. That is the most important fact facing the American oil man today. Not only in the United States, but in every country on the globe, the demand for oil, already far above prewar levels, keeps on growing. To the best of our forecasting ability, it appears that demand will continue to grow for years to come.

L. F. McCollum

War-torn Europe bases much of its hope for rebuilding on increases in the supply of oil. The 16 Marshall Plan countries estimate they must have — and they are asking for—more oil than present development plans indicate can be made available to them in the next few years. In Asia, Africa, Australia, South America—wherever we turn—plans for a bright, new future rest in large part on more oil. In South America, particularly, we see a whole continent virtually without coal, depending almost altogether on liquid fuels for the industrialization and higher standards of living which her people seek.

And here at home the tremendous demands for energy—mostly petroleum — have repeatedly mounted beyond our estimates. The record reveals what I think is one of the most significant facts for us to consider. The amount of energy we get today from coal is only about the same as it was 30 years ago. In these three decades, however, there has been a tremendous growth in our standard of living and the total energy production in this country has increased 75%. *Practically all of this new energy has been from petroleum—oil and natural gas.*

*An address by Mr. McCollum before the American Association of Petroleum Geologists, San Antonio, Texas, Nov. 5, 1947.

Perhaps the best available comparison of living standards between this country and the rest of the world is in the number of mechanical servants we have—the energy available per capita. This is made up from coal, oil, natural gas and water power production and is usually expressed in Btu's. However, for convenience, I have converted the totals from all four of these sources into their equivalents in barrels of oil.

U. S. Uses 42 Barrels of Oil Per Capita Each Year

In the United States every person has the equivalent of more than 42 barrels of oil working for him every year. In Europe the annual energy availability is equivalent to only seven barrels of oil per capita, in Russia 5½, in South America five, and in other parts of the world to less than two barrels per capita. These figures point up clearly, it seems to me, how great a distance most other nations still have to go before they can achieve the conveniences and freedom of movement we take as a matter of course.

The figures also show that when we estimate very large percentage increases in oil demand for these countries, the actual increases in energy availability per capita are still very small in comparison with the energy used in this country. For, if the consumption of oil outside the United States were to be increased by only one barrel per capita, it would require 2,000,000,000 barrels a year more than they now get. This would mean an increase of 65% in present world oil production.

As producers and distributors of energy, we can be proud of the job we have done. But we must also be conscious of how much we still have to do—of our responsibilities for the future. The peoples of the world want the power and convenience of petroleum fuels, and it is our business to meet that demand to the maximum of our ability and at the lowest possible prices.

In the past we have met all demands for oil, at home and abroad. But one of the first facts we discover, when we try to assess our ability to meet the world's needs for liquid fuels now, is that the time is probably past when the United States can supply unlimited quantities to all who ask. I am sure you know the facts on which this statement is based: According to the only clues we have of potential oil resources—the extent of sedimentary areas—the United States has about one-sixth of the world's land area favorable for oil accumulation. Yet we have been supplying two-thirds or more of the world's needs for scores of years.

Oil Reserves and Consumption

Estimates of the ultimate potential yield from our own sedimentary areas indicate that we have discovered somewhere around half of the oil we might reasonably expect to find in the land areas of this country. In figures, it breaks down like this: about 34 billion barrels already produced, another 21 billion barrels in proved reserves—the highest in history — and something in the range of 50 billion barrels still to find.

In contrast to that 100 billion barrels or so of ultimate oil resources in the United States, the rest of the world on the same basis should have some 500 billion barrels of potential resources. Only 20 billion barrels of this foreign potential have been produced so far. The location and extent of these foreign resources are of extreme importance to all of us, but before getting into a discussion of them, I want to make clear my thoughts about oil reserves in this country.

Our proved reserves are greater than at any other time in our

(Continued on page 21)

Mutual Funds

By HENRY HUNT

Who's Afraid of a Li'l' Ole Mouse?

There are billions of idle dollars in the hands of investors today that could be put to work at 5% or 6% through the purchase of sound common stocks. However, just as a mouse terrifies an elephant, mouse-sized fears may be the reason why America's elephantine surplus savings today cringe from direct investment.

In sharp contrast to her allies and the conquered nations, the U. S. has emerged from the costliest war in history in debt to her own citizens, of course, but with private savings and personal income at record levels. U. S. industrial production facilities, corporate profits, and living standards are higher than the world has ever known before, yet American investors still hesitate because of their fears.

Let us try to analyze some of these fears—fears that have undermined the 1947 stock market just as the nibbling of a mouse at an elephant's toes upsets his normal equilibrium.

(1) Labor is in the driver's seat and will take most of the profits out of business.

It is becoming more and more apparent that industry does not intend to "hold the line" against inflation but will maintain a reasonable margin of profit through passing increased costs on to the consumer. Witness recent price increases of oil, steel, and automobiles.

(2) The Marshall Plan means that we have to deprive ourselves in order to feed Europe.

If we could squander $100 billion a year for four years during the war and come forth the richest nation in the world, we ought to be able to lend or spend $5 billion a year for four years to "win the peace," if necessary. Furthermore, such expenditures would assure capacity operations for many of our industries.

(3) Russia has her knife sharpened and is ready to strike.

Poppycock. Russia wants war no more than we do. She is unequipped, both financially and physically, to successfully conduct a war. Don't believe the story that Russia has developed atomic bombs either—that is one secret that the U. S. still keeps. It is expected, however, that the U. S. Government will increase its appropriations for defense which should have an inflationary effect on stock prices.

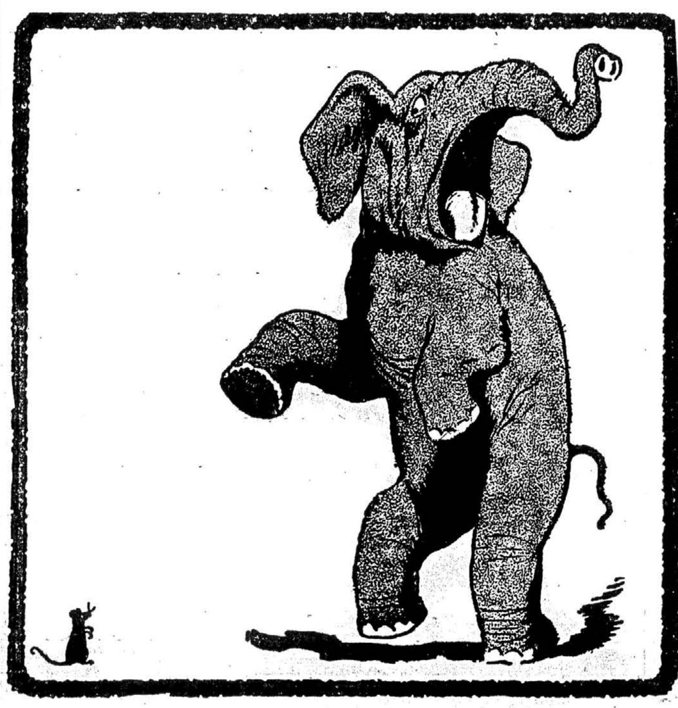
(4) The recent abrupt rise in commodity prices forecasts a "bust" as in 1921.

Except for the fact that World Wars preceded the inflated markets in commodities in each period, the situations are quite dissimilar. Today, despite the oracle from Washington, government buying for foreign export caused in large measure the record prices for grains. In 1920, "speculation" was a far more important factor. Meat prices have also soared in recent months partly because millions of Americans who ate meatloaf before the war are now eating steaks and chops. Last, but not least, the cost of food today **in relation to current income** is considerably less than it was in 1920.

In 1921 excessive inventories caused heavy losses among many industrial companies. Today, inventories are not excessive in relation to present business volume. Furthermore, many companies have set up liberal reserves against their inventory accounts.

Lady Macbeth once said: "Screw your courage to the sticking point." We don't suggest that investors commit murder but we do say that they shouldn't be afraid of a li'l' ole mouse!

(Reprinted from *National Notes No. 434*, written by *Henry Ward Abbot* of *National Securities & Research Corp.*)



The High Cost of Living

According to Jay Marshall, currently appearing at the "Blue Angel," one way to beat the high cost of high living is to cut out food and liquor for one month. You'll save enough to pay for funeral expenses!

Report on Germany

Selected Investments Co. of Chicago in "These Things Seemed Important" quote Chairman Brown of Johns-Manville as follows: "Partition of Germany means that her breadbasket in the east is now in the hands of Poland and the Russians. In the American, British, and French zones there are 48 million people who can't possibly provide more than 50% of their food requirements. They can provide the other half only by manufacturing and exporting goods. 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 not as relief but on a five-year plan under which food will be an incentive to production. If food is provided merely on relief basis it is merely pouring dollars down a bottomless rathole, but food can be used as a means of getting these countries into production. They should eventually be able to stand on their own feet and be fully capable of repaying the loans. In my opinion, nothing can be accomplished in either Germany or Western Europe under the Marshall Plan unless we in America announce with utmost clarity an entirely new policy that must deal with four aspects of the problem: (1) **Organization:** We must set up an organization to deal with this problem just as we did to deal with the problems 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 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."

A Feline Tale

While two cats were watching a tennis match, one said to the other: "That's the racket my old man's in."

How People Travel in the U. S.

In a recent bulletin from **Investors Syndicate,** the following interesting statistics show how people traveled in the U. S. last year.

	Total Passenger Miles (in Millions)
Domestic air lines	5,863
Pullman cars	20,673
Electric railways	36,000
Steam railroads	65,000
Buses	65,449
Private automobiles	540,879

It will be noted that the total amount of passenger miles traveled by automobiles was three times the total of all other forms of transportation combined.

The Objective of a Balanced Fund

Lord, Abbett's current **"Investment Bulletin"** describes the objective of a balanced fund as follows: "The objective of a balanced fund is to maintain the purchasing power of the investment and to pay a good income to the shareholder. Since a balanced fund will always hold a certain percentage in common stocks, the shares will advance in a rising market and decline in a falling market. The management endeavors to hold a larger percentage of the investments in bonds when the market is in a high range and a larger percentage in stocks when the market is in a low range.

"In periods when the market advances, the objective is to have the asset value advance to a sufficient extent to offset any decline that may develop in the purchasing power of the dollar. In a declining market the objective is to establish enough resistance to decline in the asset value of the shares so that, while this asset value will be lower, the investment will still purchase as much goods or services as it would at the higher level, assuming that, over a period, prices of goods and services also decline.

"The degree of success of any balanced fund in attaining the above-described objectives depends upon the ability of its management in making timely changes in its bonds and stock positions."

Notes

The Keystone Company is currently distributing an illustrated brochure describing in minute detail the services and functions of the organization. The unique character of this work is described in detail in the "Securities Salesman's Corner" column on page 20 of today's "Chronicle."

The New England Fund now being distributed by **Coffin & Burr, Inc.** reported net assets of $2,818,000 as of Sept. 30.

Hugh W. Long has issued a leaflet on **Railroad Stocks** in which it is estimated that the railroads will report net income of $400-$450 million this year as compared with $289 million last year.

Investors Mutual, Inc. reported net assets of $107,068,000 on Sept. 30, as compared with $86,708,000 for the previous year. During this period, net asset value declined moderately from $12.38 to $12.04 a share while shares outstanding increased from 7,002,000 to 8,889,000.

The Bullock Fund has declared a quarterly dividend amounting to 40c a share payable Nov. 22 to stockholders of record Nov. 15. A substantial part of this dividend is derived from net security profits.

Business Man's Bookshelf

Buying Your Own Life Insurance—Maxwell S. Stewart—Public Affairs Committee, Inc., 22 East 38th Street, New York 16, N. Y.—paper—20¢.

Cement Company Common Stocks in 1947—Analysis of present investment position—E. W. Axe & Co., Inc.—Tarrytown Press, P. O. Box 147, Tarrytown, N. Y.—paper—$1.00 (50¢ to Public Libraries and non-profit institutions).

Greek Aid Program, The—Department of State publication 2939, Near Eastern Series 10—Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.—paper—25¢.

Program for Sustaining Employment, A—Report of the Committee on Economic Policy—Chamber of Commerce of the United States of America, Washington, D. C.—paper—10¢ (discount on quantity orders).

Trust Receipts—The Variations in Their Legal Status—George B. McGowan—The Ronald Press Co., 15 East 26th Street, New York 10, New York—cloth—$4.00.

Value of Commodity Output Since 1869 — William Howard Shaw—National Bureau of Economic Research, 1819 Broadway, New York 23, N. Y.—cloth—$4.00.

Firm Name to Be Jacquin, Bliss & Stanley

The firm name of Bliss & Stanley, 15 East 58th Street, New York City, members of the New York Stock Exchange, will be changed to Jacquin, Bliss & Stanley as of Nov. 15, when Max Jacquin, Jr. becomes a partner in the firm.

On the same date Leopold Wellisz will also be admitted to partnership in the firm.

Two with Edgerton, Wykoff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Lester L. Frame and Lloyd W. Spitzbarth have become affiliated with Edgerton, Wykoff & Company, 618 South Spring Street, members of the Los Angeles Stock Exchange. Mr. Frame was formerly with William R. Staats Co.

Taft-Hartley Act—Not Partisan, Nor Punitive!

By ROBERT N. DENHAM*
General Counsel, National Labor Relations Board

Leading official of NLRB, holding Wagner Act was abused by union leaders and got out of balance, asserts Taft-Hartley Act seeks to correct situation by making it as necessary for unions as well as employers to bargain in good faith and by placing equal responsibilities on employers and union. Warns elections must be held to establish or to renew union shop agreements, and both employers and workers may be accused of unfair practices if union shop is maintained without specific contract. Points out under union shop provision, unions can ask for employee's discharge only for non-payment of dues, and, therefore, communists may be retained despite union or employer opposition.

For 12 years you have been living under the provisions of the Wagner Act as they have been administered by the old National Labor Relations Board. For 10 years I have had the privilege of participating in some degree in that administration, for from early 1938 until quite recently, I was a Trial Examiner for the Board, sitting on and deciding cases in all stages of the development of the law. In the early days we had no law to go by; we had merely the Act, and we had to construe it as we conceived it to be, and along the lines we felt it was intended to follow. I was never a crusader for the cause of either labor or industry. I was just a lawyer, with a fairly comprehensive background, trying to apply a law in the same manner that any judicial officer attempts to apply a new statute when it comes before him. The Wagner Act was a much needed law when it was passed, because the relationship between labor and management had become fearfully unbalanced. The Wagner Act sought to restore the balance. I have always looked upon the structure of our nation's industrial economy as one made up of what I choose to call the 4 M's: Money is an essential part of it; Management you cannot get along without; Machinery you must have if you are going to produce; but all three of these would be utterly valueless from a productive standpoint if there were not Men to do the work. No one of these four factors is any more important than the other. They are completely interrelated and none can function without the other three. When the Wagner Act was passed, these factors were sadly out of balance. Money and Management had, in all too many instances, followed the policy of exploiting—and I may say, misusing—the Men factor of their integrated structure. The situation had to be corrected; and the Wagner Act corrected it by creating a situation where Men or Labor, as we now call it, was not only given its full place in the structure, but was accorded a preferred and protected position.

Robt. N. Denham

Labor Leaders' Abuses

As one might expect, labor being made up of human beings, there were at hand, as there always are in all situations, a certain number of opportunists who became labor leaders overnight. In their lust for power and under the protective cover of the Act, they developed many techniques and procedures for the so-called advancement of labor, that were wholly at odds with what many people felt were the rules of decent living and decent relations among our fellowmen. You probably remember some of them: the sit-down strikes; the mass picketing; the coercive tactics that were used on reluctant employees to induce them to join the unions; and the manner in which some labor organizations would approach an employer with the admonition that he would sign a contract with them "or else." And I have in mind also that during much of those 12 years of the administration of the Act, and especially in the early years, there was almost always a Board that was highly sympathetic to the cause of labor, as labor itself defined that cause; and that there was an inclination to protect labor even in its excesses. Under the cloak of this protection, the privileges accorded by the law grew into license, to the point where too many labor organizations, but, fortunately, by no means the majority of them, seemed to assume that no matter what it did, it simply could not be wrong, and could not be touched or compelled to live within the bounds of what most people regarded as decent human relations, with due regard for the rights of the other fellow.

*An address by Mr. Denham before Metal Trades Association, Chicago, Ill., Nov. 6, 1947.

Under these conditions, it wasn't too long before the 4-M structure again got out of balance; but this time the unbalancing factor was the arrogance and abuses of the Men factor toward the others. Some corrective action was clearly indicated. Not to penalize labor, nor to deprive it of any of its legitimate rights and privileges, but to equalize the factors and to set up checks and balances as between management and labor that would reduce to a minimum the possibility of one imposing in any way upon the other. And while they were at it, attention was also given to the fact that in the tremendous growth of the size and power of labor organizations, the individual worker had become so submerged that he had practically no rights and no means of protecting himself against a labor organization that had become unwelcome. It was these things that brought about the Taft-Hartley Act and it was those corrections that the Taft-Hartley Act has been designed to correct.

Taft-Hartley Act Not Partisan

Let me press the point that the Taft-Hartley Act is not partisan legislation. It is corrective legislation that equalizes—or tends to equalize the balance—between organized labor, management, and the ordinary employee who makes organized labor possible.

I take it most of you are reasonably familiar with the provisions of the Wagner Act and the restraints on employers that it provided. Do not get the idea that any of them has been abandoned. They still are the law and the employer must still conform to them as much as he did before the present law was passed. The thing of it is that on the other side of the picture there are equalizing factors that require the labor organizations also to conform, not only in their relations with the employer, but in their relations with their members and the employees as well.

Under the old Act an employer was restrained from interfering with or restraining his employees in the exercise of their right to join, form, or remain members of a labor organization. Under this Act the unions, as well as the employers, are enjoined from restraining or coercing the employees in the exercise of their rights in joining a labor organization of their choice or not to join, if they see fit. In other words, coercive methods of organization or opposing organization are no longer permissible.

Under the old Act, the employer was required to bargain with the labor organization. But there were no requirements upon the union as to what it did. The net result was that, too often, the union started off with a demand and stood on it, while the employer, in order to remain in the posture of bargaining in good faith, from that point forward was expected to be in a more or less constant state of bargaining retreat through counterproposals to each demand made by the bargaining union as they went along. Obviously, this was a most unfair arrangement, and could hardly be said to constitute bargaining, which in my opinion contemplates two people on more or less equal ground trying to arrive at an agreement.

What Taft-Hartley Act Seeks to Correct

The Taft-Hartley Act seeks to correct this by making it as necessary for the union to bargain in good faith, as it has always been for the employer in the past.

And at this point let me warn you that you must not be misled by hasty reading of the definition of collective bargaining as it is found in the Act. That doesn't mean that you can go into a bargaining conference with a labor organization representing your employees and sit back and do nothing. This Act was passed for the purpose of promoting collective bargaining and to thereby safeguard commerce from injury, impairment or interruption. That definition would never have been included in the Act if it was intended to sabotage bargaining. A careful reading will disclose that the outstanding term in the definition is the phrase "in good faith." Collective bargaining cannot exist on any other basis than that the representative of the employers, and the representative of the employees will meet at the bargaining table in good faith for the purpose of arriving at an agreement, if possible. To be sure, the definition provides that neither party is compelled to agree to a proposal or required to make a concession, but that does not mean that they may sit back and simply look at each other, or that one may talk and the other just listen and say nothing. Still there are some who say that is what it means. It's silly—and Congress was in deadly earnest when it passed this law. Concessions are not compulsory but generally they are essential on both sides. Negotiators rarely begin bargaining without their objections being more or less widely separated. That is fundamental, and the mere process of bargaining contemplates that their efforts will be directed to the purpose of bringing their objectives closer and closer together in search of a basis for agreement. That cannot be done without making some concessions and compromises here and there, or without effecting changes of position on both sides in their approach to the common meeting ground.

Bargaining is still bargaining, and as we read the Act, it requires negotiation and an honest effort to reach an agreement. It cannot mean less. And it also requires that when an agreement has been reached on all or a major portion of the subject under discussion, that agreement must be reduced to writing and signed by the parties as a permanent testimonial of what has been agreed upon, if either of the parties requests it.

Meaning of the Union Shop

Another of the subjects on which there seems to have been considerable uncertainty has been the operation of the provision in Section 8 (a) (3) pertaining to the union shop. Short cuts are not always time-and-trouble savers and short cuts here will often be trouble makers. I have been asked many times in the 10 weeks since Aug. 22 what would be the effect of an employer entering into a union shop contract with a union representing his employees without the formality of an election, where they had always had a union shop or a closed shop or some other form of union security in the past and it had become more or less traditional in the shop. The quick answer to that is that such a short cut can do nothing but lead to trouble. It will protect neither the union nor the employer. In the absence of these provisos the discharge of an employee at the request of a union because he had failed to maintain his membership in good standing is a discrimination and an unfair labor practice which would subject the employer to an order to reinstate the employee and to make him whole for his loss of pay. And under Section 8 (b) (2) of the Act it is an unfair labor practice for a union to cause such a discharge to take place unless it is within the area that is protected by the union shop proviso, and when the union does so, it, instead of the employer, may be required to make good the back pay to the discharged person.

Under this Act the only way in which this union security clause can be put into a contract so that a union can be justified in demanding a discharge and the employer in effecting it, is by following the procedure laid down in the law; that is, by conducting an election at the request of 30% of the employees in the unit represented by the union, on the question of whether the employees desire to authorize the union to negotiate with the employer for a union shop contract. And that question must be carried by the affirmative vote, not of a majority of those who participate in the election, but a majority of all of those who are in the unit. In such a case, an absent vote is a vote against the proposition. If the authorization is granted in such an election, then the question of the incorporation of a union shop provision in the contract becomes a legitimate subject for collective bargaining. The election does not put the provision in the contract. It merely legalizes it if the union and the employer finally agree upon it. Then—and then only—can the employer and the union be protected by the provisions of such a clause in their ultimate agreement.

You have undoubtedly noted also that the only basis for a legitimate demand for discharge by the union under a union shop clause is the failure of the union member to pay his dues and initiation fee. I question whether failure to pay fines and assessments can be included in this. The union may expel him for any other reason it sees fit, but it may not demand his discharge. This has been the subject of considerable criticism by the unions on the ground that it deprives them of their disciplinary power over their members. The man may be an informer, or a plain garden va-

(Continued on page 42)

Securities Salesman's Corner

By JOHN DUTTON

Looking for a Business Builder?—Then Write Keystone About Their New Brochure.

There are dealers in securities that are doing a substantial volume of business week after week in good times and bad. You don't hear them complaining. Of course, when things are humming along everyone does better, but in these times if you see an organization that is busy making sales and adding new customers every month in the year while others are sitting around warming their chairs, there is only one answer. Those successful firms have a sales program that is workable and salable and they are getting results by **using methods that are geared to the times.**

There is plenty of evidence that shows conclusively why the dealer who is looking out for his **future,** while building up his business **today,** is selling the mutual fund in greater volume than ever before. You know all about the safety factors, good yield, diversification idea, freedom from future complaints, etc., etc. The investment trust has now demonstrated its worth and nearly every security dealer knows all the strong selling points. But the main advantage from a sales standpoint is the **excellent sales literature that is now made available to dealers by these trusts.** At last we are getting around to SELLING SECURITIES the way successful merchandisers of insurance and other intangibles have been doing it for years. Some of these sales helps could not be duplicated by the average investment firm. Even if you had the advertising talent in your shop the cost would be prohibitive.

They say one picture is worth a thousand words. If that is so, the Keystone Organization has created a piece of selling literature that will sell for you, and build up confidence in your organization, in a manner that should ring the cash register loud and often. Here are the things that make up the kind of sales promotional material that brings business. (This brochure entitled THE KEYSTONE ORGANIZATION has all of them.)

(1) Good paper, dignified, readable type and layout.

(2) Interesting style and pictorial illustrations.

(3) Creates prestige for **you** and for the funds sponsored by Keystone.

(4) When the reader gets through he hasn't much doubt of the high quality of the product you are offering to him.

Each department in Keystone's organization is covered page by page. Department heads and actual people at work are shown in the illustrations. Key executives WITH THEIR BACKGROUNDS (and they have some good ones) are introduced to the reader so that the investor can see how this organization functions day in and day out AS A GOING RESEARCH ORGANIZATION THAT IS CONSTANTLY ON THE JOB OFFERING HIM THE FINEST INVESTMENT SERVICE THAT MONEY CAN BUY. And the dealer is also not neglected but made a part of "the organization which is now serving 45,000 investors in 44 states in the supervision of $155,000,000 in investments." That is the sort of punch line you see at the wind-up on page 23 of this excellent brochure.

If I was a dealer who was looking for a new medium of stimulating my business, I think I'd work out an advertising plan using the mails and the newspaper, and offer this piece of literature to those investors who would be interested in a planned investment program offering safety, yield and marketability. I'd further use it as a follow up and a "leave behinder" with the assurance that it would SELL FOR ME.

So if you haven't already seen it, write to the Keystone Company of Boston, 50 Congress Street, Boston, Mass., and ask them to mail you a copy of "The Keystone Organization." Maybe you'll get some ideas out of it—or from them.

Dillon, Read Group Offers Texas Eastern Transmission Common

Financing to provide a part of the funds for Texas Eastern Transmission Corp.'s purchase of the "Big Inch" and "Little Big Inch" pipe lines was undertaken with the offering Nov. 12 by an investment banking group headed by Dillon, Read & Co. Inc. of 3,564,000 shares of the corporation's common stock at $9.50 per share.

Texas Eastern Transmission Corp. organized under Delaware laws on Jan. 30, 1947, is acquiring ownership of the Inch Lines from the United States Government under a competitive bid submitted in February, 1947. The purchase price is $143,127,000.

The balance of funds required to complete the purchase of these war emergency pipe lines will come from the sale by the corporation of $120,000,000 of first mortgage pipe line bonds, 3½% series due 1962. The sale of the bonds at a price of 101 to a group of leading life insurance companies will synchronize with the sale of the stock.

Of the common stock offering by Dillon, Read & Co. Inc. and associates, 3,550,000 shares are for the account of the corporation and the remaining 14,000 shares are for the account of a selling stockholder.

The net proceeds from the sale of the common stock and the bonds will be applied to the payment of the purchase price of the Inch Lines, the repayment of all outstanding notes of the corporation and the reimbursement to the corporation for certain legal, engineering and other fees in connection with organization. The balance of proceeds, amounting to approximately $3,400,000, will be added to the corporation's general funds and will be available for construction, working capital and other corporate requirements.

A significant feature of the financing is that it involves the transfer from government to private ownership of the largest and most important property in the category of surplus war assets.

Also noteworthy is the fact that under the corporation's operation of the lines, the Philadelphia area will have available for the first time a supply of natural gas.

The Inch Lines were built and used by the government during World War II for the transportation of petroleum and petroleum products. Texas Eastern Transmission Corp. has operated the lines since May 1, 1947, under an interim lease, for the transmission of natural gas.

Upon completion of this financing the company will have outstanding 4,500,000 shares of common stock and the $120,000,000 first mortgage bonds to be sold to the insurance companies.

New York Stock Exchange Weekly Firm Changes

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

Harold deS. Kennedy, partner in Singer, Deane & Scribner, died on Oct. 31.

Interest of the late Hermann F. Clarke in Estabrook & Co. ceased Oct. 29.

Interest of the late Edgar R. McGregor in Parrish & Co. ceased Oct. 31.

With Denault & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF — Waring Park, formerly with Davies & Mejia, is now associated with Denault & Co., Russ Building.

NYSE Submits Question of Permissive Incorporation to Membership

The Board of Governors of the New York Stock Exchange, at its meeting on Nov. 6, directed that the proposed general amendment to the organization's Constitution, to provide for the permissive incorporation of member firms and the admission of corporations, under prescribed restrictions, as member corporations, be submitted to the membership for balloting, as provided in Article XVIII of the Constitution. This amendment, which has neither been approved nor disapproved by the Board, was proposed by a petition signed by not less than one hundred and seventy-five members, and was submitted to the Board of Governors at its meeting on Oct. 23, 1947.

The Board has changed the proposed amendment submitted on that date by making it conform to the amendment to Article XV of the Constitution, relating to Commissions, adopted by the membership on Oct. 31, 1947, effective Nov. 3, 1947. No other change has been made by the Board.

Ballots have been sent to members, and must be mailed or delivered to the Secretary so that they will be in his hands before 3 p.m. on Nov. 20, 1947.

On Nov. 10, both Emil Schram, President of the New York Stock Exchange, and Robert P. Boylan, Chairman of its Board of Governors, issued statements favoring the adoption of the proposed amendment. Said Mr. Schram:—

Emil Schram

"In replying to the many inquiries as to my attitude concerning permissive incorporation, it should be made clear that I am heartily in favor of it. After long and careful consideration, I have concluded that the proposal is certainly in the public interest and would be beneficial to our market and to the securities business.

"Incorporation will be permissive, not compulsory. The amendment, therefore, will take no rights away from those firms that may wish to continue their business as partnerships. There is a growing demand within our membership, however, for the right to do business as corporations and there are many good reasons for making it possible to do so. Many members and member firms see an opportunity under the corporation form to strengthen their position by setting aside, in profitable years, necessary reserves for contingencies. They see a greater opportunity to encourage young men to come into the business, by acquiring an interest through stock purchase plans. They believe that, as member corporations, they will find it easier to attract and retain capital.

"Any securities organization, in order to be eligible for admission as a member corporation, must do, primarily, a brokerage or dealer business in securities; and all of its voting stockholders would have to be actively engaged in the company's business and devote the major portion of their time to its affairs.

"The amendments have been so drawn as to make sure that corporations, their stockholders, officers, directors and employees would be subject to the same controls, with respect to customer protection and business practices, as are presently imposed by the Exchange upon members, member firms, partners and employees. The Exchange would exercise the same disciplinary authority that it now exercises, whether the member organization does business in partnership form or as a corporation. No increase in the number of memberships is contemplated.

"While the proposed rules are rigid, I am hopeful that many of the corporations now in the securities business will want to join the Stock Exchange community. Doing so will have the effect of broadening the interest in listed securities on the part of the investing public.

"It goes without saying that any increase in investor interest in listed securities will be reflected in an improvement in the quality of our market; and I foresee the further listing of desirable securities as the result of increased interest in listed securities on the part of houses that may qualify for admission as member corporations.

"I am not unmindful of the fact that, under the partnership form of doing business, member firms of the New York Stock Exchange have had a remarkable solvency record. We are very proud of that record.

"Anyone familiar with our examining procedures and those of banks, insurance companies and other corporations handling the public's funds and securities will agree that we need not sacrifice one iota of safety under the corporate form. The rigid controls embodied in the pending amendments give assurance as to this.

"I sincerely believe that permissive incorporation would be a most progressive and constructive step, and I hope that the membership will vote favorably."

Mr. Boylan's statement follows:

"Many members and allied members have asked me about my personal opinion on the question of permissive incorporation.

Robert P. Boylan

"I am for any sound measure that is good for the investing public and for the New York Stock Exchange. I regard this proposal as thoroughly sound and in the best interest of both the investing public and the Exchange. It should, certainly in its long-range effects, improve our market by generating a broader interest in our listed securities and by enlisting additional cooperation in attracting desirable securities to our list.

"It is reasonable to suppose that some securities houses which now do business in corporation form will wish to qualify under the requirements provided for in the constitutional amendments upon which balloting is now taking place. All necessary safeguards have been embodied in the amendments to preserve the Exchange's authority. No changes in Exchange policy with respect to the admissibility of member corporations can be made without the approval of the membership by means of constitutional amendment.

"I am proud of my membership in the Exchange. I have a very jealous concern that the Exchange's traditions be respected and that there be no dilution of member responsibility or of member authority over the operation of this institution.

"I am convinced that the proposed step is desirable and will redound to the benefit of those who use the Exchange's facilities and of those who comprise its membership."

The United States and World Petroleum Outlook

(Continued from page 17)

history and I believe there are billions of barrels of potential reserves still to be found. But—we are not now finding enough new oil to create the cushion that is desirable in our productive capacity. Before the war, our known fields could support efficient production of some 5,200,000 barrels daily. Actual production was less than 4,000,000 barrels. We had a surplus capacity of more than a 1,000,000 barrels a day and it was this surplus which made it possible for us to meet the needs of the war with a minimum use of scarce materials.

Little Change in Productive Capacity

Since prewar days our productive capacity has changed little. A recent report of the National Petroleum Council puts the present maximum efficient production rate at about 5,275,000 barrels daily. Yet demand has now forced production up to this level. Only an insignificant excess capacity exists today and the record of our discoveries over the past few years raises the question as to whether we can sustain even that maximum efficient rate much longer unless we quickly increase our finding rate.

We are finding more fields than ever before, it is true. But on the average they are getting smaller every year. Just before the war our discoveries of fields with more than a million barrels reserve each averaged between 80 and 100 fields every year. For the last few years the number has dropped to less than 40 each year. And the discovery rate for larger fields, of more than 10,000,000 barrels reserve, dropped from 40 in 1938 to seven in 1945. Reserve estimates in fields discovered recently undoubtedly will be increased as development proceeds, but it seems probably that the extent of these increases will not change the conclusions.

The figures also indicate that the reserves discovered per exploratory well drilled are much smaller now than they used to be. Therefore, just to keep our productive capacity at its present level of around 5,300,000 barrels a day, we must either reverse the trend in amount of reserves per wildcat, or drill many more wildcats. And when we consider that domestic demand alone in just two or three years will require 5,600,000 barrels of crude oil daily, we can see that the oil industry has a real job confronting it.

Impediments in Finding New Oil

There are many reasons why we didn't find all the oil we might have in the United States these last few years. War and postwar shortage of materials is an obvious major reason—the industry just could not drill all the wells it wanted to. Inadequate price for crude oil was, until recently, a second deterrent. During the war years, manpower shortages also reduced the ability to drill enough wells.

But there are other reasons. Most of our exploratory drilling has been in known provinces, not far from present known reserves. Too little effort has been spent in a search for new provinces. There are millions of acres where the surface has only been scratched and where we have got to undertake a major finding effort.

The material shortage is not solved yet. However, this year the industry will drill more wells, both development and exploratory, than ever before in history. But, unless we are lucky and reverse the trend, this will not be enough to raise our finding rate to a level high enough to increase our present productive capacity. A recent trade journal article estimated 40,000 wells a year as necessary to do this. My own company's estimates, I can tell you, are even somewhat higher. Needless to say, such a program does not include an increase in the number of inside wells drilled simply for closer spacing.

An expansion of this magnitude means more and more work for you geologists. Quite possibly, there are not even enough geologists to do the job. Your work is really cut out for you for many years ahead.

There is no doubt in my mind that a greatly expanded drilling program will come. In our troubled world, no oil man can imagine anything less than maximum effort to find as much oil as we can here at home. We need a strong domestic oil industry to find and develop the large resources still remaining to be found beneath our land. We need more wells, probably we need some new finding methods, and certainly we need a more extensive search in new provinces. Perhaps a combination of all three is the answer.

Must Find Oil Outside U. S.

And it is equally obvious that efforts by American companies to find and develop oil outside the United States must be continued. The present proved reserves abroad are twice as large as in this country, and the potential resources are many times larger. These foreign reserves have two main jobs to do First, to meet the huge and growing would-wide demands for oil outside the United States. Second, to act as a supplemental reserve upon which this country can draw whenever additional supplies are needed here. Immediate development of foreign reserves is essential to a peacetime world run on oil, and they could be a vital reserve for this country in any national emergency.

Where is this foreign oil? In the Western Hemisphere outside the United States, the present proved oil reserve is about nine and a quarter billion barrels. Average daily production last year was more than 1,400,000 barrels, of which about 1,200,000 was in the Caribbean area. Major discoveries will continue to be made for many years in the Caribbean area, and production of a million and a half barrels a day should be possible there in the foreseeable future.

East of the Andes in Columbia, Peru and Ecuador lies an area of great interest; some geologists believe that it may one day become a major oil-producing region. But it is so isolated from the world by mountains and jungles that it has been estimated it would cost up to three-quarters of a billion dollars to get 450,000 barrels a day out into world commerce. Argentina, Brazil, and Chile, of course, quite probably have oil prospects substantially beyond their development so far, and there are many other places in this hemisphere where oil will be found. I haven't time to talk about them in any detail, but I don't want to leave the subject without saying something in particular about our closest neighbors, Canada to the north and Mexico to the south.

The further development of the potential resources of these countries, so close to our borders, could be of great value to the peoples of all three countries. Both geology and exploration results to date indicate that Canada and Mexico have potential undiscovered oil resources of a high order. And I know that you here in Southwest Texas are particularly conscious of the challenge of Mexican oil.

Turning to the Eastern Hemisphere, there are three main regions where the potential oil reserves are tremendous. The Middle East is, of course, the most important under-developed reserve in the world at present. Its known untested structures and basin area indicate that its ultimate resources are half again as large as those of the United States.

Proved reserves there already exceed those in this country, and by 1951 the area may be contributing a million and a half barrels a day to the energy needs of the Eastern Hemisphere. The oil hopes of the war-ravaged regions of the world rest almost entirely on these Middle Eastern fields.

Russia's known geology indicates potential oil resources within her own borders equivalent to those of the Middle East, or far more than Russia itself will need for many years.

The Islands of Oceania, the third major area, are not so promising as the Middle East and Russia, but they are expected to grow in importance, and to meet all of the oil needs of the Far East before long.

Altogether, the Eastern Hemisphere now has proved reserves of some 34 billion barrels, with a potential many times that. Some of the most prolific fields are producing far below their efficient rates and need only the completion of new outlets and new refineries to take their part in supplying oil for a waiting world.

Foreign Activities of U. S. Oil Companies

American oil companies have been active in the search for these foreign reserves for many, many years. Success has been great and American interests today own rights to about 35% of all foreign proved reserves. The American public should be proud that American oil men and American capital have successfully sought oil around the world. They have developed their discoveries with great benefits to the countries where they found the oil. They have made oil available to countries with inadequate local supplies. And they have brought obvious advantages to the people of the United States.

There have been many misunderstandings about the operations of American oil companies abroad.

Currently there is a great deal of talk about the possible effects of foreign oil on the U. S. industry. May I say categorically that there is no present threat of a flood of imports. Even when foreign production becomes available for import above present levels, I am confident that it would not hurt the oil industry in this country. The import policy which has been endorsed by many of the elements of the industry, large and small alike, is to me an effective hedge against any such result. The Jersey Company subscribes without equivocation to that policy, the essential phrase of which is that "imports must only supplement, and not supplant domestic production." Another prevalent misunderstanding is the confusion about the role of large and small companies in the development of foreign reserves. It seems clear that the requirements of the job alone have determined the course of these developments. In the beginning, the isolated areas and primitive conditions which characterize most foreign operations require huge capital expenditures. The risks—and foreign oil particularly must, in the beginning, be a risky business—are so great that only a large company or group of companies usually cares to take them.

After an area has been proved and preliminary development has begun, the opportunity for smaller companies becomes more attractive and they can begin to move in. That happened in Mexico. It is happening in Venezuela today. The efforts of a strong group of smaller United States companies to enter into Middle East oil developments is encouraging, and I for one sincerely hope they and others like them will be successful.

Part Played by Small Producers

In our own country we all know that the small producers and wildcatters play a large part in making the oil industry the aggressive, competitive, progressive business it is today. The small producers are typical of the oil industry; their existence and prosperity provide the clue to why American methods and materials and men have found oil around the world. It's not only skill and science—it's a way of thinking and doing, a spirit of rivalry, and a willingness to go out on the rig and get dirt on the hands.

But you know better than anyone else why oil is found—and why American methods find it. After all the surveys and charts are in, and even if the results don't look too promising, someone will say, "Never mind, it could be there, let's drill." That kind of decision can only be made in a country where there is a firm recognition that that is the way oil is found. But there is more of a problem here than just doing the job. The public must know that we are doing it. It may startle you, as it did me, to learn that in a public opinion survey made several months ago for a private company, 25% of the people questioned in this state said that they thought that the government would do a better job of discovering and producing oil than private companies. In the same survey, even more people—37%—thought the government would put oil products on the market at lower prices than private companies. That was in Texas!

Startling as those figures are, we should blame no one but ourselves. We are responsible. We have gone ahead and made the world's outstanding record of finding and producing oil and oil products, but we have not bothered to tell the public anything about it, nor to show them that governments could not do as well.

History shows that governments on their own have had poor success in finding oil. Bureaucracy and red tape are the direct opposite of the methods which have been most successful in finding oil in this country and around the world. There have been any number of examples, and I think Russia provides a perfect one. Oil deposits were known there before they were in this country. Their potential resources are much greater than ours and yet their production today is not a tenth of our own.

Nearby is the Middle East. Its potential is no larger than Russia's, yet its proved reserves and production are much higher. In Saudi Arabia alone, where oil was first found by American oil men less than 10 years ago, production will soon be greater than in all of Russia. There are any number of other examples of the inability of governments to achieve much success in the oil business, and they all support the conclusion that only where our free, competitive way of doing things is permitted will oil finding be most successful.

Important Considerations

In closing, let me emphasize two or three major points which I think are important to every American oil man:

First, world demands for oil will continue to increase. Irrespective of supply and demand growth in this country, foreign needs require rapid development of foreign reserves. If American companies do not take part, you may be sure that others will not hesitate to seize these opportunities to meet the world's need for oil.

Second, the development of foreign reserves presents no threat to the U. S. oil industry.

Third, the United States domestic oil industry must be kept as strong as we can possibly make it. Geology provides ample assurance that many millions of acres remain to be thoroughly tested, and that our reserves should support at least our present production for many years. Drilling—and particularly exploratory drilling—undoubtedly will have to be increased, however. That is where you geologists are going to have much greater opportunities in the years ahead.

Finally, there is a point which I have not touched, but which is of extreme importance to all of us in the oil industry: the fact that we are in the energy business. The power and convenience of liquid fuels from natural oil have brought us vote after vote of confidence from the public which has bought more and more of our products. As a result, I think all of us may be likely to forget that our business is competitive with other forms of energy.

The public undoubtedly will continue to demand liquid energy, but, in peacetime economics alone will determine where those liquid fuels will originate. Potential natural oil resources appear to be adequate, here and abroad, to furnish the bulk of these fuels for many years. You geologists and producers have the major responsibility to find this oil, but you must find and develop it in competition with other sources of liquid fuels. Already liquid synthetics from natural gas are on the way to compete with oil. The geologist and producer will play a large part in developing this new source of liquid fuels, but you must recognize that this new development is a signpost to synthetics from solid fuels. Production of such synthetics in competition with crude oil products already is close to economic justification. For the oil man, this competition is a challenge. For the public, it is assurance of liquid fuels at reasonable prices for years.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

Harvey D. Gibson, President, has announced the election of William G. Rabe, a Vice-President of the Bank, to the Board of Directors of **Manufacturers Trust Company of New York.** Mr. Rabe started his business career in 1916 with the Liberty National Bank of New York and became associated with the Manufacturers Trust Company in 1931, and was elected a Vice-President in December of that year. Mr. Rabe is a native New Yorker and is also a director of the American Arbitration Association, as well as various companies, and is also a director of the West Side Chamber of Commerce.

* * *

Arrangements have been completed the **Chase National Bank of New York** for the opening of a branch in Tokyo on Dec. 1. This new Chase branch will occupy space in the Marunouchi Building, one of the largest office buildings in the financial section of the Japanese capital. Many of the military and civilian agencies of the United States Government, as well as representatives of American business interests, are located in this part of the city. The Chase Tokyo branch will offer facilities to assist American businessmen in the development of trade with Japan, in line with our government's objectives. James P. Duddy, who will serve as manager of the branch, has been in Japan several months making preparations for the opening.

* * *

The election of Harold Holmes Helm, President of the **Chemical Bank & Trust Company of New York City,** at 165 Broadway, as a charter trustee of Princeton University was announced by Dr. Harold W. Dodds, President of the University.

* * *

J. Edgar Morris has been named Assistant Vice President of the **Colonial Trust Company of Pittsburgh, Pa.** It was stated in the "Post Gazette" of that city that Mr. Morris, a native Pittsburgher, has become associated with the local bank after 27 years with the Guaranty Trust Company of New York. During that period, he maintained offices in Pittsburgh, representing the New York bank as their correspondent in the tristate area.

* * *

The **Monongahela Trust Company of Homestead, Pa.,** and the **Hays National Bank of Hays, Pa.,** will become branch offices of the **Peoples First National Bank and Trust Company of Pittsburgh.** As to the plans the Pittsburgh "Post Gazette" of Nov. 1 had the following to say:

Changes which will bring the total of offices of the downtown bank to 14 were announced Oct. 31, by President Robert C. Downie. George F. Lloyd, President of the Monongahela Trust Company, joined in a statement that the entire board of directors of that bank will become the advisory board of the new branch. "Mr. Lloyd will become Vice President in charge of the Homestead office. The Monongahela Trust owns the controlling stock in the Hays National. All other officers of the two banks will remain in executive positions.

"The Monongahela Trust, organized in 1901, has total resources of $22,000,000 and the Hays National $1,500,000."

* * *

It is learned from the Pittsburgh "Post Gazette" of Nov. 7 that the **First National Bank of Swissvale, Pa.,** will become the Swissvale office of the **Mellon National Bank and Trust Company of Pittsburgh** early in December. The change will be subject to the approval of the stockholders of the Swissvale institution, said the paper from which we quote, which likewise stated:

"W. D. Bowers, President of the Swissvale bank, will serve as manager of the Swissvale office, with J. E. Allison and P. D. Mitchell as assistant managers. The First National Bank of Swissvale opened for business in 1902. In 1922 it absorbed by merger the Swissvale Trust Company, which had been organized in 1919. The bank now has assets in excess of $8,000,000."

* * *

The **Bank of Virginia at Richmond, Va.,** announced on Nov. 3 that "the death of Vice Admiral Joseph K. Taussig, retired, which occurred on Oct. 29, marks a distinct loss to The Bank of Virginia which he had served as director since June, 1941. He was a loyal and devoted friend of the bank and his death leaves a vacancy that will not be easily filled."

* * *

Arthur L. Moler, Vice-President of the **Fifth Third Union Trust Company of Cincinnati, Ohio,** died on Nov. 4. Mr. Moler, who was 57 years of age, was born in Albany, Ohio. In its issue of Nov. 5, the Cincinnati "Enquirer" reporting his death said:

"Mr. Moler came to Cincinnati in 1893 and became credit manager of the bank. He was elected Assistant Vice President in 1936 and Vice President in 1938. From 1916 to 1933 Mr. Moler was associated with the Union Trust Co. of Cleveland and its predecessor banks, and from 1913 to 1916 served as auditor in the Ohio State Auditor's office.

"Mr. Moler, a First Lieutenant in the infantry in World War I, served with the U. S. Food Administration after the armistice was signed. He was elected President of Robert Morris Associates, national organization of bank credit men, at a meeting in San Francisco last month."

The stockholders of the Fifth Third Union Trust have received from President John J Rowe a notice dated Nov. 7 regarding a stock dividend and in increase in capital and surplus. The stock dividend, was declared by the directors on Nov. 4 to stockholders on the basis of one additional share for each six shares held as of that date. The notice states:

"As a result of transfer directed by the board of directors incident to the stock dividend, the capital account of this company is now $7,000,000, surplus $7,000,000, undivided profits approximately $2,400,000 and general reserve approximately $2,700,000."

* * *

Plans to issue 50,000 additional shares of the **Central National Bank of Cleveland, Ohio,** to accelerate retirement of government-held 3% preferred shares were approved on Oct. 28 by the stockholders. Advices from Cleveland on that date, appearing in the New York "Herald Tribune" said:

"John T. Scott, election inspector, announced that 191,800 of the 250,000 shares of stock outstanding had been voted in favor of the management's plan along with all of the 325,000 remaining shares of the preferred stock held by the Reconstruction Finance Corp.

"The new common is being offered to shareholders at the rate of one share for each five held. Shares not taken will be underwritten by a group of local investment firms headed by McDonald & Co."

Rights evidenced by subscription warrants, issued by the bank to the stockholders, will expire Nov. 18, the subscription price to warrant holders is $25 per share.

* * *

Albert W. Harris, marked his 80th birthday on Nov. 4 at his desk in the **Harris Trust and Savings Bank of Chicago.** It was noted in the Chicago "Daily Tribune" of that date that the veteran banker "retired" nearly five years ago after heading the bank for 29 years as its President and Board Chairman, but he has continued to occupy his office regularly where he keeps a watchful eye on the bank's operations. The same paper said that "Mr. Harris entered the employ of N. W. Harris & Co. in 1888 and worked through all departments. He was President of the bank from 1913 to 1923 and Chairman of the board from that year until his retirement in January, 1943.

* * *

Charles P. McGaha, oil operator in the Mid-Continent area since 1923, has been named President of the **City National Bank of Wichita Falls, Texas,** succeeding Wiley L. Robertson, who recently resigned, effective Oct. 31, J. J. Perkins, Chairman of the Board, announced on Oct. 30. Advices to this effect contained in a dispatch on that date to the Dallas "News" from Wichita Falls, which also said that Mr. McGaha has been a director of the bank since 1937.

George W. Hoffmann Joins Greene & Co.

Greene & Co., 37 Wall Street, New York City, anounced that George W. Hoffman has become associated with them as manager of their trading department. Mr. Hoffman, who was formerly with Kobbe, Gearhart & Co., resumes his activities in the "over-the-counter" business after having taken a well deserved rest. Mr. Hoffman will specialize in railroad and industrial stocks and bonds, as well as certain "special situations."

Geo. W. Hoffmann

La Salle Street Women To Hear Brazil Official

La Salle Street Women at their 6:30 dinner meeting Nov. 19, at The Cordon Club, Chicago, will have as their guest speaker Victor Ricardo Parr de Araujo, the Brazilian Vice-Consul in Chicago. He will review Hermani Tavares de Sa's recent book, "The Brazilians —People of Tomorrow." Born in England, the son of Anglo-Brazilian parents, he has followed his father — who was appointed in 1939 as the Brazilian Naval Attache in Washington, D. C. — in choosing as his career, service in the Brazilian Foreign Office.

Stone & Youngberg Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John J. Taaffee, Jr. has been added to the staff of Stone & Youngberg, Russ Building, members of the San Francisco Stock Exchange.

Joins First California

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ralph B. Peters is with First California Company, 510 South Spring Street.

Debt Management and Government Securities Prices

(Continued from page 2)

serve System and the officials of the Treasury have recognized that monetary factors at least in part have contributed to the upsurge in the price level, and they have been giving a great deal of thought to the problem of credit control and the closely allied problem of debt management.

Since it is recognized that the increase in the means of payment, in the form of currency in circulation and bank deposits, has contributed to the inflationary pressure on prices, it is logical to see how the means of payment can be decreased. Bank deposits can be decreased either (1) by the Federal Reserve Bank taking restrictive credit measures or (2) by a reduction in the amount of government bonds that are held by the commercial banks, either (a) through retiring commercial bank held debt out of actual surplus revenue or (b) retiring commercial bank held debt with the proceeds of money raised thru the sale of appropriate government issues to non-commercial bank investors.

Conditions Differ Today

Sharp credit restrictive measures were used to break the inflationary spiral of prices that followed in the wake of World War I, but conditions today differ greatly.

(1) The national debt is over $250 billion today against less than $30 billion in 1920.

(2) Approximately $50 billion of the present debt is due within one year and the Treasury for many, many months to come will be busy with its refunding program.

(3) Over $50 billion in E, F, G, and the new A bonds and tax saving notes, all demand obligations, are now outstanding.

(4) A good portion of the increase in bank loans following World War II occurred in the form of business term loans and real estate loans, payable over a definite period of years at definite fixed rates of interest.

Because of these great differences between the 1920 situation and that prevailing today, it is highly improbable that the monetary authorities would resort to any harsh credit restrictive measures such as used in the 1920's. The restrictive measures currently resorted to so far have been very mild indeed; namely, the removal of the ½ of 1% preferential borrowing rate, the unpegging of the bill rate, the unpegging of the certificate rate, and a slight contraction of Federal Reserve Credit outstanding—the last being offset to some extent by increased gold holdings of the Federal Reserve Bank.

These measures are all aimed at giving the Federal Reserve Board some semblance of control over the bank credit situation, and thus prevent further monetization of the debt, but so far these measures have accomplished little and have had no real restraining influence on the expansion of private credit. Without a continuing contraction in Federal Reserve Bank credit outstanding in an amount to more than offset both the expansion occurring in private credit and also the inflow of gold, there can be no major progress made in the control of inflation.

Regarding the other method of reducing bank deposits, the Treasury has retired with surplus tax revenue several billions of commercial bank held debt, and has further raised funds from non-commercial bank investors through the Savings Bond Program and through the recent offering of Investment Series A 2½% 18-year non-marketable bonds. Also, the Treasury has sold a substantial amount of marketable bonds held in agencies in order to keep yields from declining on long bonds, but these sales, while controlling prices, have caused further monetization of the debt.

Reduction in Commercial Deposits Anti-Inflationary

By far the greater part of the debt reduction that has taken place was accomplished by the Treasury drawing down on the large government War Loan balances at the commercial banks. These large balances resulted from the tremendous success of the VIII War Loan Drive. Reducing the War Loan balances was highly desirable as this prevented the possibility of these large balances being spent by the government and becoming individual deposits. However, only a reduction in commercial bank deposits belonging to others can be considered as truly anti-inflationary.

In general the Treasury policy would seem to be one of the continuing to maintain relatively easy money conditions, and at the same time endeavoring to reduce commercial bank deposits and money in circulation. I would anticipate for the near future relative stability at the long end of the list and would look over the next year to a somewhat further increase in short time rates and a slight firming in intermediate rates. By "stability at the long end" I don't mean the maintenance of a substantial premium on the non-eligible 2½s, but I do feel that, in view of the large amount of Series Gs outstanding and due to the very recent issue of 18-year 2½s, that the money managers would go a long way to prevent the long 2½s going below par at least for the next year or so.

If the commodity markets continue to rise and the tempo of business continues at abnormally high levels with bank loans increasing, we may expect additional offerings, from time to time, of bonds for non-commercial bank investors. If boom conditions continue, I would expect further increases in short term rates, and expect these increases to come sooner than if business generally showed a tendency to lag and prices of commodities to decline. Above all, the monetary authorities will endeavor to maintain an orderly market through these adjustments.

It seems to be evident that the days of easy profits from government securities are over, and it is fairly definitely established that the peak in government and corporate bonds has been passed. There is no investment in the world which you can buy and forget about. I would, therefore, urge you to review your government portfolio from time to time, both from the standpoint of keeping abreast of the value of these assets in your portfolio, and also of getting a clew as to what is going on in the economy as a whole. The prices of government securities will reflect how the debt is being managed, and how the debt is managed is going to affect the economic life of this country, today, tomorrow, and for years to come.

Peirsol With Fabian Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Thomas R. Peirsol, Jr. has become associated with Fabian & Company, 9500 Santa Monica Boulevard. He was previously with Maxwell, Marshall & Co.

Money and the Special Session

(Continued from page 19)

pany which suffers because there is no doubt of its ability, especially in an inflationary period to pay the number of dollars called for by its contract. The sufferer is the policyholder or his beneficiary who perhaps thought he was paying for a college education only to find that, through the decreased purchasing power of his dollars, what he thought was enough to pay for a college education won't get him through the Freshman year.

I marvel at the innocence or the patriotism of life insurance policyholders who have endured what they have been taking as the result of the fanatical desire of Treasury officials to maintain a low interest rate. That rate is maintainable only, and I mean only, by the continued creation through a camouflaged printing press of excessive amounts of that which we call money. If we don't stop that we need not expect to do anything very effective about rising prices.

What Congress Can Do

There are some things that can be done which should have been done under existing laws by the Federal Reserve Board and the Federal Reserve Banks. There are other things which should be done that can only be done with further authority from Congress. The Federal Reserve Board has too long delayed using the powers which it presently possesses and has opened itself to the suspicion that it was deliberately declining to use its present power in the hope that the situation would develop to the point where it would be granted other power for which it has been asking Congress.

Now that there is a special session considering prices which necessarily involves money, surely we must expect the President, the monetary authorities and the Congress to do something in this country to end the monetary unsoundness which our representatives have so vigorously curbed in Japan and in American-Occupied Germany. The time has come to put our own financial house in order and the responsibility rests with the President, with the monetary authorities—that means the Treasury and the Federal Reserve Board—and with Congress. It is tempting to suggest to the life insurance policyholders that they do something about it.

With Wm. C. Roney & Co.

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—JAMES F. Cain, Jr. has become associated with Wm. C. Roney & Co., Buhl Building, members of the New York and Detroit Stock Exchanges. Mr. Cain was previously with James E. Bennett & Co., in Dallas.

Two With Herrick, Waddell

KANSAS CITY, MO.—George J. Alexander and Harry H. Harnsberger have been added to the staff of Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue.

With Griffin & Vaden

(Special to THE FINANCIAL CHRONICLE)

RALEIGH, N. C.—B. E. Love has become associated with Griffin & Vaden, Inc., Insurance Building.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF. — Edgar M. Phillips is now with Merrill Lynch, Pierce, Fenner & Beane, 454 North Camden Drive. He was previously with Sutro & Co.

As We See It

(Continued from first page)

of black markets undermines the respect for law. Normal monetary incentives cease to operate. The worker has no just reward for his labor and the farmer refuses to sell his produce. Resources are dissipated. Trade degenerates to barter. Controls tend to become self-perpetuating.

"Achievement of monetary stability would allow a gradual restoration of normal incentives and a gradual return to a system where individuals, and enterprises, both public and private, can operate in markets. It would also allow the stabilization of exchange rates, which is all but impossible so long as inflation proceeds apace. It is obvious that this situation makes balance of payments problems that much more difficult. The Committee believes that in the near future some adjustment of exchange rates must be made. The prelude to that is internal monetary reform.

"The Paris report rightly emphasizes the need for scaling down restrictions on trade between countries. But the reduction of tariffs is of little moment if exchange controls and other controls have to be maintained indefinitely. Whatever one's attitude toward planning and free enterprise may be, there is all but universal agreement that true economic recovery depends on releasing the energies of individuals and cutting down on time-consuming regulation of production and distribution."

How few understand, and how essential it is that a great many both here and abroad understand, that much of the so-called "dollar scarcity" is a direct outgrowth of artificial price controls so extreme that they would have been universally regarded as foolish prior to the rise of New Dealism throughout the world—price controls partly, no doubt as applied to commodities, but particularly as related to currency relationships. What most of the commentators are today really saying with tiresome repetition is that the supply of dollars available at prices would-be buyers are permitted to bid is far below demand. Dollars may be "scarce" enough in a market where the only offers are at the rate of $4 to the pound sterling; the situation would be vastly changed if a pound sterling were offered for $2.

This is only one aspect of a very general situation, as the President's Committee now reporting evidently well understands. "Repressed inflation" within the several economies of the world, of course, adds its miseries and its difficulties to those found in the field of international currencies, and the one set doubtless reacts upon and intensifies the other. Humanity everywhere owes a debt of gratitude to this semi-official, rather non-political, group which has had the acumen to perceive and the courage to call attention to this situation—which has been frequently overlooked and elsewhere studiously ignored for the most part.

All of us are, moreover, indebted to this group for puncturing the dream of the Paris Conference—and a good many others—about the subject of capital restoration and expansion in Europe during the years immediately ahead. Many, if not most, observers have apparently been under the delusion that by waving some magician's wand the destruction and devastation of war could be quickly eliminated—not only that, as a matter of fact, but Europe's capital position be brought promptly to some fortunate status which it has never heretofore enjoyed. Of course, to accomplish all this the United States had to be convinced that it must do a great deal gratis in order to "defend" itself, but once that feat of argument was accomplished the scars of Europe would soon be deeply buried in the lush growth of production facilities —and the life of its inhabitants made more abundant than ever before. At least this appears to have been the "line" of many of those who gathered in Paris.

There was urgent need for someone in a position of influence to state baldly (1) that the age of miracles— if there ever was one in the field of economics— has long ago passed into history; and (2) that a very substantial part of the difficulty in Europe today stems not from the physical destruction of war, but from the unwillingness of at least some of the European peoples to permit rehabilitation in about the only way that rehabilitation is possible—that is by a restoration of the economic relationships which had developed naturally out of the realities of life through the centuries.

The contribution of the President's Committee at this point is substantial. Here it is:

"The Committee, however, is not convinced that the participating nations at Paris were wholly realistic in their plans for capital expansion. On the first point, it is obvious that if Europe is to be revived and made self-supporting—if our aid program is not to degenerate into just another relief program—the European nations will have to rehabilitate their capital plant. But it cannot be too strongly stated that the process of investment and capital formation imposes a severe strain on the country undertaking it. It means the introduction of money income into the economy, with no comparable output of consumer goods to sop up this purchasing power. This process is highly inflationary. To the degree that capital goods are sent to Europe from the United States, it is true, the strain is transferred from European economies to our own. Nevertheless, the secondary effects of large capital programs should not be overlooked.

* * *

"What this means, in effect, is that housing programs and capital development may have to be slowed down until European recovery is much more advanced than at present.

"In addition the program written at Paris may have to be modified by a shift in the amounts going to the separate countries. As this shift is made, we believe that the amount of aid allotted to Germany may have to be higher than was set at Paris. This Committee wishes to state emphatically that the overwhelming interest of the United States is to prevent the resurgence of an aggressive Germany. The fears of neighboring nations are thoroughly understandable. On the other hand, it is generally admitted that the revival of Ruhr coal output, along with the increase in British coal output, is the crux of the problem of getting Western Europe back on its feet. Apparent savings to the American taxpayer, accomplished by spending too little money on Germany, have thus far been more than offset by the consequent deterioration of the general European economic situation."

Another very real contribution of the Committee is its insistence that aid to Europe must be measured by our capacity to produce and our willingness to part with goods. This is an aspect of the situation about which there has been all too much equivocation. The Committee pointedly says:

"The final determining factor in the size of a prudent program is the availability of commodities in this country.

* * *

"In 1947, the United States will probably export some 15 million tons of grain with about 9 million tons going to Europe. In view, however, of the poor American corn crop and the lack of fall rains, only a most favorable crop year in 1948 would make any such performance possible.

"With a number of other commodities, the situation is only a little less stringent. Steel and the steel-making materials, especially scrap, are in particularly short supply in the United States. Because it is a basic industrial material, the effects of this shortage are pervasive. Coal exports at a high rate are possible, though they are imposing a strain on the United States transportation system and there may be a few shortages in the coming winter. There is little likelihood that these requirements set forth at Paris can be met.

"The situation is much the same in regard to most of the items of machinery and equipment the European nations need. In the middle of an agricultural boom, the demand of American farmers for farm machinery is well beyond the capacity of the industry. As to mining machinery, coal output is at a high rate and American mine operators are buying as much machinery as they can obtain. Heavy electrical equipment of all kinds is perhaps the tightest industrial item of all. The story is much the same for certain of the basic raw materials."

All this needed badly to be said. May it get the attention it deserves.

What Price Easy Money!

(Continued from first page)

have been reaching and that I should like to discuss today can be summarized as follows: First, the inflation now taking place is a monetary inflation, caused primarily by an overexpansion of the supply of currency and bank deposits. Second, this inflation has been growing more severe since V-J Day primarily because the Federal Reserve banks have been maneuvered into a position in which they no longer can exercise control over the banking system. Third, the reason the Federal Reserve has lost this control is that it is committed to a policy of preserving low interest rates on government securities. And fourth, it looks as if this country is facing a shortage of capital, possibly a severe shortage, which may aggravate our inflation problems.

It seems to me the time has arrived to face the situation frankly, with courage and also, with confidence. I most emphatically believe that this country need not have a dangerous inflation, that it can be avoided by proper action. My inquiry is whether the solution of the dilemma may not lie in the government's low interest rate policy — whether the maintenance of low rates under present conditions may not be unsound and highly inflationary — whether the social cost of this policy may not be very much higher than is commonly supposed.

Effect of Low Interest on Investment Institutions

In approaching this inquiry I shall not pursue the obvious line of argument so commonly attributed to your business, that of savings banks, and to the business with which I am connected, life insurance. There can be no doubt that artificially low interest rates have posed difficult operational problems to savings banks and life insurance companies. There can also be no doubt that they have had an influence on the rate of dividends you have been able to pay your depositors as well as on the net cost of life insurance to policyholders.

Important as these problems are, I believe they are relatively minor compared to what artificially low interest rates have done to the value, and by that I mean the purchasing power, of the dollars invested in savings bank deposits and life insurance policies.

Since the advent of the great depression, we in this country, and other nations as well, have adopted fiscal and monetary policies that history has proved time and time again to be impractical and harmful. These policies rest on the theory that governments can safely be entrusted with financing themselves the easy way. This easy way is by expanding the volume of money by methods which, because they appear painless, or nearly painless, seem both politically expedient and desirable. My thesis is that no matter how well-intentioned the governments involved may be, their policies of easy financing sooner or later set up forces which tend to become so powerful that even despotic governments can no longer handle them. What starts out quite innocently as a plan to manage money for the people's benefit, only too often ends up by defrauding the thrifty and hard working. My plea is that we in the United States re-examine our own monetary situation and our own policies with a view to seeing whether we may not be setting up dangerous forces here.

Inflation Still Greatest Problem

Nearly two years have passed since President Truman stated: "Inflation is our greatest domestic problem." It is still our greatest domestic problem. It has become a prime political issue. It is on the front pages every day. It is the only domestic issue which the President said Congress should consider in its forthcoming special session.

As is usual in inflationary periods, a wide variety of people and things are being accused as the wicked culprits. You can take your pick: speculators in the commodities markets, black market operators, monopolists, greedy corporations, certain labor unions which are said to be unwilling to allow their members to give a full day's work for a full day's pay, the Marshall Plan, the Republicans, the Democrats — yes, even the Communists.

Despite all these red herrings, it seems to me the evidence is growing increasingly clear that we are in a monetary inflation that essentially follows all the classic lines. We have been increasing the volume of money much faster than the volume of goods and services. Hence money has become less valuable while goods and services have become more costly.

Except for the past few months, we in this country have been piling up Treasury deficits for more than a decade and a half. The extraordinary thing about these deficits was that the larger they became and the more heavily we got in debt, the easier it became to borrow. Indeed, at the time our national debt reached its absolute peak in 1946, our money supply was expanding so rapidly that there were many officials in Washington who believed in all sincerity that perhaps we were headed toward an interest rate of zero, which would be ideal.

Fortunately sounder thinking prevailed, and steps were taken to halt the abrupt descent of interest rates. For a time it looked as if the worst of the inflationary boom might be over. This year, however, there has been a succession of wage and price increases, with the end not yet in sight.

Whether our wartime deficits were as wisely financed as they might have been is now an academic matter. The emergency compulsions of war justified the use of many devices and policies which would have been severely criticized in peace times. Now that the war is over and the government is no longer faced with astronomical expenditures, we have quite a different set of circumstances. It is by no means academic, therefore, to examine whether certain wartime financial policies can or should be continued. Perhaps we shall discover that they are largely responsible for the fact that our already over-expanded supply of money, that is of currency and commercial bank desposits, is still expanding at a rapid rate, and that the cost of living is still on the rise.

Wartime Financing and Low Interest

One of the major objectives, or policies, of wartime financing was to keep the interest cost on the national debt low. The mechanism used to achieve this objective was for the Federal Reserve banks to supply the commercial banks with whatever volume of funds the latter might need to purchase Treasury securities not absorbed by investors.

Now the particular pattern of low rates which the Treasury decided upon happened to coincide approximately with that prevailing when we entered the war. These low rates, it should be stressed, were at least in part the legacy of theories that dominated monetary policy during the depression of the 1930's. There was the theory that America had reached economic maturity, the theory that we were the victims of over-saving and under-spending, the theory that we would suffer chronic mass unemployment unless the government pumped easy money into the spending stream.

These theories may have been valid in the depression, though I doubt it, but they certainly are not valid in 1947. Yet the same interest rate policy which was thought appropriate to cope with a depression is still sanctified by official protection today when we are in an inflationary boom. The mechanism of making the Federal Reserve banks the ultimate and automatic source of funds for preserving low interest rates is being used today when the government is paying off debt. It is the same mechanism that was used during the war when government was borrowing heavily. It doesn't make sense.

Cost of Stabilizing Government Security Prices

The commitment which the Federal Reserve Board has made in respect to stabilizing government security prices and interest rates has by its very nature prevented the Board from exercising its legal functions in regard to monetary policy. The Reserve banks cannot curb an inflationary trend by contracting credit on the one hand when with the other hand they have to permit credit expansion to stabilize the government market. The Reserve Board is well aware of its dilemma and has frequently called attention to it. The Board would like to curb the inflation, but is powerless to act.

It is not merely that the present low interest rate policy and the desired monetary policy are mutually exclusive. Much more significant is the fact that an enforced and artificially supported low interest rate on government securities is by its very nature highly inflationary. I do not think the reasons why this is so are sufficiently well understood.

Fundamentally the reasons are that by tampering with gold and the Federal Reserve Act we have developed in the past few years a system of money magic. It is a sort of modern printing press, but unfortunately one so complicated that its workings are concealed from the people. In essence it permits almost limitless money expansion without adequate controls.

Bear in mind that until the Reserve Act was changed, both the Federal Reserve banks and commercial banks had to reckon with the fact that too great credit expansion might bring their reserves below the legal limit. Now, however, the Reserve Banks can pump out credit by the billions, and each billion it pumps out can support over five billions of commercial bank credit. The commercial banks, in turn, used to have to give great attention to their liquidity and to the volume of discountable paper they owned. Now, however, they can turn their enormous holdings of government securities into cash, in an almost guaranteed market, in order to acquire whatever reserves they may want.

Let me give you a simple example. An oil company needs $10,000,000, not for a short period, but as semi-capital. It goes to a commercial bank and suggests a 10-year term loan. Of course, this did not used to be considered a suitable type of loan for a commercial bank, but let's skip that phase. Although the bank has no funds available because it is already fully invested, it agrees to make the loan—at 2%. How does it do it? By the simple expedient of selling $2,000,000 of government securities. If the open market is not in a buying mood, it knows it can sell to the Federal. In any event, the $2,000,000 proceeds can be deposited with the Federal to provide the legal reserves needed to back the $10,000,000 deposit it will create in favor of the oil company.

The commercial banker would be the last to think this transaction had any thing to do with inflation. He would say that it was a sound loan, that because his bank's operating costs had risen, he needed to increase the bank's earnings. He would point out that the yield on the $2,000,000 governments he sold was only 1¼%, while the yield on the $10,000,000 new loan was at 2%. And he would add that his bank still owned plenty of government paper.

But it was an inflationary transaction. By it $10,000,000 of new money, that is of bank deposits, which never existed before have been created, to add to our already redundant supply of spendable funds. This new deposit is available to bid up prices on scarce goods and labor.

What we see in this transaction is that the control of general credit conditions has passed from the Federal Reserve, where it belongs, to the commercial banks. Today the pressure on commercial banks is to expand credit in order to offset their rising operating costs.

I need not contrast to you the difference, in its inflationary effect, of supplying capital through commercial bank lending or investing, outlined above, as compared with lending or investing by bona fide savers. Neither savings banks nor insurance companies, for instance, ordinarily make a new investment unless they have the funds on hand. When they make the new investment, all that takes place is a transfer of deposits from the lender to the borrower—there is no increase in the outstanding volume of deposits, hence no inflationary influence.

Large Demand for Capital

And that brings us to another aspect of our present problem. The very considerable inflation we have already had in both prices and labor, superimposed on a record-breaking, backed-up demand for goods from people with unprecedented buying power, has so altered the demand for capital that we have not yet become accustomed to the change. The demand for capital has come for a multitude of reasons. First, the high physical volume of business has greatly increased the need for working capital to finance more units of inventories, receivables and payrolls. On top of this physical expansion, is an even larger dollar expansion due to higher prices and wages.

Added to the rising demand for working capital is an increased demand for fixed capital to build plants and equipment. The upward spiral of wages has made it more and more essential for companies to mechanize, improve efficiency and lower costs. But the efficient machine that used to cost $10,000 now costs $15,000 or $20,000 so that once again we see how the need for new capital funds is jacked up both by absolute unit demand and by price increases.

On top of these industrial demands for capital funds are those from the residential building field, from local governments, not to mention the demands from aboard. Quite apart from loans made by banks, from mortgages and from profits re-invested by industry, new capital raised in the securities markets in the first nine months of this year came to something over $5,000,000,000. This is nearly double the figure for the same period of 1946 and nearly five times the 1945 rate.

In the face of this enormous demand for funds, let us look for a moment at the supply side. We have heard a great deal about the colossal volume of liquid savings in this country. It is often stated that because of these savings there can be no possible shortage of capital funds. But these savings, it should be pointed out, are already invested. They cannot be invested over again unless presently held investments are liquidated first. If they were to be liquidated in any quantity, who would or could buy them? Directly or indirectly, would it not come down to making the commercial banks the residual buyers? They alone are in a position to manufacture the new money that would be needed for the purpose. They would do this by utilizing the expansive resources of the Federal Reserve. Any such maneuver would involve inflationary monetization of debt on a scale not yet contemplated.

Savings as Source of New Capital

If we are to avoid further monetary expansion, therefore, we must look to current savings, rather than to those already accumulated, as the source for new capital funds. But here we run into other forces that have resulted from the government's efforts to finance itself as painlessly as possible. I refer, of course, to the effects of the progressive income tax. The idea of setting very high tax rates on upper income brackets and low rates on small incomes fitted in very nicely with the theory that we were over-saving and under-spending. It also has its political appeal and for obvious reasons.

Today we seem to be over-spending, not under-spending, and what we need is new capital investment to permit production to catch up with buying power. Much of the investment needed today involves the assumption of very considerable risks. Yet our income tax is so rigged that the very people who are in a position to assume risks have been put in a position where so much of their income is taxed away, that it has become almost impossible for them to save anything. Furthermore, for people in the higher brackets, the potential rewards of risk-taking have been made so un-attractive by high taxes that it is doubtful how much they would be willing to risk even if they could accumulate current savings.

To be sure we are still saving large sums as a nation. But the greater part of these savings are flowing into U. S. Savings Bonds and into institutions. Ordinarily these institutions buy few or no equities or risk securities. They are usually restricted to senior obligations dependent for their safety upon junior securities owned by other investors who can afford greater risks.

One does not have to look very far to see what is going on. In spite of all the dollars in the country, there is a growing shortage of dollars available for investment in the forms which business needs. The first definite signs of this shortage appeared a year ago September, when the stock market broke so sharply. I can see no other logical explanation of that market break and of the inability of the market since then to rise to anything approaching the usual relationship to earnings and dividends. While I cannot prove it statistically, it seems to me a reasonable thesis that during the past couple of years new issues of common stocks have been coming onto the marketplace at a faster rate than new equity funds have been accumulated.

Decline in Bonds and Preferred Stock Prices

Within the past few months, we have seen the same thing take place in the preferred stock market. The supply of new preferred issues has exceeded the supply of funds available for this type of investment, consequently prices have dropped and yields have risen, in many cases quite dramatically.

To a lesser degree, but nonetheless unmistakably, the same trend has recently been evident in the corporate and municipal bond markets. The Bell Telephone system, for example, is engaged in a multi-billion dollar expansion and improvement program. Ordinarily a good part of this would have been financed with common stocks. Instead, and by force of circumstances, it has been financed almost entirely with straight and convertible bonds up to a point where institutional buyers have Telephone bonds coming out of their ears. Is it any wonder that their prices have fallen and their yields have risen? Many other examples could be cited.

We in the life insurance business used to wonder, not so many years ago, where we could possibly find outlets for our roughly $4 billions of annual new investment funds. But these $4 billions, when loaned to industry, will now purchase only about half as many machines or build half as many new factories as they would prewar. Our $4 billion figure, which used to look so formidable, has become quite modest when it is compared to the requirements of industry and real estate—the requirements, I again stress, which under present conditions can be financed only by relying very heavily on debt instruments and to only a minor degree on equity capital.

It seems to me that with the continuation of inflation and the widening yield spread between government and corporate bonds, we are confronted with a condition which is becoming extraordinarily interesting and which may call for bold decisions. Let me summarize it. Official policy is still one of protecting the interest rate on government securities, the emphasis having shifted merely from a rigid interest curve on all maturities, to the rate on long-term issues. This has deprived the Federal Reserve of the power to initiate monetary policy and has put control in the hands of commercial banks. The result is continued inflation of the money supply and continued upward pressure on prices, the cost of living and wages.

Along with, and partly because of the general inflation, the needs of industry and others for new capital are increasing. This need for capital is being largely supplied in the form of debt instruments purchased by savings institutions, one important reason being that the progressive income tax falls most heavily on those who otherwise would be in a position to invest in equities, and least heavily on those who customarily spend most of their income on current expenses and on modest savings in banks or through life insurance.

Interest Rates on Non-Government Debt Rising

The great demand for new capital, in the form of debt, is raising interest rates on non-government securities at a time when the yield on governments is pegged at a little below 2½%. Now it is obvious that at some point the yield spread between government bonds and other securities may become wide enough to cause some investors to sell their governments in order to purchase other securities. Presumably this will drive down the price of governments and call for official support of the market. At some point along the line such support could easily entail inflationary credit expansion which would further aggravate the whole monetary situation, possibly seriously.

What should be done to resolve the dilemma? What steps might be taken to restore some measure of credit control to the Federal Reserve, where it belongs by law? Very slowly, and reluctantly, the Federal, with the approval of the Treasury, has made some moves. But to my mind, at least, the very slight changes that have been permitted in the government short-term rates, when contrasted with the vigor of the inflationary rise in prices and wages, have been akin to sending a very little boy too late on a man's errand. To date these steps have not visibly hindered the inflationary march. As for the proposals for new legislation advanced by the Federal Reserve, is there need for more laws to restrict freedom of action before the presently existing and time-tested powers of action have been exhausted?

High Prices Paid for Easy Money

It seems to me that the time has come to reconsider most seriously what price we are willing to pay for easy money. If the interest rate on the whole national debt were increased by 25%, it would add some $1¼ billions to the carrying charges, and much of this would be recovered in taxes. Compared to this figure, just consider what inflation is costing the American people. Expenditures for personal consumption are now running at the rate of $160 billions a year. If the cost of living is to rise another 10% next year, as so many predict, this will increase our living costs by $16 billions. But of course, that is not the worst part—the real danger is that inflation might cause so many dislocations as to make a depression inevitable.

It is often assumed that if long-term government bonds were allowed to go below par, a catastrophe would ensue. It is said that government bonds would be dumped by the billions and that the solvency of our institutions would be threatened. Gentlemen, I do not believe it. If investors are tempted to sell some of their government bonds in order to buy higher yielding corporate bonds, I think they will be much less tempted to do so if the prices of governments are allowed to seek their own levels than if they are artificially supported above parity. The idea that there is something sacred about a price of parity for Treasury 2½'s is psychologically the greatest inducement I can think of for trying to sell before an alleged disastrous decline below par takes place.

Solvency of Banks Not Threatened

Then consider for a moment the distribution of ownership of the national debt. The solvency of our commercial banks will not be affected if long-term 2½'s go below par. Less than 8% of their holdings have maturities in excess of 10 years. Certainly a decline would not disturb savings banks or life insurance companies, or government agencies. We amortize high grade bonds, and we bought our governments with the idea that we would probably hold them until maturity, and not with the idea that we would try to outsmart the market.

As for non-marketable issues, I seriously question whether many owners of Savings Bonds are either such timid or speculative holders that they would want to cash their bonds. If they have so little confidence in the financial integrity of their government as to believe in it only as long as interest rates are manipulated, we might just as well find it out now, when we can stand it, as wait to some later date which might be less propitious.

I am not advocating that we reappraise the social cost of our low interest rate policy because I want rates to go up. So long as the interest rate measures the point where the demand for money meets the supply, and so long as neither supply nor demand is manipulated in order to peg rates, I for one am not particularly concerned whether interest rates rise or fall. The reason I advocate reappraisal of the present rate policy is because I believe it is the only way to unlock the door and give the Federal Reserve access to the tools needed to dam off the present inflationary tide.

There is probably no group of people who have more at stake in prospective monetary and interest rate decisions than the 80,000,000 odd people served by you in the savings banks and by my associates in life insurance. These people have entrusted to our care approximately $70,000,000,000. This is more than a great sum of money. It represents unusually precious money for which these people have toiled and sacrificed in order to build up some measure of protection for themselves and families as free and self-dependent citizens.

Savings banks and life insurance companies are in the business of providing public protection on a large scale, as our advertisements clearly testify. If we are to deliver this protection, is it not part of our moral responsibility not only to make sure at all times that we can meet our dollar contracts, but to do everything in our power to see that the dollars we pay under these contracts will buy as much protection as our customers thought they would. It is no easy task, after a world war such as we have been through, to find the best means of preserving the value of the dollar. But the goal is worthwhile. That is why it should call forth not only our best thinking, and courageous thinking, but possibly action as well.

Future of Real Estate Lending

(Continued from page 9)

ministration, with its insured mortgage guarantee, and for the extension of the deposit guarantee to the savings and loan associations. The government had said, in effect: "The mortgage lenders need not fear the loaning of money on houses. We (the government) will guarantee them against loss, even on loans involving a far higher ratio of loan to value than had previously been considered sound."

Two Types of Mortgage Lending

This, then, is the background for the situation which prevails today. As I talk to you, there are two general types of mortgage lending—conventional mortgages and insured or controlled mortgages. As I see it, the conventional mortgage, on single and multiple housing, is passing down the lane with the proverbial horse and buggy. Whereas, the insured mortgages that are being made have passed into what many bankers and lenders call safety zones. Conventional loans are still being made on commercial and industrial properties, but the bulk of today's mortgage lending is being made in the field of the insured or controlled mortgage category. The insured mortgage is the type of loan which is made without reference to the judgment and prudence of the lender; it is made according to a statutory formula and under the influences and solace of the device of the Federal guarantee.

There is little doubt that a bulk of today's mortgage lending, at present terms, ratios and rates, would not be made by mortgage lenders assuming the full burden of the risks involved. In fact, it is doubtful if government economists themselves would have evolved the present program were it not for the philosophy that housing must be provided for our veterans and citizens at any costs.

What Is to Be the Future?

What, then, is to be the future of mortgage lending?

Our present affection for government guaranteed mortgages has not yet been tested. The device has thus far been employed only in a rising market. As nearly as we can see the situation, which now prevails, there are significant points to be considered for and against the safety of mortgages being made presently. On the safe side, we can point to the fact that virtually all of the urban mortgage debt today is being systematically retired on a monthly-payment basis. It has eliminated the dangers of a total debt due date.

In many instances, these mortgage payments are a lower percentage of today's gross family income than ever before in our economy. The rate of urban construction in the single-family dwelling is still well below the expanded housing demand and there is every indication that it will be a long time before we are faced with a situation of oversupply. Yet, it is to be noted that over 25,000 new homes have been built in the metropolitan area of Chicago in this calendar year.

Continuing with factors on the safe side, it is especially important that the bulk of today's mortgage lending is in the home ownership classification, as contrasting to the multiple-unit rental dwelling. There is definitely less danger of over-building in the home construction field than in the multiple-unit field, especially so, with the judicious use of Federal controls.

As has been pointed out, an astonishingly high percentage of urban mortgages are directly or indirectly guaranteed by the Federal Government. If and when, consumer incomes decline, there are available governmental controls that can be used to prevent an over-expansion of supply. If intelligently used, those controls can bring about a more orderly reduction in construction than was experienced in the late depression.

Strangely enough, an additional factor on the safe side of mortgages is the continued operation of rent control. This, too, acts as a brake on new construction so long as it is in operation.

On the doubtful side, it can be said, that under present long-term lending, the borrowers' monthly payments are mostly for interest, not so much for amortization. As a result, the principal of the loan is retired over a long period. For example, the real estate research corporation, last week, pointed out that in the first five years of a 25-year 4% mortgage (20% of the loan's term) the borrower pays off only 13% of his debt. In fact, the borrower must make 62% of his monthly payments before he has paid off 50% of his loan. In the 608 type of mortgage, this debt retirement is even slower. On a mortgage of this type, bearing 3½% interest, with a maturity date of 34 years and 6 months, the borrower pays only 8% of his principal during the first five years of its life.

"Forced Ownership" a Weak Spot

In evaluating the stability of today's mortgage borrowers, we cannot overlook the fact that a large number of buyers are in the forced-ownership class. They regard their down payment as a premium for occupancy and their monthly payment as rent. Unless the present market endures for a sufficient length of time to enable these buyers to accumulate a safe equity, they are apt to be distinctly unstable borrowers. This is especially true, since the original equity payment required of a mortgage borrower is the lowest in all history.

Finally, on the doubtful side, we must recognize the fact that real estate mortgages and building construction always reach their respective peaks at the time of highest consumer income. The phenomenal high wages and salaries prevailing today cannot be viewed as characteristic of a new era. There is little reason to believe that our economy has hit a plateau from which it will never decline again. It is to be realized that we are working on shorter margins that ever before, a fact which means that even a modest decline in real estate values and consumer incomes can produce a waive of defaults and foreclosures.

Dangers of Socialized Housing

It would seem to me that there are several possible developments depending entirely upon our economic conditions over the months and years ahead. With a continued high level of business activity, the government may be sensitive and critical of the caution and conservatism of the lending agencies if these agencies tighten mortgage credit, which they now appear to be doing, and adopt a "go slow policy." The government, either national, state or local, may venture into socialized housing, at the taxpayer's cost, under legislation similar to the suggested Wagner-Ellender-Taft Bill considered by the last two sessions of the Congress, or under the guise of slum clearance, as our state and local authorities are now attempting.

The government may disregard the advice of the lending agencies in another way. There is evidence of pressure to force the further extension of credit in the housing field. Any such forced extension of credit may result in an increase of the direct or indirect activities of the government in the mortgage lending field. This would carry us into unchartered seas and would constitute a threat to our present system of mortgage lending.

If, on the other hand, trouble should occur in the form of a drop in consumer purchasing power, with a consequent decline in real estate value, the government may carry through a program involving activities incorporated within the original Home Owners Loan Corporation enactment. I have no doubt that greater leniency and stronger effort to help the borrower work out his problem would be a fundamental philosophy in the activities of our government. The end result, however, will and must conform to the traditional pattern of liquidation.

In conclusion, may I record the fact that lending agencies have enjoyed the longest period of sustained profitable lending activity ever experienced in our economy. If, the operation of Federally insured credit can be rationalized with the basic economic conditions prevailing from time to time in the real estate market, all, the borrower and lender alike, and our national economy as well, will have reaped a worthwhile advantage.

There is a danger, however, that the operation of housing credit, operated by the government, may become an institutional activity motivated by political expediency and used without reference to economic stability. Such a venture might readily carry us into a period during which we will be totally divorced from our present affection for Federally insured mortgages.

Conventional mortgage lending, with integrity on the part of the borrower, and honesty, prudence and intelligence on the part of the lender, has, over the century, proved itself to be a desirable lodgment for money for long-term investments. Its temporary passing is to be regretted.

Edw. D. Jones Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — Edward D. Jones & Co., 300 North Fourth Street, members of the New York and St. Louis Stock Exchanges and other leading exchanges, have added Leslie B. Meyer to their staff. Mr. Meyer was formerly with Dempsey-Tegeler & Co. and in the past with the Mississippi Valley Trust Co.

Our National Resources and European Relief

(Continued from page 7)

3% in the French. The latter does not include the Alsatian potash mines which have reverted to France.

Consumption of the three great plant foods in Germany has been cut from more than 2,700,000 metric tons to less than 1,200,000. You can readily see why we are still compelled to ship millions of tons of foodstuffs to Germany when three growing seasons have elapsed since the war's end. This in spite of the fact that her daily calorie allowance of 1,500 is only one-half of England's and less than half of our daily consumption of 3,250.

In peace-time, with only 47,000,000 inhabitants, Britain imported about $3,500,000,000 worth of food and feed stuffs yearly. That gives a rough yardstick of what may confront us if Russian and French intransigence continues. In June, 1947, we exported more than 3,534,000,000 pounds of foodstuffs. No wonder our index number of food prices is more than twice as high as prewar.

Failure properly to use the three resources of which Germany had a surplus, coal, nitrogen, and potash, is resulting in a grave misuse of American resources. Despite her dire need for coal, more than two years have been lost in getting the Ruhr mines into even inadequate production. Human suffering from cold, industrial decrepitude, and waste are the results. The aggregate drain of foreign relief on the natural resources of our own country will be devastating, despite propaganda to the contrary.

Examples of Exhaustion of Resources

To illustrate the exhaustion of natural resources, I have selected for discussion a few indispensable materials.

Iron Ore—Iron and steel are the world's chief strategic materials, and since 1890, for 57 years, we have been the world's greatest producer of them. In fact, we produce more than all the rest of the world combined, and in 1945 we produced approximately twice as much as Germany, Great Britain, France, Belgium, Poland, and Luxembourg combined. In the year of our maximum production of iron ore (1942) we dug out almost 142,000,000 tons of crude ore. In the year of our maximum production of steel (1944) we made almost 90,000,000 tons as well as 63,000,000 tons of pig iron and ferroalloys. To get a true perspective on our prodigious steel production, I remind you that in the 36 years between 1863, when our statistics begin and 1899, the year of our tenth census, United States production was less than 96,000,000 tons. Our rate of use since 1939 has been twice as fast as the 1920 to 1939 average. Open pit mining has made this possible and cheap, but competent observers believe that by 1980 open pit mining on the Minnesota Iron Range will be a thing of the past. If the present rate of steel production continues, exhaustion may take place ten or fifteen years sooner.

Germany was for many years the second largest producer, with a prewar maximum of 28,300,000 tons in 1939; Britain stood third with 14,590,000 tons in 1943, and France was fourth with a high of 9,407,000 tons in 1939, but only 1,772,000 in 1945. Now France is naturally ambitious to succeed to Germany's former place.

Russia's rank in steel manufacture is unknown, but her production is probably not less than 16,000,000 tons. The Soviet censorship insures that only general, limited, or deliberately ambiguous information is released.

For many decades our Federal and State Governments have made extensive surveys of their natural resource assets and published the results. Similar detailed data are not available for Russia, China, and Brazil, nor for the British Empire, including Canada, Australia, and the Union of South Africa.

Fiscal and currency stability are not the only conditions that we should impose when we make international loans and gifs. Exchange of reliable, up-to-date inventories of resources and definite disclosures as to their development should be accepted factors in every international relief and commercial loan policy. The domestic resources of recipient nations should be developed wisely and used promptly and prudently to relieve the drain on America.

Minnesota Iron Ore—The American iron ores of greatest value come from my native Minnesota, and are located on the Mesabi Iron Range about 150 miles northwest of Duluth. The pioneer work of private industry and of the U. S. Geological Survey and the Minnesota Geological and Natural History Survey led to the beginning of production in 1892. (Ten years later I was myself an employee of the Minnesota Survey in its botanical division, and last year it was my privilege to create a 15-year research fellowship at the State University in honor of Prof. Conway MacMillan, the deceased director of that division.) The Mesabi Range has been our greatest single source of the raw material from which steel is fabricated. It is probably not an overstatement to say that both world wars were fought with Minnesota iron ore.

The distance from the Mesabi Range to Pittsburgh is about 1,000 miles, 832 of them by water. At present the freight on a ton of ore from the Iron Range to Pittsburgh is $3.50; it is only $2 to Gary, Cleveland and Buffalo. Over 60% of our metal-working capacity is located within 200 miles of the Great Lakes. When the cheap water transportation of the lakes can no longer be used advantageously, profound changes must occur.

Last week the steel industry was attacked in an anti-trust action, because, among other things, prices were increased after coal wages were raised. The Federal Trade Commission insists that this action was a sign of collusion and conspiracy. It also emphasizes the fact that the increase was put into effect in the face of the President's request to wait until the industry could tell what increase would be necessary. As if a steel producer could not tell what a given increase in the cost of coal would add, at least as a minimum, to the cost of producing a ton of steel!

The sad fact is that there is a deeper cause of price elevation than wage increases in the coal and steel industries. Minnesota iron ore is running out. It is estimated that the original 2,500,000,000 tons of Mesabi ore have been depleted by 60%. The high grades are practically exhausted and the good grades are becoming scarce. When they are played out recourse must be had to taconite which has such a low iron content that it is almost a euphemism to call it an ore. Taconite is really an iron-containing soil. In the future it will have to be worked, not in Pennsylvania, Ohio, Illinois, and Indiana where high grade Minnesota ores now go for conversion, but almost in situ in the northern woods of Minnesota. You can't afford to transport such low grade material great distances. A new steel industry will have to be built up, and in addition it will be necessary to import ores from Brazil, Venezuela, Chile, Labrador, Mexico, and other countries. In the long run the Pittsburgh and Gary regions will give way to a new steel industry adjacent to the raw material in Minnesota and on the ocean and gulf coasts, particularly the Atlantic. These changes will necessitate expenditure of many hundreds of millions of dollars.

Our dependence for iron ore upon other nations will have unknown but profound political implications, particularly in Latin America. At home the ultimate shifts in industrial population and earning power will have serious and in fact almost revolutionary effects. Think of the present location of the steel-using industries—automobile, farm implement, railroad and electrical equipment, etc.—and you will realize the impending change in the geography of industry. While this change is inevitable, careful use of our present reserves would do much to make the transition less painful. Those interested in further details should read a significant article by Prof. Marvin Barloon of Western Reserve University, Cleveland, in the August, 1947, issue of "Harper's Magazine."

Coal—American coal, iron ore, and farm products were the decisive materials in winning both world wars. Let no one persuade you to the contrary.

Fortunately for America and those nations that would like to achieve democratic futures, our coal measures are able to meet every demand except during strikes. Compared with iron ore, they are inexhaustible, but we are rapidly depleting our high grade coking coals, the reserves of which are none to plentiful. The convenient location of our coal, and the ease with which Mesabi iron ore can be brought in, have made the area extending in a general way from Pittsburgh and Buffalo to Chicago and St. Louis the Ruhr of America.

This discussion relates to bituminous coal. Our anthracite deposits are not large, and are estimated to last about 150 years.

In the past the United States produced nearly one-third of the world's coal; Germany, Britain, and France another one-third, and the rest of the world the remainder. These proportions will not continue indefinitely as Russia, China, Poland, Belgium, India, South Africa, and Australia will no doubt greatly increase their future production.

From 1938 to 1941 Germany's yearly average production was 503,000,000 short tons, while ours was 480,000,000 tons. This year Germany is expected to produce about 230,000,000 tons which is insufficient for her needs but which must be shared with about a dozen other European countries. This state of affairs necessitates imports from the United States if additional hundreds of thousands of people are not to die of exposure and disease this winter.

In the "big three" producer nations, only American mines are operating effectively. Great Britain's production has fallen consistently from 269,000,000 tons in 1937 to 193,000,000 in 1945. As a result we are presently shipping coal to Great Britain also.

In 1945 six States produced 482,000,000 tons of our total of 631,000,000 tons. These States, in order of tonnage, are West Virginia, Pennsylvania, Illinois, Kentucky, Ohio, and Indiana. All the other States combined account for the remainder of about 150,000,000 tons. Alabama and Virginia contributed nearly 37,000,000, and Wyoming, Colorado, and Utah more than 24,000,000. In 1945, the 11 States named above also contributed about one-fourth of the total value of American farm products. If Missouri and Iowa were included, as they too are considerable coal producers, the value would be raised to one-third. Lucas, in Iowa's coal section, is the birthplace of John L. Lewis, the famous leader of the United Mine Workers.

While we appear to have almost limitless reserves of coal, the top qualities are being mined at a tremendous rate. From 1937 to 1945 total production was more than five billion tons. Furthermore, as our petroleum supplies become exhausted, huge quantities of coal will no doubt be hydrogenated in making synthetic fuels and other materials. It is inexcusable to have planned so badly and to have made such destructive agreements with other nations as to necessitate serious depletion of our supplies of solid fuel, and the additional misuse of ocean transport in carrying "coals to Newcastle."

Petroleum—Petroleum is, of course, absolutely indispensable in peace times, and the last war could not have been won as readily without it. Ignoring all other uses, the world's 47,000,000 passenger cars set the measure of need for liquid fuel. More than 27,000,000 of these cars are in the United States. With about 1/17 of the world's population, we have about two-thirds of its motor vehicles—automobiles, trucks, and tractors. Near the end of the war, General James Doolittle's 8th Air Force used nearly 85,000,000 gallons of aviation gasoline in one month (March, 1945), averaging almost 5,000,000 gallons a day.

The first oil well in the world was put into operation at Titusville, Pennsylvania, Aug. 28, 1859. This was three months before John Brown, whose body lies buried just outside our village of Lake Placid, was executed for inciting a slave revolt at Harpers Ferry, Virginia. In 1920, 61 years later, U. S. production was about 443,000,000 and world production was about 689,000,000 barrels of 42 gallons each. Now, 88 years later, U. S. consumption is about 1,750,000,000 barrels a year, and world consumption is approximately 2,750,000,000. Reserves outside the United States are estimated at about 45,000,000,000 barrels. Our proven reserves are at present estimated to be less than 20,000,000,000 barrels, and the rate of discovery of new oil fields has slowed down markedly.

You can see what confronts us as we have more than 35,000,000 gasoline-consuming vehicles in use. Remember, too, the growing millions of homes and other buildings that are being heated with oil burners. With the dizzy rate at which we consume, it seems inevitable that soon we shall be driven at greatly enhanced costs to the extraction of oil from low grade shales, located chiefly in the Colorado area, and to the German expedient of synthetic gasoline from coal and lignite. At present shales must be mined like coal, and in pilot plants they yield only 29 gallons of oil per ton of shale. In 1945 our automobiles and trucks consumed 22,000,000,000 gallons of gasoline. It would take more than 750,000,000 tons of shale to produce that supply. After a while too, the shales may play out.

Clearly, our present prodigal and increasing rate of consumption should be abated. Here is a great opportunity for an educational effort in practical conservation. Everybody is opposed to high prices for gasoline, but I frequently think that only high prices will ever reduce use and curb waste to the future advantage of the nation.

Potash — Iron ore, coal, and petroleum include a large fraction of our economic life. Many lesser minerals are also vital. Potash is an example. Its agricultural significance has already been mentioned. Normal crop production can not be maintained without it.

The potash industry originated in Stassfurt, Germany. In 1851, the Germans were looking for cooking salt and found bitter potash salts. Shortly thereafter, the distinguished German agricultural chemist, Justus von Liebig, discovered that the Stassfurt salts were a valuable plant food. In 1861, regular mining of potash minerals began, and increased consistently until 1938, the last year for which complete statistics are available. World production was then 3,702,000 short tons, of which Germany supplied 2,403,000, roughly 60%, expressed in terms of pure potash (K^2O).

In 1870, the first potash was brought to America, and from then until 1914 all of our supply came from Germany. In 1880, we imported about 20,000 tons; in 1910, 270,000. World War I completely cut off our supplies, but by 1930 our imports reached 310,000 tons.

In 1915, we began to produce in a small way, about 1,000 tons. In 1930, we produced 45,000 tons; in 1940, 340,000, and reduced our imports to 70,000 tons. In the fertilizer year June, 1946, to May, 1947, the American industry delivered 976,000 tons, a peak attained in 12 successive yearly increases.

American production comes from two great sources: the potash mines of New Mexico, and the "cracking" of the brines of prehistoric Lake Searles in California. Evaporation of the waters of Great Salt Lake also provides a worth while supplement. At the current rate of use, our modest known reserves can be counted on for about 100 years. But remember a point I made less emphatically earlier in this address: We are restoring the fertilizers to our topsoils less than 1/10 of the amount of potash removed yearly by crops, and less than 1/20 of the total amount removed when erosion, oxidation, and leaching losses are added to crop removals.

Unless the rate of discovery of our potash deposits is speeded up, wise national policy would seem to call for prompt restoration of the German mines and importation of a reasonable portion of our yearly needs. Thus Germany would get some dollar exchange to pay for food.

Soil Resources—The art of agriculture, even from its crudest beginnings, has existed only about 7,000 years so far as we know. In this relatively short period what has man not wrought in the way of soil destruction? During the years of Rome's glory, according to some rather savage criticism by von Liebig, that metropolis of the ancient world engulfed in the course of a few centuries the whole prosperity of the Roman peasants. Thus, it devoured the wealth of Sicily, Sardinia, and the fertile lands in northern Africa. Nowadays we think of North Africa only as a desert. As a matter of history, however, the present site of the Sahara Desert was formerly forested and well populated.

Dr. Hugh H. Bennett, our greatest authority on soil conservation, in an address at the Princeton University Bicentenary in October, 1946, said:

"Productive land is the only natural resource without which we can not live."

This is not an overstatement as all our food, nearly all our clothing, most of our shelter, and all of our over-size newspapers are obtained from the soil. Only close students of soil conservation realize that of the world's 32,861,000,000 acres of land only 4,000,000,000 acres or ⅛ are immediately arable. Some of it, of course, is of poor quality. With a world population of more than 2,200,000,000, this means less than two acres per person. Students of agricultural production and nutrition usually estimate that on the average 2½ to 3 acres of fairly productive land are needed properly to support each human being.

We have approximately 1,000,000,000 acres within our farm boundaries. About 460,000,000 acres are good tillable land, and approximately 350,000,000 acres are actually tilled. We can make an enlightening comparison with Japan, which has 14,000,000 acres of tilled land and 75,000,000 people, about half as many as we. After careful study, Dr. Bennett estimates that 50,000,000 acres of our original soil patrimony have already been completely ruined; 50,000,000 more are seriously damaged, and approximately 50,000,000 more have suffered definite decrease in soil fertility. According to Bennett, "We have ruined more good land in less time than any other nation in recorded history." This destruction has been due largely to ignorance and failure to observe proper soil conservation practices.

It is estimated that destructive forces over which man has only limited control—erosion, leaching, oxidation, and the like—remove annually about 8,500,000 tons of nitrogen, 2,980,000 of phosphorus, and 35,330,000 of potassium from American soils. Harvested crops and grazed pastures account for further removals of 7,600,000 tons of nitrogen (N), 2,750,000 tons of phosphorus (P^2O^5), and 8,320,000 tons of potassium (K^2O). These totals are appropriately broken down in the following table which is adapted from the U.S.D.A. Yearbook of Agriculture, 1938, using data from the National Resources Board. The estimates are based on a considered area of 365,000,000 acres of **harvested** crops, and 1,000,000,000 acres of pasture and wooded grazing land.

The annual losses of the three major plant foods due to all factors are 65,480,000 tons. In addition huge amounts of calcium, magnesium, and sulphur are lost, as are large amounts of many lesser elements.

The late Dr. J. G. Lipman of New Jersey, a distinguished soil scientist, estimated about 1936 that chemical fertilizers and natural manures restored only about 2,900,000 tons of nitrogen, 1,100,000 tons of phosphorus, and 2,300,000 tons of potassium. Lipman also pointed out that our loss of soil organic matter was nothing short of stupendous, totaling much more than 100,000,000 tons yearly.

An announcement by the Department of Agriculture sets a goal of more than 71,000,000 acres (later raised to more than 75,000,000) of wheat for 1948. A large part of the "dust bowls" of the Great Plains was superimposed on 73,000,000 acres seeded to wheat in 1919 to save the starving people of the world and especially of Europe. Now we are asked to export in one year more wheat than the whole crop of 526,000,000 bushels produced in 1934 when the dust bowls were really going strong. If such problems are not handled wisely, more damage may be done to our soils in one year than the splendid work of Dr. Bennett and his soil conservation associates can cure in a quarter of a century. Not only heart but head, and not only sympathy but sound judgment are essential in this crisis.

Consider China which has more than 4,000,000 square miles of territory and about 450,000,000 inhabitants. Stuart Chase in his book "Rich Land, Poor Land" calls the eroded hills of China the "man-killed hills." The depletion of our soils is a challenge to our nation. If left unsolved, it will in time mean national economic decadence similar to that which now curses a very large part of China.

Why Are Natural Resources So Important?

Natural resources are important because their kind, quality, extent, and use largely determine the degree of significance or insignificance of nations and peoples. Given desirable human and cultural resources, they determine standards of living and levels of civilization.

Possession or control of minerals or adequate access to them means the power to control industrial production during peace and production of means of transportation by land, sea, and air, and of guns, ships and all other forms of military materiel during war.

Uneven distribution of resources is the inevitable and incurable result of millions or billions of years of geological evolution. Despite the earnest efforts of some American and British leaders, the problem of equitable access to raw materials was ignored at Versailles and contributed to the ultimate breakdown of the Treaty. France particularly insisted on political considerations and objected effectively to economic solutions.

Whether we admit it or not, ever since World War I controversies of growing intensity have developed from the unequal distribution of resources. For years the contention was made that the "have-not" countries could buy their raw materials from the "haves" in the open markets of the world. This is gravely negatived by the present experience of Britain. She claims that she is going broke even when we provide billions of dollars to bolster up her weakening economy. May I add parenthetically that her present almost revolutionary adherence to Socialistic doctrines and the failure of her people to settle down to consistent work may be greater factors in her crisis than the "dollar famine."

The British Labor Government seems to think that the compulsory sharing of wealth rather than greater productivity will solve their country's grave crisis. This belief could ultimately prove fatal. The United Kingdom has 47,000,000 people living in an area too small to support them in a properly balanced agricultural and industrial economy. Furthermore, her over-industrialization brings about an international imbalance in the production of industrial goods. If she and other industrial countries continue to monopolize the world's manufacturing, it is hard to see how peace can be preserved in the long run. That is why recently we have been hearing talk of "dispersal" of 10,000,000 to 20,000,000 of her people. With free access to raw materials through her colonies, of which she still has far more than any other nation, and with world markets open to her products, true "austerity" with democratic social justice and a minimum of communistic or socialistic experimentation should make possible the restoration of reasonable balance in the British economy.

Fundamentally, resources outweigh democracy, fascism, communism, or any other form of political or economic ideology. No matter what form of government prevails in a country, the necessities of life must be available to an adequate extent. You can live neither on ideology nor brotherly love, important as both are. You must have food, clothes, and shelter. But the mere possession of rich natural resources does not insure national greatness. Resources should be used wisely, not misused, abused, or wasted during peace times or over-exploited during wars.

Up to now 3,000 miles of ocean on our east and 6,000 on our west have saved us from the severe punishment that at some future time may teach us the sad lesson of what insufficient or used-up resources can mean. It is a fair question to ask how long we can safely continue to accede to the demand that we resuscitate Europe, develop Latin America, and chip in to put Asia on her feet. In the past five years we have provided China alone with more than $3,500,000,000 in money and goods.

Despite cuts here and abbreviations there, an hour and five minutes of the hour assigned for my talk have elapsed. In the circumstances nothing can be said about many other natural resource problems, such as use and misuse of forest resources, wastage of natural gas, destruction of fresh water and marine fisheries (including the whale population of the oceans), losses due to failure to control plant and animal diseases and insect pests, destruction of life and property by fire, and last but by no means least the waste of manpower because of strikes, enforced idleness, featherbedding, and accidental deaths and injuries.

Estimated Annual Losses of Primary Plant Foods From the Soils of the United States

(Short tons)

Losses through:	N	P^2O^5	K^2O
Crops (harvested areas)	4,600,000	1,600,000	3,860,000
Grazing (pastures)	3,000,000	1,150,000	4,460,000
Leaching (Harvested areas)	4,000,000		7,950,000
Erosion (harvested areas)	2,500,000	2,060,000	18,100,000
Leaching (pastures)	1,000,000		2,050,000
Erosion (pastures)	1,000,000	920,000	7,230,000
Totals	16,100,000	5,730,000	43,650,000

The Dow Theory Not a "Gadget" To Be Followed Blindly

(Continued from page 3)

that outlook has been discounted. No matter how dismal the prospect, the stock market may rise if that prospect already has been taken into account by sufficient decline in the price of stocks. Judged by standards of the last 20 years, the stock market currently is low in relation to earnings and assets. On the basis of estimated earnings for 1947, the Dow-Jones industrial average is as low as it has been at any time in more than two decades. If that average were to sell as high in relation to book values as it did in 1937 it would have to go almost to 300. Book values doubtless are more conservative now than in 1937. Replacement costs are higher and a large amount of plant was written off entirely by means of accelerated amortization during the war. The book value test is particularly important to those who fear being swept off their feet by boomtime earnings. Dow used to say that. "The true test of over-capitalization is whether the property can be duplicated for less money."

(4) Even when the outlook for business and earnings is good, and even when stock prices are low in relation to earnings and assets the prudent investor must still ask himself whether other investments, notably bonds, may not be more attractive. For instance a man with a taxable income of $200,000 a year would get as much spendable income from a top-grade, reasonably short-term municipal bond selling to yield 1½% as he would from a stock selling to yield 11%. Under current conditions he might still prefer municipals, unless he took into account the rapid decline in the purchasing power of his principal. For the general run of investors however, when the earnings yield on a representative list of common stocks amounts to more than three times the interest yield available on highest grade corporate bonds, as at present, there is no question but that gentlemen prefer equities.

(5) That brings us to a fifth question, which is the supply of risk capital relative to the demand for it. There are billions of dollars of investment money in this country which will not go into common stocks under any conditions. Legal trusts and life insurance companies in New York State, for instance, are not allowed to buy common stocks no matter how cheap they are. Experience of recent years suggests that the supply of money that will go into the stock market under any conditions is much more sharply delimited than is commonly supposed. If that is so, anything that tended to reduce the supply of risk capital and increase the demand for it would tend to depress stock prices regardless of the business and earnings outlook, asset values or bond yields. Perhaps there is an explanation of the fact that at a time when stocks in the Dow-Jones industrial average are earning about as much as they did in 1929, their best year, their earnings are valued lower relative to bond yields than they were in 1932, their worst year. Steadily rising personal income taxes since 1932 have tended to inhibit the creation of new risk capital on the part of those theretofore able and willing to take the chances involved in common stock ownership. That brake on risk capital formation was aggravated last year by imposition of 100% margins, which meant that those who formerly had augmented their risk capital by borrowing on it had to fall back on their wholly owned assets. The result was to take out of the market many hundreds of millions of dollars that formerly had been actually or potentially available for the purchase of stocks. Thus was the supply of risk capital curbed.

On the demand side three influences have been important. Rising death taxes have forced a substantial part of the stock holdings of deceased wealthy investors into the market. Europe has been a necessitous seller of American stocks on balance since the war began. Expanding business and rising costs have created new demands for capital on the part of industry. Thus was the demand for risk capital increased.

Reversal of those two tendencies would be extremely bullish and might even offset, marketwise, some decline in business activity and corporate earnings. Chances for some reduction in personal income taxes next year look good. Easing of margin requirements is more doubtful. Proposed extension of the time for settling estate taxes would lighten the pressure on the market from that source. Necessitous liquidation of European-held American stocks may be obviated by the adoption of the Marshall Plan. On balance chances seem to favor an improvement in the relationship between the supply of risk capital and the demand for it in 1948.

Russia could upset all of those calculations, but true conservatism requires emphasizing the probable and minimizing the possible, even if it means losing considerable dramatic effect. Certainly, recent elections in Europe have not advanced the Communist cause.

The question whether stock prices can rise while interest rates are rising, no matter how great the disparity between earnings yields and interest rates, can be answered in several ways. One of them is to cite the experience of the late 1920's when the yield on highest grade corporate bonds began to rise in May of 1928, while stock prices continued to advance for 15 months thereafter. In all, the industrial average rose more than 180 points *after* bond prices began to decline. This time stock prices turned down a year ahead of the upturn in interest rates.

A second answer is that the rental value of money is lowered or raised just like the rental value of anything else—by increasing or decreasing the supply of money relative to the demand for it. Federal Government deficit financing and vast purchases of gold from abroad greatly increased the supply of money in the years from 1933 on through the war. An unsympathetic Administration attitude toward business, particularly big business, based in part on the matured economy hokum, tended to check the demand for money in the early years of the New Deal, and when the war came the demand for money was held in check by rationing, price-fixing, curbs on instalment financing and by the fact that family unit incomes expanded to new highs at a time when spending was limited by shortages of civilian goods. Removal of those various curbs on the demand for money would tend to harden interest rates, thus depressing high grade bonds and preferred stocks, even if the supply of money still were being increased, which it is not. But the removal of those various curbs is bullish, not bearish, on business, and interest rates could firm up much more than they have before the cost of borrowing could be regarded as a brake on business.

All of the foregoing considerations are long-term. Some of them are "iffy," and none of them could be depended on to prevent a return trip by the averages to their October, 1946-May, 1947, lows. For evidence as to the probable short-term trend of prices we must turn to finer, more technical and less dependable indicators.

Volume since the May lows has shown a clearly defined tendency to increase on advances and to dry up on declines. That tendency continues up to the moment, and is definitely bullish.

Failure of the averages to top their July highs in October would become a significant bearish indicator only if *both* averages should decline below their Sept. 9 lows of 174.02 for the industrials and 46.91 for the rails. Up to now the setback from the October peaks is no greater than the reactions which from time to time "correct" the best of bull markets. It would be particularly encouraging, on a short-term basis, if the industrial average, after holding above its Oct. 30 low of 179.93 while the rails sagged to new lows, could advance above its Nov. 5 high of 183.57 on increased volume of trading. Pending confirmation of the primary uptrend *every* test of this sort is critical.

Waiting for good or bad news sometimes seems harder on the nerves than receiving the bad. Two thoughts may help. The first is that, from here, the floor under prices looks a good deal nearer and stronger than the ceiling over them. The bears seem to be risking more than the bulls, and to be paying more for the privilege. Things would have to get quite a lot worse merely to justify present stock prices in many instances, let alone lower levels. The second is that 13 of the 30 stocks in the Dow-Jones industrial average already have established bull market trends of their own by advancing subsequent to their May lows above their February highs. Three of them (all oils) already have sold above their 1946 highs.

Wall Street has been fighting its own "cold war." There too the bears seem to be slipping.

The Federal Tax Outlook

(Continued from page 4)

chief shares the natural human desire to make his bureau bigger and better, to improve his staff, to advance into new fields. Therefore, he just must have more money. We all witnessed a demonstration last spring of the intense unwillingness of the Federal bureaucracy to cut expenditures, of the propagandist appeals that can so readily be developed against any cuts. We are, therefore, very fortunate in having vigilant congressional appropriations committees, well-staffed to search out and to find the soft spots in departmental budgets. As citizens and as professional guardians of the profit and loss statement, we owe the country the duty of assisting intelligent supervision of the budget in every way we can, and of supporting efforts to bring it under control.

We need not despair of the practicality of cutting the total of expenditures. We need a strong army and navy, certainly; and we want vigorous and effective government departments. Experts tell us that we can have them within a $20 to $25 billion budget. Therefore, let us strive to that end, for if we can attain it, crushing tax burdens can be eliminated. On the other hand, if we cannot get our expenditures under real control, the prospect for tax reduction, for a continuation of present business activity, for economic health here and abroad, is not bright. Finally, one way to get expenditures down is to reduce taxes so that the money is not there asking to be spent.

I

Three items—debt reduction, tax reduction, and expenditures abroad — offer the major competing claims to any excess of Federal receipts over expenditures. My premise is that a budgetary surplus should be divided among the three; that the excess of receipts should not be devoted solely to one or even two of the three.

Humanitarian motives combine with good judgment in favor of help to European countries which will do their best to help themselves. We certainly do not wish to play Santa Claus to the world, but we do want to preserve, if we can, a democratic civilization in which we may hope to live at peace. If widespread starvation in Europe is to be avoided and if its economy is to be revived and restored, aid from us appears to be essential. With the best will in the world, Europe cannot restore itself to physical and economic health.

We certainly have our own domestic problems to consider as well as the world's. We are one of the few remaining countries in which a free private enterprise system persists. Our domestic health, as well as our aid to foreign countries, depends entirely upon the vigor and vitality of that productive system. We must continue to produce and produce mightily, for it is goods and not merely dollars that are in great demand today.

Since taxes always operate as a brake upon the economy, and our individual taxes remain at almost the war peak, it is especially necessary both to reduce the overall tax burden, and to remove the tax injustices that have grown up through the years by the rigid and rigorous application of the revenue laws. We cannot expect men indefinitely to work harder and to produce more, when the Government gets more than they do out of their additional earnings. We need a more favorable tax climate in the interests both of satisfactory production and of satisfactory Treasury receipts.

Finally, the debt ought to be paid down a few billions. We ought not, I think, to devote excess revenues merely to debt reduction, and to refuse to reduce individual income taxes at all. Paying down the debt alone will not remove any brakes on the economy. It will not cause men to produce more, nor will it increase anyone's incentives. Moreover, in the past, we have found that an intelligent reduction of tax rates may result in more revenue than the previous high rates did. It is quite likely that the same result would be produced today. We will have the revenue to pay off enough of the debt to demonstrate that we regard the debt as a real obligation which we mean to discharge; and also to give all sorts and conditions of working men the incentive of more pay to take home after taxes.

II

If you have followed me thus far, you can join with me in filling in the details of my tax proposals for the Federal Government. Whether or not a tax program of any kind, or such a tax program as you and I regard as wise, can be put through in a Presidential election year, is a nice question. Certainly none of us would choose such a year as the best time for calm consideration of individual income tax rates and exemptions, nor of technical amendments. Nevertheless, there is clearly a strong will in Congress to do the job in 1948. Since revenue revision is badly needed, you and I ought to do what we can as citizens to bring it about.

It is likely that there will be two revenue bills in 1948, one dealing primarily with rates and exemptions; one primarily with amendments to the tax structure to remove injustices and restrictions upon the proper functioning of our economy. Probably tax reduction will largely be limited to the individual income tax, plus perhaps some of the excises. The corporation will only benefit from the adjustments to the tax structure. Such a program is justified because corporations have had a major tax reduction since the war the repeal of the excess profits tax, and individuals have not. The tax reduction bill will, of course, have more political repercussions than the revision of the Code; and I enter with great misgivings into this field of political prophecy.

H.R. 1 and H.R. 3950, both vetoed by the President last spring, were attempts to reduce the tax burden on individuals by a more or less flat percentage cut in rates across the board. The reduction in dollars for the big income taxpayer was thus much greater than the reduction in dollars for the small taxpayer, but only because the former started off with a much heavier tax burden than the latter.

An alternative method of income tax reduction would be an increase in exemptions. The effect of such a procedure would be first to eliminate millions of taxpayers from the tax rolls, and thus from direct tax responsibility to the Government. Second, the revenue cost of even a slight increase in exemptions is great, for all taxpayers are affected.

With government costs what they are now, and are going to be for sometime to come, we cannot afford to reduce income taxes much. Moreover, since the great bulk of the income stream flows to taxpayers with net incomes under $5,000, we cannot afford to increase exemptions much, at least if the income tax is to continue to be the mainstay of the Federal revenue system. In a democracy all able-bodied citizens may be called upon to fight to support and maintain our government in time of war. Should not all citizens with incomes, at least above a minimum subsistence level, pay direct taxes to support and maintain our government in times of peace?

The fact is that exemptions have been severely reduced and rates severely raised during the war years since 1939. Previously, during the thirties, exemptions were not much changed, but rates were steadily raised. Hence, in beginning an approach to a more normal peacetime tax system, it would seem just and wise to raise exemptions a little and to reduce rates a little.

In my judgment, the whole surtax rate schedule should be revised, if we still believe in the old American dream that a country boy can work his way to the top, and that he should be encouraged to do so. The present scale is so steeply graduated and the rates are so high that added work and accomplishment are not much rewarded. The surtax rates on the higher incomes produce little revenue, but they do discourage risk-taking and endeavors to advance in the business world. In general there is much to be said for the proposition that, in normal times, a man should not be asked to do more than share his income equally with the Government. A thorough revision of surtax rates perhaps cannot be done in 1948, but surely a start can be made by some percentage reduction of surtax rates.

Another plan to increase the equity of the individual income tax is to permit husbands and wives in the non-community property states as well as in the community property states to compute their respective taxes by first dividing their total incomes evenly between themselves. Surely there is no sufficient reason for taxing a man earning $50,000 in California or Texas $6,194 less than a man with the same income in Illinois. With tax rates so high, injustices of this sort are intolerable, and there is every reason to believe that they will be remedied next year. Since the dollar benefit of the change would flow mainly to persons earning incomes in excess of $5,000, the adoption of such a plan will doubtless be accompanied by a reduction in rates or an increase in exemptions that will be beneficial primarily to persons with incomes under $5,000.

III

So much for the income tax reduction bill, which may be the first revenue act of 1948. The second bill, in which we are more interested as tax practitioners, may be the bill to improve the structure of the revenue act, to eliminate injustices, to enable business and the tax administration to function more smoothly. A vast number of amendments of this sort have been proposed by individuals and professional organizations. They have been widely discussed and thereby perfected; and a large measure of agreement upon them has been reached by the proponents, the staff of the Joint Committee, and the Treasury. The great problem is to consider, sift out, draft and enact these so-called technical amendments. There are dozens and even hundreds of them. Many of them present debatable questions of policy. Many of them are hard to formulate.

The Committee on Ways and Means and its staff consequently confronted a very formidable task. It decided to accept it and perform it, not to lay it over for the indefinite future. Hearings have been going on for months. Volumes of testimony and of briefs have been submitted. The Committee does not lack for data, but the job of sorting out proposals and drafting the actual revenue bill is a staggering one. The Committee and the staff has done valiant work to accomplish it.

Last June, Chairman Knutson, Congressman Doughton, senior Democratic member, and the Committee asked a group of ten men to help out. That group, called the Special Tax Study Committee, has just made its report to the Committee on Ways and Means. I shall not go all over the detailed recommendations with you here this morning, for I hope you will each read them for yourselves. Let me emphasize rather our general purposes.

First, the Committee decided to make no recommendations on such major policy questions as individual income tax rates and exemptions. The Committee on Ways and Means and the Congress are charged with the duty of determining national policy on these matters. The relevant data are readily available, and the Committee and Congress are better informed than we are on the considerations pro and con.

Our Committee thought we could perform more useful service by reviewing and reporting upon major structural amendments. We have made recommendations on about 50 major topics, many of them with several subdivisions. Our basic purposes were largely two-fold. The Treasury and to a degree the whole world is greatly dependent upon the active functioning of our economy. We need to produce more than we have ever done before. Therefore, we need to eliminate those provisions of the tax law which tend to make it difficult for business to function at its best. Our recommendations relative to depreciation, Section 102, and pension and stock purchase plans are examples of our attempt to carry out this purpose. Second, we wanted to eliminate serious inequities and injustices. The tax load will continue heavy for a long time to come. Therefore we must use our best endeavors to distribute it fairly. So we have made recommendations to improve the taxation of family income, to eliminate the double tax on corporate income distributed as dividends, and to ease the tax on small corporations. We hope that another result of our recommendations will be to reduce controversies with the Treasury and litigation in the courts.

Many difficult problems, both of policy and of draftsmanship, are presented by any project to revise the revenue laws. There are several possible ways, for example, to alleviate or eliminate the double tax on corporate dividends Which shall be adopted? One is a variation of the old undistributed profits tax—let the corporation deduct dividend distributions as well as interest payments, and itself pay a tax only on such income as it retains. Another is the British scheme—treat the tax paid by the corporation as a payment on behalf of the stockholder, withheld at the source. Thus the amount of the dividend which the shareholder must return is the amount he received plus his portion of the income tax paid by the corporation.

The simpler plan which our Committee recommended harks back to that embodied in the revenue laws from 1913 to 1936: let the stockholder take credit at the initial rate of normal tax and surtax for the tax the corporation has paid. At present this would mean a 19% credit for a 38% tax. The ultimate goal of this plan would be equivalency between the starting rate of tax applicable to the individual and that applicable to the corporation. Some day we may reach that Utopia. In the meantime, the credit is reasonably fair; and it is more intelligible and practical than either of the other two plans.

Much of the trouble the practitioner has confronted in recent years is really due to court decisions that seem unreasonable and, at any rate, are very hard to live with. Why should a foreclosing mortgagee be taxable upon interest he didn't receive, merely because he bid the amount of principal and interest for the property? He made the bid of interest because it cost him nothing; and in all probability he really had a loss, not a realization of income, on the whole deal. Why should the essential elements of a recapitalization or a reorganization be shrouded with so much judicial mystery, when it is plain that Congress intended to and did embody in the law the complete catalog of specific technical requirements for a reorganization? When a sale of property is in fact made by corporate stockholders personally after a liquidation, why should the sale be taxed as having been made in substance by the corporation? How can anyone know what "substance" is, when we know that it is not fact?

Our Committee has tried to correct each of these difficulties. The last two presented serious problems for the draftsmen. We have recommended that Congress state expressly that the conditions, qualifications and requirements set forth in Section 112 are all that are to be applied, unless the Commissioner shall prove, by a clear preponderance of the evidence, that the principal purpose of the plan of reorganization was tax avoidance. We realize that the proviso perpetuates uncertainty, but could we reasonably give the Commissioner less? We have further recommended that the gain on a sale of corporate property, whether preceded or followed by a liquidation, should be subjected to only one capital gains tax, thereby eliminating entirely the materiality of the issues of fact which the courts have been trying not very happily to resolve. We have great hopes for both changes.

The amendments I have outlined, plus the 50 others we have recommended to the trust provisions, the pension provisions, the estate and gift tax sections and so on, do not involve much revenue. The ordinary layman would not regard them as major matters. Yet you and I know that the smooth functioning of the revenue laws, indeed their utility and efficiency in raising billions of dollars fairly, depends upon the justness and decent operation of just such sections as these. Our revenue system could break down because of recognized over-complexity and inequity; and it is approaching unpleasantly close to that situation today. The Committee on Ways and Means deserves a very good mark for recognizing the need of a thorough going revision of the Code, and the possible utility of a citizens' advisory committee to help out. I know you join me in hoping that the effort for sound basic reform of the revenue laws will actually be successful.

One word more. Some of our recommendations go a long way toward sustaining the taxpayer's accounting practices and business decisions, unless the Commissioner proves him wrong. Thus, the burden of showing that surplus is improperly accumulated for Section 102 purposes is put on the Commissioner, as well as the burden of showing that the taxpayer's method and rate of depreciation are erroneous. Both provisions reverse the former presumptions. These provisions will only work well if taxpayers in general make honest, defensible business decisions. Our Committee has based its work on the premise that the great bulk of taxpayers are honest business men. If we are shown to be wrong, the country will be in for another decade of tax evasion investigations, witch-hunting and loophole closing. You public accountants can take a great part in seeing that business plays the game fairly according to the rules.

The perfection of the revenue laws is probably a never-ended task. Many wise men have worked at it—men like Cordell Hull and George May and Arthur Ballantine and A. W. Gregg and Randolph Paul, to name only a few—and yet so much remains to be done. Accountants and lawyers are key men in the process, for we see the system in action every day, and we know what the actual impact of each section is. Our Committee earnestly hopes that our report will appeal to such men as yourselves, that you will find its recommendations technically sound, and that you will work for its adoption. The Code will not be perfect, even if all our ideas are embodied in it. But if you agree with us that it will be greatly improved thereby, and will make your endorsement known, we ought to be able to make a long step forward in 1948.

Preliminary Outlook for 1948

(Continued from page 2)

fairly constant birth rate (although it declined rather sharply during the long depression and rose rather sharply during and after the recent war) and a declining death rate. Forty years ago, millions of mature and energetic but often illiterate immigrants from central Europe and the rest of the world were streaming through the port of New York into New England and the rapidly developing midwest. Today well education elderly couples seek recreation in California and Florida while children overtax the facilities of playgrounds. Think twice before manufacturing overalls instead of golf clubs or bubble gum!

Led by intellectuals in schools and particularly in universities there has developed a new attitude towards the fairness of certain aspects of finance capitalism. Whether or not this attitude is sound, it is a fact which must be included in any appraisal of the financial outlook, a fact which is reflected in the Federal tax structure, in legislation which limits salaries of officers of certain companies receiving government subsides and other benefits, publicity requirement of SEC, etc., etc. It would be unrealistic to expect this trend to be reversed so long as the conditions which brought it about remain unchanged.

Much of the social-political thinking of our times stems from two English intellectuals, John Maynard Keynes and William Beveridge. Quite naturally, they looked at the problems of their times—the 1930s—over-productive capacity and underemployment — and attempted to solve them. Although, at least for the moment, World War II has solved these problems, much thought and energy both in England and in this country is still being devoted to them: we are like a farmer who worries about obtaining feed for his horse after his barn has burned and his horse has died.

Two institutional developments which stem from these thinkers and from our own experience of the 1930s, are the five-day week and social security. Bernard Baruch, who has a way of seeing things clearly, has pointed out that a few more hours of work by everyone every week would be the best remedy for inflation. Lewis Brown, after his recent trip to Europe, reported that many of Europe's economic problems would be solved if England would produce more coal, and that this could only be done if England's coal miners would work longer hours. Yet it is unrealistic to expect the tides to be reversed: it will be more fruitful for a student of economic trends to investigate the problems raised by the new leisure: how are people spending their long week-ends? How are they adapting their way of living to the new time schedule? It is not withouut significance that the hard-headed Curtis publishing Company has launched a new magazine called "Holiday."

World War II changed the course of a great many people's lives. In fact, no other war in history involved, directly or indirectly, such a great percentage of the population of the world. Both men and women saw new places, met new people, learned new techniques, adapted themselves to new ways of living. No historian, sociologist, or psychologist is equipped to understand or measure the effects of this greatest social upheaval of all times. The GI Bill has already enabled a great many people to change the course of their education and change their place of residence: it is reported that many GIs who saw California for the first time on their way to or from the Pacific have returned there to live and work.

The political trend favorable to the Republicans so clearly marked last November may be expected to continue, and there will probably be a Repubican President as well as a Congressional majority in 1949. There may be changes in the tax law, both in 1948 and 1949, and any such changes will be favorable to business. The unions, particularly the CIO, will again play an important part in the 1948 election and will affect the outcome of some Congressional elections, but the political tide seems to be swinging away from a desire to return to New Deal statism or a turn to British bureaucracy. But this is not necessarily grounds for complacency on the part of those who have a vested interest in the status quo. By creating a set of conditions which made it exceedingly difficult to start a new business the New Deal indirectly subsidized big business, particularly big monopoly. Ralph Flanders and other forward looking Senators and Congressmen want to restore the conditions under which capitalism really worked rather than to put a prop under existing monopoloid situations.

Credit-Interest Rates

Yields on long-term government bonds declined more or less steadily from the middle of 1920 to the middle of 1946 and from a yield of slightly over 5½% to a yield of slightly under 2½%. It is not unusual for a trend in the money market to last for 20 years or more, but it is unusual for a major war to be financed without an increase in interest rates. The achievement of Secretary Morganthau of the Treasury and Governor Eccles of the Federal Reserve Board, and of their associates, was not a miracle but a shifting of certain burdens and certain benefits from one group in the community to another. To a large extent, the war was financed by credit creation or, in slightly different terms, deliberate and undilated inflation. The increase in Reserve Bank credit of $22 billion between the middle of 1942 and the end of 1945 had very much the same influence on our economy as the printing of so many greenbacks. The monetary authorities realized by early 1946 that inflation had become public enemy number one, and since that date they have pursued a deflationary policy: this policy was one of the causes of the decline in the stock market, the rise in short term interest rates, the steadiness, or absence of trend in long term government bonds and the decline in long term corporation bonds. Since the policy of increasing the National Debt without borrowing, directly or indirectly, from real savers to a sufficient extent to increase interest rates actually produced a declining trend in interest rates, it is not illogical to expect that the opposite or deflationary policy will produce the opposite effect, or a rising trend in interest rates.

The influence of fiscal policies has been aggravated in the recent past by an important decline in savings coinciding with an increase in the demand for funds for new capital caused in part by increased construction costs, and by a very substantial demand for bank accommodation because rising prices and production delays have forced manufacturers to greatly increase their inventories. In the recent past many individuals, having spent their wartime savings on the only commodities and services available during and immediately after the war (night club entertainment, movies, beer, etc.) have satisfied their pent up demand for durable goods such as automobiles, refrigerators, washing machines by incurring installment and other consumer loans.

The monetary authorities now find themselves on the horns of the dilemma of wishing to continue the altogether salutary effects of a deflationary policy without allowing long term Treasury bonds to sink below par with consequences to the banking system too horrible to contemplate. Fortunately for the success of these fiscal gymnastics, the Treasury has in its trust accounts vast reserves which could be marshalled to hold the line and, of course, the Federal Reserve banks could again buy bonds in the open market and increase their outstanding credit by an equivalent amount; but this would end the dilemma in a clear cut victory for the forces of inflation. However, the most competent authorities on the money market are of the opinion that the line can be held without resorting to this last line of defense (which would produce a Pyrrhic victory) and that Treasury 2½% bonds will remain above par during the foreseeable future.

The commercial banking system would not suffer materially from a further decline in the price of high grade corporate bonds. During the war years, the spread between long term Treasury bonds and high grade corporate bonds declined to less than ½%, whereas this spread was, at many times in the past, 1% or more. Since the supply of such bonds, as well as of real estate mortgages, has increased substantially during the past year, and will continue to increase for a number of years, and since the insurance companies, the largest buyers of such securities, are not quite so pressed with funds available for investment as during recent years, and are being offered competition from the new Treasury 18-year non-marketable issue, it would not be unreasonable to expect the rate on high grade corporates to rise, to somewhere near 3½%. In this eventuality, many recently issued bonds and preferred stocks will sell at even more substantial discounts.

While a further decline in the corporate bond market will not endanger the solvency of the commercial banking system, such a development will increase the cost of financing to the many utilities and municipalities which have developed plans for expansion and rehabilitation during the next several years. A sluggish stock market would further aggravate the problems which beset the bond market. During the comparable period in the 1920s (when a great deal of our presently usuable utility plant was built) a persistently strong stock market, encouraged equity financing which enabled many industrial and utility companies to weather the severe depression of the 1930s.

National Product

Many economists expected that, when the war ended and the Federal Government reduced its annual expenditures from around $100 billion to around $40 billion, gross national product would decline by something like a proportionate amount. This, they correctly reasoned, would reduce retail trade and other consumer expenditures, bring about widespread unemployment, and produce in general the symptoms of hard times. Government planners were marshalled to prepare a blueprint for spending and other pump priming activities and public opinion was educated to withstand the shock of the decline.

Gross National Product declined as expected in the latter part of 1945, after V-J Day and the cancellation of war contracts but, to the consternation of the experts, it started up again in 1946 and by the end of that year or the early part of 1947 had reattained the highest levels of war time deficit spending. Since gross national product is a measure of dollar expenditures, not of physical production, the rise in 1946 was the result of rising prices, rather than of increasing physical production. As explained above, wartime created bank deposits were still at a very high level and there appears to be an almost mathematical relationship between deposits, the rate of turnover, and the gross national product. The pent up demand for capital equipment, consumer durable goods, and even clothes and other consumption goods and services was too great to permit the decline in the rate of turnover which might have partly offset the wartime rise in the quantity of money.

It would be foolish to predict the probable level of gross national product a year ahead, but certain facts about 1948 are becoming apparent, even at this early date. It is at least safe to predict the following changes in factors influencing the make-up of total expenditures:

First, Federal fiscal policies will be less deflationary in 1948 than in 1947. This year, high tax rates combined with high incomes produced a substantial surplus, in spite of the failure of Congress to effect economies. There will almost certainly be a tax reduction affecting 1948 payments. There will almost certainly be a Marshall plan and there may also be an aircraft building plan. It is difficult to see how, under these circumstances, Federal expenditures can be lower. They are almost certain to be higher. The surplus may disappear altogether.

Second, investment in plant and equipment will again be at high levels, but will be different in nature. For example, the telephone and electric utilities have just started their long-term building programs to meet the greatly increased demand which resulted from population and income shifts during the war years. On the other hand the construction and equipping of plants by industrial concerns may have passed its peak. Not only will factories built or modernized in 1947 not be built again in 1948 but the products of the 1947 new factories will begin to reach the markets and to compete with the products of older factories. There will be more plastics, rayon, heavy chemicals, and other commodities for sale and these goods will influence the prices and distribution of other goods.

Residential construction is likely to be at high levels throughout the year. The industry is becoming a little more efficient. Many people have abandoned hope of obtaining shelter at substantially lower prices. Although the real demand for housing is probably not as great as many estimates suggest, it is sufficient to ensure another year of high level activity.

Since the labor force appears to be the limiting factor in production, and since the labor force appears to be at a peacetime peak under existing social conditions, physical production is not likely to increase further. Gross national product, which is equal to production multiplied by prices, will fluctuate with the price level. If more airplanes are built for the airforce, and if more farm equipment, tractors, and steel mills are built for export, it may be that labor will be drawn from factory building into these assembly lines. This will involve a certain amount of shifting of locations and skills, but will not result in the unemployment which might have been expected when factory building tapered off. Any change in the total of gross national product will probably be the result of price changes rather than of overall production.

Change - Technology - Atom

The only certainty of the capitalistic economy is change. Firms, like individuals, who fail to adapt themselves to an ever changing environment have a way of dropping out of the picture. It is never too soon to think about scientific and technological developments which will alter or modify the atmosphere in which business lives.

The most dramatic scientific development visible on the horizon is the production of energy for commercial purposes by atom splitting. Others are the further development of electronics including the use of radar for air and sea navigation and many other purposes, the wide acceptance of frozen and other precooked foods, new uses for rayon, nylon, and plastics, progressive employment of lighter metals such as aluminum and stainless steel, chemical processes which will increase the efficiency of gasoline and other fuels, color television, practical autogyros, etc., etc. Before the end of 1948, there may be important developments in all of these fields and in others too numerous to catalogue. The greatest enemies of capitalism are not political attacks but cartels and monopolies, which stifle change. Perhaps the "new look" is a healthy development, particularly if it presages many changes throughout our economy.

Western Penn Group Of IBA Elects Parker

PITTSBURGH, PA.—At a recent meeting of the Western Pennsylvania Group, Investment Bankers Association of America, the following were elected to office: Chairman: Nathan K. Parker, Kay, Richards & Co.; Vice-Chairman: James C. Chaplin III, Chaplin & Company; Secretary-Treasurer: S. W. Steinecke, S. K. Cunningham & Co.; Executive Committee for Three Year Term: Joseph H. Fauset, Fauset, Steele & Co., and Malcolm E. Lambing, Vice-President of the Peoples First National Bank & Trust Co.

Nathan K. Parker

Investment Policies for a Trust Institution

(Continued from page 14)

ficulties have been due for the most part I think, to the lack of a well formulated policy and to their failure to analyze particular transactions properly. It is not sufficient for a company merely to state a policy against self-dealing, unless it is thoroughly understood by the entire staff that sales or purchases for trust ac- or indirectly, with the fiduciary as the other party to the transaction. Dealings with a co-fiduciary also come under the ban; likewise, transactions made between trusts administered by the same trustee who in effect acts as both buyer and seller.

A divided loyalty and conflict of interest may arise in regard to the purchase or retention of its own stock by a bank or trust company for one of its trust accounts. Obviously, a trust company's officers and directors who are responsible for the investment of its trust funds and who are also responsible for the successful management of their institution, will be reluctant to take any action with respect to its shares held in a trust account which may affect adversely the value of the stock or the interests of their company. The possibility of such conflict of interests and the resulting embarassment makes clear the desirability of a policy against the purchase or retention of stock issued by a corporate fiduciary for any trust account administered by it. This policy should apply to all cases where the company has investment discretion solely, or with a co-trustee.

While few companies advocate the purchase of their own stock in their trust accounts, some have retained their stock and others have subscribed for additional shares through the exercise of rights received on stock originally held. It has been argued that the investment merit of the stock has justified such action and that any policy forbidding it is more for the protection of the fiduciary than for the beneficiaries of the trusts. But I submit to you that other stocks of equal investment merit can be found, and that regardless of how desirable such action may appear in a particular case, it is unsound in principle and subject to censure by the courts of most states.

At least one trust institution favors a policy against the purchase or retention of stock in banks and trust companies operating in the same locality as itself. It points out that through its local contacts, it may be the first to learn of any financial stress of such a company. It would be very loathe to take action which might jeopardize public confidence in a neighbor bank, but would have an uncomprising duty to protect its trusts through the prompt sale of stock of the affected bank. This company, seeking to avoid such possible embarassment, prefers as a matter of policy not to hold shares of neighboring banks as trust assets.

A general policy with respect to the use of various classes of securities in trust accounts and the timing of their purchase often proves helpful. In periods when prices of corporation bonds are abnormally high, it may be a sound policy to buy governments with a medium maturity rather than to buy corporates yielding a fraction of a percent more but with 15 years or more longer maturity. It may be well to consider if preferred stocks of unquestioned quality should be bought at times when the yield is unusually low. The pressure of uninvested funds and the need for income may more easily lead to ill-timed purchases if no general policy has been adopted.

A good policy with respect to purchases of mortgages and deeds of trust bars mortgages on non-income property and for amounts greater than 60% of appraised value of mortgaged property as set out by trustee's appraiser. An annual pay-off of not less than 5% is desirable and a must under the policy of many trustees. Several companies require that notes be signed by the owner of mortgaged property and not merely by a straw party. Often an acceptable credit report showing financial responsibility of the mortgagor is demanded.

Usually it is good policy to sell control in a going business at the earliest opportunity at which a fair price can be obtained. There are often several compelling reasons for making such a sale. In most jurisdictions, unless the trustor has given explicit authority to continue the operation of a business, the fiduciary has a duty to sell it within a reasonable time. In many cases, the trustor's interest in his business constitutes the greatest part of his estate and the fiduciary, unless otherwise directed, has a duty to sell it to provide proper diversification of the trust assets. In other cases, a sale is necessary to provide cash for taxes and other estate obligations. It is bad policy to treat the sale of a business interest too lightly. The value of a controlling interest should not be overlooked. It is better to sell all of an estate's stock or none if a sale of part of the holdings will result in a loss of control.

Experience has shown that the fair price for stock of a close corporation is difficult to determine. It must be based on the company's earning record, on the quality of management, and value of physical assets. Development of necessary facts may require employment of accountants, engineers, and appraisers to furnish a report reflecting accurate earnings and a realistic appraisal. A thorough and painstaking analysis of facts and the determination of a pair price or liquidating value of a going business is one of the most important services trust institutions can render and one that is especially needed in many estates. It is also of great value to an estate owner who is working out his estate plan.

Policy should determine if a trust institution should have one of its men serve on the board of directors of a close corporation when its stock is held in a trust. Such representation on a company's board is probably not necessary or desirable in cases where the trustee cannot control the company, but the trustee's representative should attend stockholders' meetings regularly when possible.

Immediately after receiving an appointment as administrator or executor of a decedent's estate, it is good policy to estimate its cash requirements and the amount of investments that must be sold to provide cash. It is suggested that when fiduciary knows sales must be made, it should attempt to realize on poorer grade securities promptly and without unnecessary delay. If an estate is left in trust and investments are unduly concentrated in one or more issues, sales to raise cash may include securities which, while good in themselves, are held by the estate in too large blocks. Some institutions prefer to make sales to raise cash as early as possible in the administration to avoid subsequent possible shrinkage in market values, although such sales preclude the possibility of an appreciation prior to the time money is actually to be disbursed and reduces the income of the estate during probate administration. This is probably the safest policy but some companies spread their sales over the period of probate, particularly if a large block of any one issue is to be sold, to obtain the average market price.

Investment policy may vary with respect to the type of account. Securities which should be sold and the proceeds reinvested in a trust account may be left unsold in an executor account. The reason for this apparent inconsistency is that the fiduciary usually has continuing management responsibility and reinvestment power in the case of a trustee, but an executor or administrator has no right to sell assets for reinvestment but can sell only to pay estate obligations or to avoid imminent market loss. Many trust institutions will not attempt to act as managing agent and give investment counsel to customers who are operating trading accounts and are seeking quick market profits. Most companies follow a policy of serving as agent only those who are seeking to protect their funds through conservative methods similar to those used in the administration of trust funds. Some will decline a management account consisting entirely of stocks, although there would seem to be no reason to refuse to serve a customer for this reason alone if the person desiring the service is seeking high grade investments and not mere speculation.

Every trust man knows of the pressure to which a trust institution is subjected by beneficiaries to make exceptions to its established policies. Often members of the trustor's family oppose the sale of close corporation stock or of stock which he had accumulated in a large block in some pet business investment, but a program of appeasement cannot be followed. I have found that a good customer relationship, even when bitterness has been engendered, can be maintained, and in some cases enhanced, when a business interest must be sold, if the decedent's family is asked to appoint a business friend to attend all conferences relating to its sale. His knowledge of all price negotiations and his participation in them does much to satisfy the faimly as to the desirability of the sale and the reasonableness of the price obtained.

Successful execution of investment policy depends to a large extent on the prompt cooperation of co-fiduciaries who must join in any action to be taken. Skillful presentation of any proposed investment changes, in a way that will gain such cooperation is essential. Prolonged delay in obtaining consent to a sale or purchase may nullify its benefits because of changes in the market. A dictatorial attitude by an investment officer may create unnecessary antagonism and defeat a meritorious suggestion.

All the investment policies which have been outlined have not found universal acceptance. Some trust men have a deep conviction that common stocks have no place in an estate investment portfolio because of their fluctuating values. They say that holding equities involves an unwarranted risk of trust funds, but during the last decade, the steadily increasing number of states that permit their use through the adoption of the prudent man rule for trust investments, strongly indicates that a change of thought has been taking place. The trend seems to be towards a more general use of stocks as a desirable investment medium for a portion of a trust fund, the amount to be determined by the circumstances of each trust.

A thought provoking criticism that has been leveled at the trust investment policy of trust institutions as a whole, is that "Creating a trust provides a means to lose money slowly." Is this statement true as to the results obtained from the policy followed by most corporate fiduciaries? It probably is if the policy is to eliminate stocks entirely as trust investments. The inherent risk in even the highest grade securities makes some shrinkage inevitable over an extended period. The inclusion of some carefully selected equities of the highest grade provides an opportunity for capital appreciation not found in bonds or mortgages of the highest quality. Without some appreciation to offset the losses, it is evident that the trust fund as an investment vehicle will travel down a one way street.

Since the depression, it has been noticeable to this speaker that men who have reviewed the trust provisions in their wills, have revised them by removing many investment restrictions which they once thought necessary to impose on their trustees. They have been impelled to do this primarily because of their confidence in the investment judgment of the trust institutions they have selected, and their desire to enable their trustees to step into their shoes after they are gone, with freedom to exercise their best business judgment. For trustees to carry out their wishes in this respect, their investment powers should include the right to make a wise use of every available investment medium and certainly should not be limited to fixed income securities.

One of the most severe tests of adherence to a sound investment policy occurs in a period of inflation, such as that in which we now find ourselves. Trustees are subjected to the pressure of demands from income beneficiaries for greater yield. There is a great temptation to meet these demands by sacrificing the quality of investments because of the recognized need of those asking for more income. Other beneficiaries ask that top grade bonds be replaced by stocks that have possibilities of rapid enhancement, but the experience of the past clearly shows that a general substitution of common stocks for top grade bonds is by no means a cure for all the problems of inflation. Trustees, like other investors, are bound to go through periods of low yields on their investments, and it is then when they become particularly vulnerable if they permit themselves to be goaded into abandoning a sound investment policy which will expose their trust funds to greater hazards.

In periods of low investment yields it has been truly said that the manager of every investment portfolio faces two alternatives, either of which is distasteful. He may suffer a loss of income by continuing to hold only the highest grade investments or he can continue his accustomed income through the purchase of lower grade securities and eventually lose part of his principal. Which policy would you choose? Since he cannot control market trends and the economic forces which govern investment yields, but can exercise judgment in his selection of trust assets, it is evident that he has but one choice. His responsibility is to purchase the best that the market affords and accept the prevailing yield on such investments.

Inflation and Credit Controls

(Continued from first page)

on the banking business. One is the question of how well we conduct ourselves in the present inflationary situation, and the other is how well we meet the inevitable readjustment which will follow it at some time or other. These problems have a direct relationship to the stability of our economy and to the standing and future life of the banking business.

Strangely enough, there is the same answer to both questions—it is in a wise direction of the use of bank credit and a coordinated self-control over its expansion.

Wise direction of credit is to channel it into sound productive uses and avoid commitments which are related to speculation, unsound expansion, and any possible overextension. This requires a realization that the past 14 years have witnessed no testing of borrowers and that this cannot continue forever. Transactions which may look superficially sound under today's most favorable conditions can be, and often have in the past turned out to be, far from sound under any less favorable conditions.

Self-control in the extension of credit does not mean to deny credit for sound and necessary productive purposes. It means to relate bank lending policy in terms of the nature and amount of credit being granted to the needs and circumstances of the economy, as well as those of the borrower and the bank. If this is done effectively, there can be no real need for the imposition of any controls on credit from outside the business to accomplish that result.

There are two things banks cannot afford to do. One is to lay themselves open to the charge that they have been a substantial contributor to the present inflationary situation, or to having been the spark which has finally brought about an inflationary explosion, and the other is to fail to meet any readjustment, recession, or depression in the same sound condition they are today.

To fail to do either would multiply the factors of instability in the economy and exaggerate the conditions which may exist. That in turn could be made to react against the banking business and thus diminish the confidence, goodwill, and high standing which it has so ably created in the last 14 years. Since I made these statements, events have moved forward.

Dangers of Consumer Credit Expansion

A week ago, the limitations on down-payments and terms of consumer credit covered by Regulation W were eliminated. This has thrown the entire responsibility of curtailing unwise expansion of private debt for the purchase of consumer goods onto the banks. Until a week ago, the consumer and the bank were protected by Regulation W from extravagant multiplication of debt, competition for goods in short supply, and competition for volume on terms of payment. Now the barriers are down; the individual can borrow as much as any bank will lend him; he can use his resources and the bank's resources to the extent permitted to buy anything he wants and can get; and he can pledge his future income perhaps beyond his ability to repay except under the present extraordinarily favorable conditions.

Substantially easier terms of consumer credit will permit borrowers to buy more expensive goods or more of different kinds of products. They will tempt purchasers to buy to the limit. They will increase demand, but will immediately increase neither the buyers' incomes nor the supply of goods for them to purchase. So far as they increase demand, they will tend to increase prices further. And, with any unfavorable change in the level of business activity, the incomes of these instalment borrowers will be among the first adversely affected. Any excessive credit will have to be liquidated out of current income while it may be on the down grade.

When we consider the expansion of consumer credit, there is one thing that needs to be said: The common interpretation put on the term "consumer credit" is that it is instalment lending. But the fact is that this is not wholly true. The government's own figures on consumer credit outstanding in recent months include an item of $2,327,000,000 of single-payment loans. By no stretch of the imagination can these be called instalment loans. Also, total instalment credit outstanding, as of the most recent figures available, is less than 5% of personal income. This would hardly seem to be a dangerous figure, nor would it seem to justify the conclusion that banks are engaged in an orgy of instalment credit expansion.

Quest of Inflation

Another event has been this: Until recently, government officials have publicly ignored the quest of inflation. Since the end of the war, they have concerned themselves mostly about deflation and unemployment. There have been encouragements to demands for wage increases, with no corresponding pressure for an increase in productivity. As a consequence, there have been increased costs and prices. At the same time, rising production has been hampered by labor disturbances, many of which could have been avoided by a less encouraging government attitude. During the war, government policy was necessarily inflationary: but since the war and until recently, it has also been inflationary.

Not many weeks ago, a high official of our government was reported to have said for the first time that we were in "some" danger of inflation. A masterly understatement, considering all the facts. Recently, a special session of Congress was called and one of the purposes stated was to take anti-inflationary action. We have the government finally and officially admitting what we have all known for some time. Now there are signs it is going to be made a political issue—there is going to be an attack on inflation and high prices led by the government, with the requested support of Congress.

This really should not be surprising. We are in an election year and politics will hold the stage. A government which over the past 14 years has contributed so largely and definitely to the present inflationary condition by actions not related to the war will be busily engaged in making others responsible and proposing remedies. There will be opposing views of the reason the dollar has shrunk so much in value and the cures for our inflation problem. It will be very interesting.

Will the Banks Be Blamed?

What interests me and should interest you, in particular, is that there may be an attempt to attribute the inflation to the banks. The rate and extent of bank loan increase may become a target. There may be an official demand for an extension of Regulation W. The Federal Reserve Board may try to impose the new investment controls on banks that it recommended to the Congress a year or more ago. If it does, probably the total and rate of bank loan growth will be used in an attempt to create the impression that extravagant use of bank credit by private borrowers, which the banks have permitted, is the reason for demanding these controls. It will be made in terms of either what the banks have done or may do.

There can be no denial of the fact that loans have expanded rapidly and in large amounts. The level of business activity has been extremely high, and there have been large demands for credit which has been provided by the banks. The fact that bank loans in all categories, except for the purchase of securities, have increased substantially may be construed so as to suggest that the accelerated inflationary effect on prices, so apparent to every one, has been brought about by the banks; that the banks have created the inflation, are creating the inflation, or will make it much worse by extending too much credit.

Fortunately for the banks, this is one of the times when it will be very difficult to demonstrate that they are the primary source of the inflation. Today, even the man on the street understands that the inflation of monetary means has come from government spending before, during and after the war. It has not come from bank lending for speculative transactions in securities, on inventories or on real estate; or for the purchase of automobiles or other of the more durable consumer goods.

In the last two years, the banks have been getting back into the loan business and out of the business of buying government bonds. They are no longer a principal agency for financing a war by the purchase of government debt. There has been an end (we hope) of government deficit financing. Also, the government has paid off substantial amounts of maturing debt from surplus government balances. These factors are no longer inflationary, but there are other stimulants to inflation.

Stimulants to Inflation

Production of some goods has not yet caught up to the demand, and there are billions of dollars of government revenue being placed in the spending stream. The billions being spent for war veterans, foreign aid and other purposes are all inflationary. This is money spent here to compete with the dollars of the producers who are also consumers. Prices of food and other commodities continue to rise or are kept from declining by government buying at high prices. This is competition with the consumer for the available supply with money acquired from taxes paid by the consumer. We are told that the tremendous government budget cannot be reduced. Income tax reductions are opposed, thereby stimulating demands for further increases in wages to meet further rising prices. Thus it appears that the government is proposing to fight a fire which it is still feeding with fuel.

Now it is being suggested that the appropriate correction of the inflationary policies followed for the past 14 years is the re-establishment of some of the wartime controls and a step backward into the regimentation of the economy from which we have so recently escaped.

Talk of More Credit Controls

There is nothing in the increase in bank loans which has brought about any such situation as this. Nevertheless, there is much talk about creating more credit controls. The just issued report of the President's Economic Advisers recommends "enlargement and aggressive use of the power to control the expansion of credit." In considering that recommendation or any like it, there are other factors to be taken into account.

A large part of the credit expansion has been the result of the activity of government-sponsored credit enterprises. GI loans, FHA loans and other lending by government agencies is borrowing encouraged by the easy credit sponsored by the government. This type of credit is based primarily on political decisions and normally would not be extended by the banks. But the public is encouraged to demand it and the banks are used as the principal instrument of supply.

Every one knows that credit sponsored by the government is the most freely granted credit available, because that is its principal feature. Also, if there are any credit abuses, government-sponsored credit or lending projects will at least carry their full share of them. Nevertheless, I hear of no proposals to curtail these government guaranties or the activities of government lending agencies. I suggest that if the government intends to establish new controls over credit expansion, it had better begin by reviewing and restricting the government-subsidized credit which has contributed so largely to the present amount of private debt.

High Prices Mean More Borrowing

The inflationary situation in prices and wages caused by government policy, coupled with the high level of business activity, has made it necessary for business to use larger amounts of dollars than would have been the case prewar. Everything that a business has to use its money for costs much more than it did five years ago or two years ago. Rising prices of materials and semi-manufactured goods, the rise in physical and dollar volume of inventories, and the rise in sales volume have all tended to squeeze working capital positions. Therefore, it is only natural that the borrowing will be greater in amount, if there is borrowing, and that this situation will cause some non-borrowers to borrow. For this reason the expansion of bank credit, whether it is in commercial loans or mortgage loans, has to be related to the difference in the purchasing value of the dollar. In terms of the 1941 dollars, or even 1945 dollars, it will not appear so great. Also, it will not appear either large or unreasonable if related to the present level of national income.

Nevertheless, we face a situation where there has been a large increase in the volume of commercial, industrial and agricultural loans and in consumer credit and mortgages. This does add to the inflationary pressure. Banks generally are fully loaned and invested, as you can see by the narrow margin in excess reserves. They are freely using the Federal Reserve System to meet required reserves by selling government securities to it.

Under these conditions, it is the safe assumption that the Treasury and Federal Reserve Board will use any means now at their disposal to put pressure on the money supply. They have already made short-term government issues more attractive to encourage more selective lending. The government balances in war loan accounts in the banks can be drawn down. There can be more cash redemption of maturing government issues. Reserve requirements in the 50 banks in Chicago and New York can be increased from 20 to 26%. These and other actions can be taken.

The real question is whether or not the Federal Reserve will use fully all of the powers already granted by Congress to control credit expansion, or fail to use these but use the present conditions in an attempt to impose entirely new forms of credit or investment control on the banks. Undoubtedly, there will be the former; and I suspect there may be the latter. If new controls are imposed, they can be justified only by a completely biased interpretation of the facts for that purpose. One thing is certain. The banks have not justified and will not justify any new controls by anything they do.

I have said these things to you today because I am convinced that the only way banks can keep themselves free from multiplication of government regulation is by a voluntary and coordinated self-discipline in the conduct of their business which embodies a full recognition of the relationship of their business to the functioning of the economy; with a full recognition that the future status of banking will depend on right action under these circumstances; and a full recognition that the economic strength and help of this country is the foundation of any possibility of world peace and reconstruction abroad.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Uncertainty still grips the government securities markets, as prices continue on the defensive, with new lows being made in some issues. . . . Volume has been quite light with investors and traders on the sidelines waiting to see what is going to happen next. . . . There seems to be more confusion in the money markets now than there has been in many a day. . . . The present level of prices under more normal conditions would probably have rather well discounted impending developments. . . . But these are not normal times. . . . There appears to be a very definite move afoot to curb the inflationary trends, especially in loans and in so doing someone is likely to be hurt. . . .

One of the casualties of the conflict could very well be the government securities market, that is, if the powers that be are intent upon halting the upward spiral of loans. . . . But of course there are no assurances that this will take place because there are so many factors that will have to be taken into consideration, not the least of which is the political one. . . . This could have an important influence upon how far the restrictive measure would be carried because in the coming year important elections will be held, and no political party has been overly successful with sharply declining business conditions. . . .

LOAN SPIRAL

On the other hand, continuation of the boom with sharper adjustments that will surely follow would have a very adverse effect upon the whole economy. . . . This begs the question as to how the spiral of loans, which are creating deposits and purchasing power, can be ended without forcing prices of Treasury obligations down, through higher interest rates, brought about mainly by quantitative credit controls. . . . Debt retirement, such as is now taking place through the redemption of certificates and bills held by Federal, curtails the ability of the banks to make loans. . . . However, sales of Treasury obligations by the deposit institutions offset this action of the authorities, because reserves are created that can be used to make loans. . . .

QUESTION

Federal would have much greater control over the member banks if they were borrowing on eligible paper in order to get needed reserve balances. . . . But discounts and advances are not large enough to mean very much, so an increase in the rediscount rate would have no important effect upon the inflation trend until these borrowings have reached much more substantial proportions than they are now. . . . How can discounts and advances be built up, as long as the member banks have government securities that can be sold and Federal continues to buy them at levels that do not inflict too heavy penalties upon the seller? . . .

UNCONCERNED

The monetary authorities are showing no apparent concern over the down trend in prices of Treasuries, but despite this aloofness, it is believed that some attention is being given to the trend of prices, because the decline has been more precipitous than has been anticipated in most quarters. . . . If the Federal Reserve authorities are not too much concerned about quotations of government securities, it seems as though the Treasury should have more than a passing interest in what has been taking place. . . .

In 1948, more than $6 billion of government bonds, with high coupons, mature or are callable and a dropping market will not simplify the refunding operation. . . . Also consideration is probably being given to the mountain of demand obligations that could be cashed if holders were scared by declining government security prices . . . . European aid might call for some financing next year and these funds would be easier and cheaper to obtain in a stable market. . . .

MARKING TIME?

If there should be differences of opinion between the monetary authorities on the government market, the Treasury could support its own bonds by buying them in the open market. . . . This would not be inflationary because the funds that would be used would come from taxes. . . . It would be just a shift of deposits. . . . There is no doubt that the closer long-term government bonds get to 100, the greater is the likelihood of important happenings taking place. . . .

EYES ON CONGRESS

The coming session of Congress could have a distinct influence upon the money markets and Treasury security prices in particular, because of new powers that will probably be asked for by the monetary authorities. . . . Controls over inventory, consumers, personal and real estate loans might be sought by the powers that be, and if obtained could change quite completely the course of action of the money managers. . . . Direct controls over loans would probably mean the end of the quantitative restrictive measures now being used by the powers that be. . . . Production loans would most likely be stimulated in order to increase the supply of needed goods. . . .

It should not be too long before some straws are in the wind as to what may be expected from the Congress on credit controls.

Don L. Greenwood With Paine, Webber, Jackson

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Don L. Greenwood has become associated with Paine, Webber, Jackson & Curtis, 626 South Spring Street. He was formerly Beverly Hills manager for Sutro & Co. Prior thereto he was with Merrill Lynch, Pierce, Fenner & Beane and Schwabacher & Co. In the past he was a partner in Greenwood, Bennett & Co.

Joins Brashears Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Carmen P. Renna has joined the staff of G. Brashears & Company, 510 South Spring Street.

With F. H. Breen & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Robert B. Jacobs and Raymond G. Smith are now connected with F. H. Breen & Co., 609 South Grand Avenue.

President's Committee Reports on Foreign Aid

(Continued from page 16)

ciples is an essential condition to continued aid but this condition should not require adherence to any form of economic organization or the abandonment of plans adopted in and carried out in a free and democratic way. While this Committee firmly believes that the American system of free enterprise is the best method of obtaining high productivity, it does not believe that any foreign-aid program should be used as a means of requiring other countries to adopt it. The imposition of any such conditions would constitute an unwarranted interference with the internal affairs of friendly nations.

The goals which the European governments have set for themselves and with which our government may legitimately concern itself are conditioned by the nature of the European economic problem. The reasons for the inability of Western Europe to balance its accounts with the rest of the world at the present time are generally understood and are ably analyzed in the CEEC (Committee for European Economic Co-operation). Western Europe is cut off from the food and supplies which flowed from Eastern Europe before the war. Foreign investments and shipping revenues have been lost. The cost of essential food and raw material imports have risen and are still rising.

European Expansion Held Need

To overcome these disadvantages European production must expand well above prewar levels; yet in important industries, especially coal mining, and important areas, especially Germany, it is lagging badly. It is the judgment of all competent observers that these troubles flow from an acute shortage of working capital and from the serious disintegration of organized economic life rather than from wartime physical destruction. Working capital in the form of fuel, raw materials, and food, is needed to sustain Europe until its production is built up. Some capital equipment is needed to further the rehabilitation of industry. An effective restoration of the purchasing power of money is essential to the resumption of ordered economic life.

The Paris report cannot be praised to highly for its emphasis on this point. It clearly states that European production can expand only as currencies and exchange rates are stabilized, as budgets are balanced, and as trade barriers are reduced. Postwar experience has abundantly proved that it money demand is vastly in excess of the supply of goods, the effects of "repressed inflation" are almost as bad as the disease itself. Germany is merely the most horrible example of an attempt to restore economic life without giving people a money they can trust. In this situation, the rapid spread of black markets undermines the respect for law. Normal monetary incentives cease to operate. The worker has no just reward for his labor and the farmer refuses to sell his produce. Resources are dissipated. Trade degenerates to barter. Controls tend to become self-perpetuating. Achievement of monetary stability would allow a gradual restoration of normal incentives and a gradual return to a system where individuals, and enterprises, both public and private, can operate in markets. It would also allow the stabilization of exchange rates, which is all but impossible so long as inflation proceeds apace. It is obvious that this situation makes balance of payments problems that much more difficult. The Committee believes that in the near future some adjustment of exchange rates must be made. The prelude to that is internal monetary reform.

The Paris report rightly emphasizes the need for scaling down restrictions on trade between countries. But the reduction of tariffs is of little moment if exchange controls and other controls have to be maintained indefinitely. Whatever one's attitude toward planning and free enterprise may be, there is all but universal agreement that true economic recovery depends on releasing the energies of individuals and cutting down on time-consuming regulation of production and distribution.

III. NEEDS AND CAPACITIES

In emphasizing these points, the Committee is simply making explicit the principles that are imbedded in the Paris report. It does not wish to imply that confidence in currencies can be restored without increased production abroad combined with substantial injections of American aid. It believes that the need for holding inflation in check in this country and in Europe bears directly on the magnitude of the aid we can and should extend.

The Committee found little evidence that the goals set at Paris to restore standards of living were excessive in terms of basic necessities. Even if all the estimates submitted at Paris were to go through as planned, Europeans would not be eating as well in 1951 as they ate in 1938. If food were available, it would pay to meet these estimates in full in the interest of political stability. This is especially true in the case of Western Germany, where more food is essential to secure more coal production and the revival of an economy now obviously on dead center.

The Committee, however, is not convinced that the participating nations at Paris were wholly realistic in their plans for capital expansion. On the first point, it is obvious that if Europe is to be revived and made self-supporting — if our aid program is not to degenerate into just another relief program — the European nations will have to rehabilitate their capital plant. But it cannot be too strongly stated that the process of investment and capital formation imposes a severe strain on the country undertaking it. It means the introduction of money income into the economy, with no comparable output of consumer goods to sop up this purchasing power. This process is highly inflationary. To the degree that capital goods are sent to Europe from the United States, it is true, the strain is transferred from European economies to our own. Nevertheless, the secondary effects of large capital programs not be overlooked.

Coal Output a Major Factor

At the present time, gross investment in the United States is running at about 17% of total national product at the height of a boom. Some of the European nations have attempted to exceed this rate. It seems unlikely that European nations can prudently afford to sustain capital formation on as large a scale as they have planned. What this means, in effect, is that housing programs and capital development may have to be slowed down until European recovery is much more advanced than at present.

In addition the program written at Paris may have to be modified by a shift in the amounts going to the separate countries. As this shift is made, we believe that the amount of aid allotted to Germany may have to be higher than was set at Paris. This Committee wishes to state emphatically that the overwhelming interest of the United States is to prevent the resurgence of an aggressive Germany. The fears of neighboring nations are thoroughly understandable. On the other hand, it is generally admitted that the revival of Ruhr coal output, along with the increase in British coal output, is the crux of the problem of getting Western Europe back on its feet. Apparent savings to the American taxpayer, accomplished by spending too little money on Germany, have thus far been more than offset by the consequent deterioration of the general European economic situation.

The final determining factor in the size of a prudent program is the availability of commodities in this country. The Committee has canvassed such availability in detail. At the Paris Conference, it was concluded that the Western Hemisphere simply did not have the food resources to supply all of the estimated needs. As against estimated need for 35 million tons of grain, the Paris Conference conceded that 25 million tons was the maximum which could be obtained from the outside world with about 9 million tons coming from the United States. In 1947, the United States will probably export some 15 million tons of grain with about 9 million tons going to Europe. In view, however, of the poor American corn crop and the lack of fall rains, only a most favorable crop year in 1948 would make any such performance possible.

Scrap in Short Supply

With a number of other commodities, the situation is only a little less stringent. Steel and the steel-making materials, especially scrap, are in particularly short supply in the United States. Because it is a basic industrial material, the effects of this shortage are pervasive. Coal exports at a high rate are possible, though they are imposing a strain on the United States transportation system and there may be a few shortages in the coming winter. The margin between supply and demand of petroleum products is very narrow in this country. The European countries do not expect to import this commodity from the United States in volume, but the shortage, like that of steel products, is worldwide. There is little likelihood that these requirements set forth at Paris can be met.

The situation is much the same in regard to most of the items of machinery and equipment the European nations need. In the middle of an agricultural boom, the demand of American farmers for farm machinery is well beyond the capacity of the industry. As to mining machinery, coal output is at a high rate and American mine operators are buying as much machinery as they can obtain. Heavy electrical equipment of all kinds is perhaps the tightest industrial item of all. The story is much the same for certain of the basic raw materials.

These remarks do not imply that the United States can do little toward the rehabilitation of Europe. European governments and private firms have placed large orders in the United States for industrial equipment. A voluntary food conservation program has been initiated to make food available for export. In spite of shortages here, manufacturers of automobiles and farm machinery are voluntary maintaining exports. If funds were available to finance European purchases and if European requirements were known in detail, exports could at least be maintained and in many cases stepped up. In over-all terms, a foreign aid program would not even require the maintenance of present rates of exports. The conclusion that does emerge from the examination of particular markets for particular commodities is that supply will be a limiting factor in many cases and that many European requirements cannot be met in full.

IV. THE MAGNITUDE OF AMERICAN AID

On the basis of revised estimates of European imports and exports, the Committee calculates that the cost of the European aid program to the Government of the United States would be about $5.75 billion for the first year, and between $17 and $17 billion for the whole program here suggested.

These figures are not comparable to those contained in the Paris report. The latter are estimates of the deficit the participating European countries would incur in their trade with the Western Hemisphere. They measure the margin by which the European countries expect their payments in dollars for goods and services imported from the Western Hemisphere to exceed their receipts in dollars.

The Paris estimates of imports have had to be revised downward, mainly on the grounds of unavailability of goods. To the extent of this revision the estimated cost of the program was also reduced. At the same time it was necessary, on grounds of realism, to revise downward the European estimates of exports and to modify the figures in a number of other ways which increase the cost. The result was an estimate by the Committee that the balance of payments deficit would be $1 billion to $1.5 billion lower in the first year and possibly as much as $5 billion lower for the whole plan than that contained in the Paris program.

The Committee's estimate of the cost to the United States Government is a smaller figure than the foreign trade deficit. First, a deduction must be made for the part of the program that can be financed through the International Bank. Second, there may be private financing. Third, a large part of the European deficit with the American Continent is with countries other than the United States. In its own interest, the United States will probably have to supply funds to cover a part of this deficit but we should not have to finance it in full. When allowance is made for these deductions, the resulting figures are those given above for the cost to the United States Treasury.

It is helpful to compare the figures for the cost to the United States Government with what the United States has been doing for Europe in the past. Before the run on sterling in July, the annual rate of withdrawals on the British loan was about $2.6 billion. In addition, in the first half of 1947, the rate of withdrawal on other European aid programs—relief, UNRRA and special grants—was about $2 billion. In 1947 the United States assumed only half of the cost of German occupation, but in 1948 it seems likely that it will have to assume the whole burden, amounting to about $1 billion.

When all these factors are taken into account, the program of aid proposed for 1948 proves to be a moderate increase on what the United States has in the recent past been spending in Europe and what will probably have to be expended in Germany in any case. In addition the program calls for increased lending operations by the International Bank.

Looking to the years beyond calendar 1948, the Committee emphasizes that any estimates are altogether speculative. The American people have an understandable interest in trying to ascertain the drain on their resources in the future. But it is totally impossible, and indeed unwise, to attempt to calculate this with accuracy. The Paris conference suggested that the total European foreign exchange deficit for the four-year period 1948-51 would be about $22 billions. The Committee's estimates range from $17 to $23 billion. When deductions are made for various types of financing, the range of possible appropriations would be $12 to $17 billion. But the Committee cannot emphasize too strongly that any aid extended to Europe must be on a year-to-year basis. It must be subject to constant, vigilant review of the Congress.

V. FINANCE AND ADMINISTRATION

Even to carry out a prudent program in 1948 entails the execution of certain fundamental policies on the part of the United States Government and the most careful administration. The Committee believes that any aid to Europe offered by the United States should be financed out of taxes, not out of borrowing. The maintenance of a surplus in the United State Treasury is a necessity in this inflationary period.

A foreign aid program will require means to make available goods that are in short supply. Voluntary measures should be relied upon wherever possible. If and when they are not, the government will probably require authority to set priorities in order to insure the availability for export of limited amounts of the items most critically needed. It might also have to issue limited orders to control consumption of critical materials such as those still in effect for tin. Especially in the field of food it might be necessary to use the device of requiring that limited quantities be set aside for export.

It must be emphasized that these suggestions apply only to the foreign-aid program and not to the broad problem of inflation. The committee is convinced that inflation is a serious deterrent to the stability of the American economy, but any consideration of a program to control inflation would have been beyond its competence and its terms of reference.

The Committee is convinced that the administration of the program is of primary importance because it will be necessary, for reasons given above to adjust the program as it goes forward. To insure unity of administration, it is recommended that a new independent agency be set up in the Federal Government. The head of this agency should be appointed by the President and confirmed by the Senate. A board of directors should be appointed, representing the departments of Government concerned with the program, including the Secretary of State and such other persons as the Congress may see fit to add.

The head of the new organization should be chairman of this board, which should have power only to establish and adjust general policies within the framework of Congressional action.

The operating decisions should be made by the head of the new organization, but it will be necessary for him to work out effective means for cooperation with the State Department concerning these major decisions which have an important bearing on the foreign policy of the United States.

The closest possible relations should be maintained between the new organization and the Congress. This is a question to be solved by the Congress, but we suggest it might be done by a special joint committee created for this purpose, as in the case of the Atomic Energy Commission.

The new organization must have a chief representative in Europe, reporting directly to the head of that organization, and responsible to him, to deal with the continuing committee set up by the participating countries, and also to coordinate the activities of the various local representatives of the organization in those countries. In addition, representatives will be needed in the different countries. They will have to report to and be under the direct control of the head of the new organization. But they should keep the Ambassadors in the respective countries informed of their communications. In all cases where there is necessity for taking up important matters with Governments, it should be done by the Ambassador to the end that there will be only one diplomatic representative of the United States in these countries. Due to the need for flexibility in the program, the Committee recommends that the corporate form of organization be given careful consideration.

VI. SUMMARY

The basic conclusions of the President's Committee on Foreign Aid may be summarized as follows:

(1) The hope of Western Europe depends primarily on the industry and straight thinking of its own people.

(2) The United States has a vital interest—humanitarian, economic, strategic and political—in helping the participating countries to achieve economic recovery.

(3) The aid which the United States gives will impose definite sacrifice on this country.

(4) The magnitude of Western Europe's deficit with the American Continent in 1948 will be of the order of $7 billion, but when all possibilities of financing are taken into consideration, the approximate need for appropriations past and future to cover the calendar year of 1948 may be on the order of $5.75 billion.

(5) The extension of such aid, now or in the future, calls for anti-inflationary fiscal policies on the part of this country, and a new agency to administer the aid extended.

As a final word, both on the magnitude of the program recommended and on the policies outlined, it is well to bear in mind that success depends on giving way neither to over-optimism or to undue pessimism. It is one thing to propose a program, it is another to see it through. The immediate months and indeed years ahead are not apt to be easy either for this country or for the European nations. It is not wise to underestimate the steepness of the climb.

By the same token, however, it is essential to maintain perspective. The years following World War I were years of intense dislocation and dissolution both at home and abroad. Yet, by 1924, Europe, which seemed totally disorganized in 1919, was well on its way to recovery. Even more in point would seem to be the wartime experience of this nation and other democracies. In 1940, it seemed inevitable that a large part of what we call Western civilization was irreparably lost. In late 1941, following Pearl Harbor, the fortunes of this nation were at an all-time ebb. Yet four years later, complete victory had been gained, American arms stood triumphant in the East and in the West, and it was obvious that the United States had entered into a new period of power, prestige, and responsibility. The following years have contained many disappointments. Wartime alliances have melted away. Yet it is safe to say that at no time in history has there been more need for Western Europe and the United States to stand firmly together. And who will say that, if we apply to the making of the peace the same spirit which triumphed in war, we may not see an equally dramatic vindication of the ideals and principles of free men, everywhere?

Personnel of the Committee

The membership of the Committee making the report comprises the following:

Chairman W. Averell Harriman, Secretary of Commerce.

Hiland Batcheller, President of the Allegeny - Ludlum Steel Corporation, Pittsburgh.

Robert Earle Buchanan, Dean of the Graduate College, Iowa State College.

W. Randolph Burgess, Vice-Chairman of the National City Bank of New York.

James B. Carey, Secretary-Treasurer, CIO.

John L. Collyer, President of B. F. Goodrich Company.

Granville Conway, President of the Cosmopolitan Shipping Co., Inc., New York.

Melville F. Coolbaugh, of the Colorado School of Mines.

Chester C. Davis, President of the Federal Reserve Bank, St. Louis.

R. R. Deupree, President of the Procter & Gamble Company, Cincinnati.

Paul G. Hoffman, President of the Studebaker Corporation, South Bend, Ind., and Chairman Committee on Economic Development.

Calvin B. Hoover, Dean of the Graduate School, Duke University.

Robert Koenig, President of Ayrshire Collieries Company.

Robert M. LaFollette, Jr., former Senator from Wisconsin.

Edward S. Mason, Dean of the School of Public Administration, Harvard University.

George Meany, Secretary-Treasurer, American Federation of Labor.

Harold G. Moulton, President of the Brookings Institution.

William I. Myers, Dean of the College of Agriculture, Cornell University.

Robert Gordon Sproul, President of University of California.

Owen D. Young, Honorary Chairman of the Board of Directors, General Electric Company.

The Outlook for National Income

(Continued from page 7)

and manpower and lack of effective competition.

Any serious weakness developing elsewhere in the economy would tend to revive the hope that more favorable terms could be got by delaying construction projects. Any resulting decline in activity, however, plus any lessening of demand from other segments of the economy, would release additional materials and manpower. It would also mean a shift from sellers' markets to buyers' markets all along the line from ultimate raw materials to finished product. The realization of those more favorable conditions would tend to revive projects which are now dormant.

Inventory Accumulation

Inventory accumulation, which is the third category of business capital outlays, reached a peak in the second half of 1946 when the increase in the book value of business inventories was at the annual rate of over $15 billion. Part of this reflected increased physical quantities and part reflected the higher cost of replacing the same physical stocks.

This peak was followed by a wave of caution, particularly on the part of retailers, in the Spring of 1947. Inventory accumulation continued in the aggregate, but for the first half of the year it was at only about half the rate of the preceding six months.

There are at least two reasons why the drop in this necessarily temporary and volatile demand did not precipitate any general decline. First, it came at a time when inventories had not yet been built up to a dangerously high level. They were still generally below rather than above the prewar relation to sales. There was little basis for any general and drastic inventory liquidation.

The second reason was that the decline in inventory accumulation was offset elsewhere—in the underlying strength of the deferred demands for durable goods, in the second round of wage increases which stimulated consumer buying, but most notably in the expansion of exports.

When the expectations underlying the cautious buying failed to materialize there was a new wave of forward ordering, particularly on the part of retailers. The statistics are not yet available, but it looks as though the further accumulation in the current six months would be at least as great as in the first half of the year.

By the end of 1947 total business inventories will be roughly $50 billion. This compares with $42 billion at the end of 1946 and $32 billion at the end of 1945. Granting that much of the increase is due to higher prices, those inventories will be more vulnerable than a year ago. There will be less reason for further additions and more reason to postpone buying whenever there are doubts as to the outlook for business or prices.

It would be foolish to attempt to predict just how long and to what extent inventory accumulation will continue. This segment of the market, however, is a potential source of weakness in 1948.

Export Markets

Net exports of goods and services, which are the third of our four markets, were already at the high annual rate of $5 billion in the last half of 1946. In view of the limited quantities of gold and dollar exchange available to foreign countries to pay for those exports, any large further increase seemed unlikely. This conclusion underestimated the urgency of the needs, made more so by the extraordinarily severe Winter in Europe. Also, as domestic buyers grew cautions more goods were available for export. The annual rate in the first half of 1947 was $10 billion. This expansion served to offset the lower rate of inventory accumulation.

Ultimately, the shortage of dollar exchange was felt in added restrictions on imports from the United States. Our net exports declined almost one-third between the second and third quarters and the fourth quarter will probably be even lower. This, however, has not relieved the inflationary pressure on our economy because it coincided with another wave of domestic buying for inventory.

The future of the export market depends on the size of any foreign aid program. Whether this aid shows up in the national accounts as government expenditures, or as exports financed by loans, its over-all economic effect will be pretty much the same. It will take substantial additional aid, however, just to maintain the current rate of net exports in 1948.

Contrary to the anticipations of many people, foreign aid does not look like a source of additional demand for the total national output in 1948. It can, however, be important in some commodities.

Consumer Expenditures

Consumer expenditures provide the fourth and by far the largest market for the national output. Having risen from an annual rate of $118 billion in the first half of 1945 to $151 billion in the last half of 1946, these expenditures have increased another 10% in the last year. This uninterrupted rise is explained in part by the rise in personal income and in part by the willingness to spend a larger share of that income.

Changes in personal income are to a large extent the result rather than the cause of changes in the value of national output. The amount that the individual has to spend, however, is determined in part by tax rates and by so-called transfer payments which are not earned in current production.

A notable example of these transfer payments is the payment of terminal leave bonds beginning in September, 1947. There were $1,800 millions of these bonds outstanding, of which approximately half were cash in the first month.

Both the amount and the rate of redemption are approximately the same as the soldiers' bonus in 1936. It looks as though the economic effect would also be similar—except that it is relative to a larger national output.

The actual spending of this nonrecurrent income will be spread over some months. Even so, it is large enough to be an important factor. It puts more buying power into the hands of consumers when they were already prepared to buy more than could be produced. This spending soree will have its aftermath in 1948.

The effect of the government's fiscal position on the disposable income of individuals can be important in other ways. High taxes have operated to limit excess demand and thereby prevent an even greater increase in prices than has already occurred. Any cut in tax rates in 1948 will put more buying power in the hands of the public.

If or when there is a substantial decline in national output and income a substantial part of the difference will come out of business and personal taxes. At the same time, unemployment benefits will increase automatically and other expenditures, such as the cost of farm price supports, will tend to rise. The net effect will be to cushion the decline because the value of goods produced will go down faster than the incomes left to buy them.

The willingness of consumers to increase their expenditures relative to their income has been an important source of additional demand contributing to the rise in national income over the last two years. Total consumer expenditures have already risen from the wartime low of about 75% of disposable personal income to over 93%. We do not know how much higher they may go under the pressure of deferred demands and accumulated savings, but the possibilities seem limited.

The normal ratio in good prewar years was somewhere around 95%. Part of the balance in contractual savings such as insurance and mortgage amortization and part is the earnings of unincorporated businessmen which have been reinvested in their business and therefore are not available for personal consumption.

Since the end of the war the percentage of income spent for one category of expenditures after another has reached a peak and leveled off or declined. The only major items which consumers would take in substantially larger quantities if available today are automobiles and housing.

The potential increase in automobile production over the next year would permit consumers to increase their expenditures for this item by less than 2% of their total income. The possible increase in housing expenditures if rent controls should be completely removed will be a little greater. Presumably, however, any such increase will be, in part, at the expense of some reduction in expenditures for other things such as food.

Summary of Year's Developments

To summarize the year's developments, the decline in the rate of inventory accumulation which was anticipated at the last Conference did occur in the Spring. Equipment outlays leveled off and there was some hesitation in construction. Forward buying was curtailed, prices leveled off and there was some decline in industrial production.

The readjustment proved short-lived primarily because of the unexpected strength of export demand. By mid-year, buyers, whether of retail merchandise or construction projects, began to take the attitude that they could not afford to wait for lower prices which were not yet in sight. They became impressed with the urgency of European needs. Later, the redemption of terminal leave bonds was voted and the short corn crop aggravated the rise in living costs with repercussions which could easily be anticipated.

We are now experiencing the results of that reversal of previously cautious buying attitudes. In the aggregate, the four markets are still sufficient to take all the country can produce and to maintain the upward pressure of excess demand with the resulting spiraling of prices, costs and incomes. Fundamentally, this spiraling stems from the willingness and ability of buyers to pay the higher prices to get what they want.

The ease with which added costs can be passed along in higher prices has permitted and encouraged inefficiencies and non-essential costs which would not be tolerated under more competitive conditions. It has permitted and encouraged wage increases which not only add to costs, but also put still more buying power in the hands of the public. It has resulted in high profits, including the profits of unincorporated business and farmers, with much the same effect.

There are no immediate signs of the end of this boom. The wave of renewed buying which began around mid-year is still continuing. The full effect of the cashing of terminal leave bonds has not yet been felt. There is danger of another round of wage increases which, however reasonable or logical in the particular instances, will add a further fillip to the spiral of rising incomes, costs and prices.

It is also clear, however, that the economy will be more vulnerable to a readjustment from boom conditions in 1948 than it has been in 1947. The next time businessmen grow cautious, as they did last Spring, inventories will be larger—thereby making it easier to postpone additional buying. The remaining deferred demands will be less urgent. Even with foreign aid, the situation in the Spring of 1947, when the sharp increase in exports minimized the readjustments elsewhere, is not likely to be repeated.

It would be foolish to try to predict just when the downturn will occur. It may not happen at all in 1948. If it does occur in 1948 it is not likely to be a major recession. As yet there is little, if any, of the overbuilding which characterizes the end of a capital goods cycle.

While a decline in national income is quite possible beginning sometime in 1948, the year as a whole is not likely to compare too unfavorably with 1947. For the year 1947 the national income will be over $200 billion. At the beginning of 1948 it is likely to be even higher. A substantial decline, beginning early in 1948, would still leave the year as a whole only moderately below 1947.

With First California Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF — Scott D. Hamm is now with First California Company, 300 Montgomery Street. He was previously with Slayton & Co., Inc.

What the Marshall Plan Involves

(Continued from page 4)

then that to save the world we must pour out unlimited lend-lease money to Russia, as now we are told we must pour out unlimited sums to defeat Russia. We gave them billions in goods under lend-lease without a condition looking to their behavior in the postwar world. We seemed to feel that we had to pay Stalin to keep him in the battle against Germany and we accepted his view of military strategy and attack. With the aid which we were giving him he took over the Balkans, leaving us to conduct the war against Germany.

When we could have occupied all of Germany we stopped our armies and even withdrew from territory actually occupied in battle. We turned over Berlin and Eastern Germany to the Russians, which gives them the ability to dominate by force the great countries of Eastern Europe. President Truman and Secretary Marshall approved the policy of Teheran, Yalta and Potsdam and participated in it. Are we to accept their judgment on foreign policy today without the most critical analysis?

To a certain extent the Administration is trying to cover its faults by pointing to the bi-partisan foreign policy. Most people do not realize that that policy had nothing to do with Teheran, Yalta or Potsdam. It has extended only to Senator Vandenberg's participation in the formulation of the United Nations' charter, in negotiations with European nations regarding peace in Europe, in the regional agreements with South American nations and a few other subsequent policies. In these fields Senator Vandenberg has taken the lead and accomplished results which could never have been reached without his force and sound judgment, but in most other fields of foreign policy he was not consulted until the policy itself had been formulated.

World Bank and Fund Ineffective

In 1945, with a blare of trumpets, we were told that the economic problems of the world would be solved by the International Bank and the International Fund, at a cost to the United States of six billion dollars. If this was done, we were told by the Treasury Department, loans to Great Britain would be wholly unnecessary. As I said at that time, the Fund was utterly unsuited to the problems of the world at that time. It is now only serving the purpose of distributing a few billion dollars around the world without reference to merit or to need. These dollars are coming back to the United States to force our prices up.

In spite of the Treasury Department we were soon faced with a $4 billion British loan. Again we were told it was necessary to save the world and would surely do so. Britain itself did not require so much for exports from the United States, but the loan was to make sterling a medium of world exchange and re-establish world trade. Today the loan is nearly gone and the problems of Britain are apparently as great as they were when it was granted.

$3,500,000,000 was furnished to the Export-Import Bank, and that too has almost disappeared.

About $3 billion more were spent on UNRRA, a large part going to countries under Russian influence and redounding to Russian advantage. At the end of two years no voice was raised in America to continue such an inefficient outlay of American money by an international organization.

I do not say that these sums were all wasted or that some action was not necessary. I do say that they were accepted by the American people because of high pressure propaganda without careful consideration, that they were unsuited to the purpose, that proper conditions were not imposed, that the sums were excessive, and that a large part of the money was wasted. They have not only financed excessive exports from this country and thus increased prices, but they have scattered more dollars around the world which are yet to come back to exchange for our products.

The Administration can't get away from the New Deal principle that government spending is a good thing in itself. They so overdrew the picture to convince our people that these grants were entirely for our own benefit that even the Europeans came to believe they were conferring a favor on us by accepting our loans—that we had to export to prevent a depression. It is our Treasury and our State Department who invented the fallacy of a "dollar shortage" for which they imply the American people are responsible.

I have been in a number of states from the Pacific to the Atlantic Coast during the past two months. I know what the public attitude is about further loans to Europe. The man on the street is indignantly inquiring how long we are going to have to give away the products of our labor to other nations. Before further aid is granted he wants to know the reasons for and against continuing such gifts.

Dangers of the Plan

And so tonight, admitting the powerful reasons for continuing aid to Western Europe, I wish first to describe the danger and cost which such aid involves to the people of the United States, particularly in the amounts and form suggested from Europe.

First: Aid to Europe at the rate proposed by the European nations means $8 billion of taxes in 1948 on the American people over and above what they would otherwise pay. If a billion dollars of this money is handled by the International Bank, perhaps the taxes need be only $7 billion. But to balance this there would be at least another billion dollars to other parts of the world. $8 billion is two-fifths of the total sum paid in personal income taxes by the people of the United States. It is almost equal to all the income taxes paid by corporations. The adoption of this plan means that every person in the United States must pay more tax than otherwise and that the payroll check will be subject to a much larger deduction.

In my opinion the great tax burden of today is already a dangerous threat to a free economy. $52 billion paid in 1947 in local, state and Federal taxes amounts to about 30% of the national income. Every man is working three days out of ten for the government and only seven for himself. The tax burden on individuals and on corporations is such that little incentive remains to expand production and give the new jobs necessary to have progress continue in this country.

Furthermore, taxes on the lower income groups are so heavy, the deductions from the payroll envelope so great, that employers have to increase wages, which means increased costs and increased prices. The best way to stop the spiral of inflation and relieve the condition of the lower income workers is to give a general tax reduction instead of another wage increase. Such a reduction would be impossible if we accept the full figures of the Marshall Plan.

Inflation Dangers

Second: The adoption of the Marshall Plan has a direct tendency to inflate prices further in the United States. There can be no doubt that the tremendous rate of exports in 1947 played a material part in the increase in prices we have seen during this year. The exports of goods and services this year have been at the rate of more than $19 billion per annum, balanced by a rate of only $8 billion dollars of imports. The excess of exports over imports, therefore, has been at the rate of more than $11 billion. To the extent that this excess has been balanced by budgetary items covered by taxes, it does not increase the total purchasing power in the United States, but it has only been so balanced to the extent of about $5 billion. The other $5 or $6 billion is inflationary, whether it comes from dollar balances accumulated by foreign countries during the war, or from other means of financing.

It is quite true that the price situation today is largely due to the tremendous income within the United States — to the fact that the American people are better off than they have ever been before. But the income of our people is practically balanced by production. When we impose on top of this balance $20 billion of foreign purchases, of which some $5 billion is direct inflation, we can hardly be surprised that the great increase in demand outruns our supply and forces prices up.

I have read with much interest the report of the President's Council of Economic Advisers. If this had been prepared as a brief to support the full-sized Marshall Plan it could not have been more ingeniously argued. Their view seems to be that while the price of one or two products like grain may have been forced up by foreign demand, the tremendous export surplus has had little effect, and its continuation will have no effect at all if we impose a few domestic controls on grain and steel. But purchasing power is not static. It shifts from one article to another as price or supply changes.

In order to support their argument the advisers have to take the extraordinary position that we should continue exports at the rate of $20 billion a year, even if a large part of the surplus is given away, and that any reduction in admittedly abnormal exports at this time would require a dangerous adjustment. Even in 1946 we only exported at the rate of $15 billion with plenty of artificial stimulation. The argument of the Council report is just another form of the theory that the government must spend to maintain prosperity. How could a reduction in exports possibly injure us when we haven't enough steel for several hundred home industries, or enough freight cars, or enough grain, or enough oil? The Council have let their realization of the needs of Europe affect their economic judgment.

Exports Abnormal

It seems perfectly obvious that exports, even at the 1946 rate, are abnormal and cannot be continued. If we begin to build up an economy based on such a rate of export, we face the same kind of collapse which occurred in 1930. From the point of view of our domestic economy nothing could be more dangerous than an export trade created or continued by dollar loans in an amount which cannot be indefinitely continued and can never be repaid. Some excess balance of export is no doubt justified temporarily against the time when foreign countries will be able to export more goods. But the excess of 1947, if it is continued by the Marshall Plan, is a menace to our economic safety.

The Council of Economic Advisers say that exports will be no larger, even if we adopt the Marshall Plan. With this conclusion I cannot agree. There is no real evidence that foreign nations have exhausted their gold and dollar balances. Advances from the International Bank and International Monetary Fund will tend to increase rather than decrease. Through lend-lease and otherwise we scattered so many dollars around the world that they may well be coming back for years to come to compete with our own citizens in driving up the price of goods in short supply.

We granted to the President the arbitrary power to limit exports. He has failed to exercise it, and his failure to do so is one of the main reasons for the increase in prices. Few realize that of $15 billion of exports only 6 billion is going to Europe, and 9 billion to North America, South America, Asia and Africa. Surely we should ration the rest of the world on steel, grain and oil before we even consider rationing our own people. What sense does it make to prohibit distilling in this country while we ship millions of bushels of grain abroad to be used in distilling? Today the Russian Government has an active commission here buying American goods and paying gold for them—which is better than credit, but certainly inflationary. Much of what Russia is buying is heavy machinery, good for the manufacture of munitions. Why does the President grant export licenses for goods of this nature when steel and various types of machinery are insufficient for our own needs? If we don't want higher prices we will have to reduce exports to the rest of the world.

Two Inconsistent Policies

Broadly speaking, the President is asking for two completely inconsistent policies at the same time. If we want the Marshall Plan, we cannot have lower prices. If we want lower prices we have to give up the Marshall Plan. The Marshall Plan may be worth the cost, but let's be realistic and face the fact that there is a cost.

Third: The Marshall Plan, unless very carefully administered, can easily be an encouragement to the continuation of unsound policies by European governments. I feel very strongly that we overestimate the effect of our dollars in foreign countries. I feel very strongly that 90% of the solution of their own difficulties lies in their hands and in the policies of their governments and their peoples—with one exception, namely, in Germany, where the solution lies rather in our hands. Those who have been abroad testify that where conditions are particularly bad it is usually due to the policies of the government.

In many countries inflation is rampant because of the failure of the government to balance its budget and reduce its expenses.

In many sections the people expect to improve their standard of living while doing less work. It is hard to see why our people should ship coal abroad, for instance when the European shortage of coal is largely caused by the unwillingness of the miners there to work either long hours or continuously.

The situation in France—and even in England—appears to be made worse by the determination of the government to maintain the value of its currency at a figure well above its real value. Thus exports from France to this country are discouraged by the fact that they cannot get the real value in francs of the dollars paid for such exports.

The more we loan money to these governments, the less pressure is brought against them to improve their own policies. Our loans have helped them balance their budgets without taxation. They do not suffer as they should from the unwillingness of their own people to work. They are enabled to maintain a false value for their currencies.

I opposed the British loan of $3,750,000,000 and suggested that instead we give them $1,250,000,000 and confine its use to purchases from the United States. Today practically the entire loan has been spent and Britain is little better off than they were when the loan was first granted. Without the loan necessary adjustments might have been made sooner.

It is said that this third objection which I have urged can be met by imposing various conditions upon our loans. I agree that conditions should be imposed, but I think their effectiveness can be overestimated. I doubt very much if the different plans for following our money to its ultimate use abroad are either desirable or practical. Some conditions would be impossible to enforce. When a government assumes obligations and chooses to repudiate them, that is the end of the story. Furthermore, conditions such as were imposed with the British loan required the British to do things which it turned out they could not possibly do.

If we go into these countries we open ourselves to charges of interference and imperialism. If we impose conditions which turn out to be unpopular with the people, we nullify to a large extent such credit which we might otherwise obtain. We give the Russians a basis for the charge that we are trying to dominate the countries of Western Europe.

It seems to me that the only conditions which can surely be enforced are conditions as to the particular type of goods which can be exported from the United States, and a limitation of any commitment to one year. Whether it should continue after that year ought to be determined by the results in the particular country concerned. There might even be a continuation of aid in proportion to increased production, as suggested by Senator Ball.

Our experience with conditions under the original Marshall proposal up to date has not been very promising. One of the conditions was to be some kind of customs union between Western European nations. While these nations mentioned the subject in their report and agreed to consider it, there is not really the slightest hope that there will be any such union, and there is no way in which we can compel it.

Plan Entails Wartime Controls

Fourth: The effort to export $8 billion of goods on government credit will almost certainly force the reimposition of wartime controls. Even the President's Economic Advisers speak of "allocations for domestic use," and "minimum powers necessary for a frontal attack on price increases." Foreign nations are blaming us for high prices and suggest that we should ration ourselves so that more may be shipped abroad. The CIO is demanding the revival of OPA.

I would regard the return of price control in peacetime as a major calamity to the United States which no probable Marshall Plan benefits can justify. Consumer rationing is only one degree less objectionable. I don't know just what "allocation" power means, but it certainly is the power of government to control priorities and decide how much of each controlled commodity American users can enjoy.

The trouble with all government controls over the free competitive system is that to be effective at all they have to be constantly extended to other related fields, until we reach the straitjacket of the OPA, with a choking of all initiative and growth. In peacetime the American people won't submit to such controls, and black markets merely destroy legitimate business and enrich the racketeers. Also they create a complete disrespect for law.

Furthermore, few governments have the knowledge or the judgment to do the job as well as natural economic law — certainly not this Administration. Look at the mess made of the voluntary food-saving program to carry out a highly desirable purpose. Meatless Tuesdays and Eggless Thursdays never did make any sense, because, of course, everyone ate chicken and eggs on Tuesdays and meat on Thursdays, leaving them just where they were. Last Thursday morning on a dining car the steward told us that wherever eggs appeared on the menu he would substitute wheat cakes! So to save wheat for Europe the travelers ate wheat cakes in America. If the government had had legal power to enforce its decrees, the plan would have been the same fool plan, and just as ineffective.

Attacks European Socialism

The reason this country has a surplus of food to ship and such tremendous productivity, is that we have pursued a system based on liberty. The European Socialists do not seem to realize that if we are to continue a program for any length of time, it must be based on a continuation of that liberty; that while temporarily we might increase our output by government restrictions, in the end we would soon be subject to the same paralysis of initiative which exists in England and Europe today. In other words, Europe has to take the limitations which are inherent in a free system if they want the benefits produced by it.

We have shipped more food and other assistance out of this country than any other nation has ever before accomplished for the world. We cannot stretch that liberality too far or there will be nothing to ship. We cannot ship so much that under a free system it will lead to a period of "boom and bust."

I doubt if we can safely ship more than 400,000,000 bushels of wheat out of this country without disastrous results. If so, the European countries ought to be told now, so they are not left without grain before their next harvest. We cannot underwrite the food supply of the world, and we must not give the impression we are doing so.

It is suggested in the Harriman report that we can authorize "set aside" and priority orders. But this does not solve the price problem, for it leaves less for the domestic market and so forces prices up. We are likely to be led into price control and rationing only to find that they are broken down by black markets and inefficiency as they were after the end of the war.

The adoption of the European plan therefore would, first, continue an intolerable and dangerous tax burden; second, inflate prices further in the United States; third, encourage unsound policies in Europe; and fourth, force futile and dangerous regimentation on American productivity.

Some Aid Must Be Given

I have tried to state clearly the tremedous cost of the European version of the Marshall Plan and the objections to it, and yet I am prepared to support in some reasonable amount the general principle of aid to European countries to enable them to help themselves. The whole world is embattled today between the ideology of communism and the ideals of liberty. We must do what we can to prevent the spread of communism. I might point out, however, that many who want to pour out dollars to prevent communism abroad are criticizing a Congressional committee for trying to find out who the influential Communists are in the United States. They are merely trying to bring Communist activity out in the open so the people can know where it is working underground. Surely if we want to fight communism we ought to begin at home.

Unquestionably our aid will create conditions abroad less favorable to the spread of communism. But in the long run the people of France, for instance, are going to decide for themselves whether they go Communist or not. We are too much inclined to overestimate the effect of American dollars. A credit of American dollars, encouraging unsound policies and giving the basis for the charge that we are trying to dominate their country, may easily assist communism rather than prevent it.

No one can have anything but sympathy for those who have suffered such tremendous hardships and such tremendous destruction. Undoubtedly there are many things which need to be done in the rehabilitation of those countries which can be done only by machinery and other products made in the United States. Those countries can obtain them only if we extend the credit to buy them. The emergency situation leaves them with little food and inadequate coal and fertilizer. While our resources are limited, we can do something to carry them through until more normal conditions prevail.

Aid Asked Too Great

Weighing all of the considerations, and even at some danger to our own people, I believe we should provide aid to Western Europe in reasonable amounts, but I think that even the figure suggested by the Harriman Committee is higher than is safe. That Committee has laid down in forcible terms the true principles of aid to Europe and the necessary limitations on that aid. But the exact figure selected looks more like a compromise than a scientific conclusion. It seems to have been reached from the point of view of European needs, rather than of American safety. In a field of such uncertainty probably a scientific conclusion is impossible.

I would like to suggest that the German policy of the Government is even more important to the reestablishment of Europe than the Marshall Plan. In fact, the condition which exists in Europe today can be traced very largely to the Administration's own policy in Germany. In effect, we adopted there the Morgenthau Plan, which was suggested at the Yalta Conference, and which was for all practical purposes approved at Potsdam by President Truman in the text released on Aug. 2, 1945. The policy of occupation was designed expressly to convince the German people of their criminal responsibility and to reduce them to a level of subsistence only. Production of all important manufactured goods was to be prohibited or limited, with the exception of coal. Payment of reparations in kind was to leave enough to enable the Germans simply to exist without external assistance. Millions of Germans were to be deported from Eastern Germany and thrown into the rest of Germany to feed and support.

The policy of Potsdam was carried out by a directive issued to the Commander in Chief of Occupation in April, 1945, known as JCS 1067. Thereafter, in spite of constant disavowal that we were enforcing the Morgenthau Plan, this directive, which was in fact the same thing, remained in force until this year. It was officially declared to be at an end on July 15, 1947, but no one is confident today that it is at an end. Has it been revoked or not? We are still dismantling plants which could be made highly useful for the support of the German people. Any plant built for war purposes can certainly be converted to peace use.

The result has been to keep the German people so short of food that many of them believe that their starvation is our deliberate intention. The result has been to deter all economic recovery, so that it will cost us a billion dollars a year simply to bring the German diet up to a subsistence level. Not only has this policy deprived the rest of Europe of many products which could be manufactured in Germany, but it has deprived them of a market for their own exports. It has thus completely upset the economy of Europe, and now we are called upon for taxes from our taxpayers to remedy the failure of the Administration.

Must Change Policy in Germany

There is only one way in which Germany can be effectively controlled — that is, to control the production of a limited number of essential products. The Vandenberg plan proposes that we remain in Germany indefinitely, but only to prevent rearmament. If aid to Western Europe is so essential, then it can be effective only if we really change our policy in Germany. Both President Truman and Secretary Marshall are personally responsible for what occurred in Germany during the past two and one-half years. Are they prepared to say now that they have completely abandoned the policy which is so largely responsible for our present plight? Why don't they stop now the dismantling of German industries?

I cannot deal tonight with the problem of high prices. I pointed out in San Francisco last month that the present situation has been brought about by many years of Administration policy, and there is certainly no panacea for its cure. For years the government spent billions more than its budget and piled up a reserve surplus of purchasing power. For years the OPA held prices below wages. Then, after the war, the President adopted the extraordinary theory that there could be a general 20% wage increase without increasing prices, which theory was disproved almost before the increase was granted. The government has continued its huge expenditures and the taxes to pay for them. Both high expenditures and high taxes have been reflected in higher prices. The tremendous export surplus, unrestrained by the President has added foreign buying to demands at home. We can only wonder that prices have not increased more.

Obvious Remedies

The most obvious remedies are a reduction of government expenditures, a reduction of taxes in lieu of further wage increases, a reasonable provision of aid to Europe, and a limitation on exports elsewhere. Finally, there must be a powerful appeal to industrialists to forego profits, to wage earners to refrain from further demands for wage increases, and to consumers to eat less and save their money rather than spend it on food. We cannot eat our wheat and ship it too. Various measures of less importance must also be considered and acted on.

But this problem is not primarily a legislative problem. The first responsibility rests on the Administration to act, both under existing laws and under new programs authorized by Congress. The policies of one department insist upon higher prices, while those of another demand reduction. There has been no one in the government concerning himself with the general problem of holding prices down.

Particularly in the administration of the Marshall plan, there must be an independent board directly under the President to develop one consistent and effective policy on exports and foreign aid. If we are against communism, let's be against communism everywhere—in America and in China, as well as in Western Europe. If we are for economic recovery in Western Europe, let's be for economic recovery in Germany, which is an integral part of Western Europe. If we want to hold prices down, let the government bid every department to avoid the policies which raise prices.

After considering all the facts I believe that Congress will adopt sound policies, but there will have to be a substantial improvement in the administration and efficiency and consistency of the Executive departments if those policies are going to get any of the results which are sought.

Observations

(Continued from page 5)

his expert knowledge provides an important additional advantage in furnishing a good sounding-board for the involved investor catharsis-wise to "think out loud" about his financial problems.

Individual Design

"Counsel" is defined by Funk and Wagnalls Standard Dictionary as "Purpose; the result of careful consideration; **design.**" This aim of guiding behavior according to purposeful design is particularly appropriate to the administration of individual capital; and hence well defines the keynote of the counsel's *raison d'etre*. He is not only helpful in initially setting up an actual portfolio on logical and scientific lines for the investor; but is invaluable in backing him up in **sticking to a policy**—keeping him from being diverted by mass market psychology from a calmly pre-determined long-term program.

The outstanding uniquely differentiating attribute of the investment counsel is the "designing" of policy and continuing investment action to the logical requirements of each individual. For the laying down of investment advice merely in blanket form, instead of sifting out from the plethora of elements those applicable to the individual investor, denotes only half-functioning. In a more restricted sense, the counsel's personalized service takes care of the factor that there are many elements in each individual's personal situation that make certain securities desirable for him, whereas the same securities might well be unsuitable for another individual.

The Principles in Action

The other side of this rather ideal and constructive picture is that in actual practice the profession is often, if not usually, conducted at some variance with its principles. This is so because of the popular psychology with its impact on the client's attitude, which similar to the security analyst and the broker, prevents the counsel from fulfilling his functions in a "pure" manner. The client **at the time of establishing his account** may again and again agree that he will preserve an investment attitude through thick and thin, and seek only reasonable income and protection for his capital under conditions that can be reasonably anticipated, in lieu of trying to "beat the market." It usually turns out, nevertheless, that the environmental excitement of a violent bull or bear market is too much for our previously well-intentioned would-be investor. For example, during a violent bull swing when he hears reports of relatives' or friends' easy 10-point profits, he may have the self-discipline to be satisfied with his own 5%-per-annum program for a while, but any from the second to the fifth of such siren calls is usually more than he can withstand. **Consequently the investment counsel often, much against his will, is saddled with the Hobson's choice of either forsaking his integrity or else losing his client. The counsel's actual behavior under such pressure constitutes a basic test of the profession.**

The Cost

This practical drawback follows the discretion of the respective client. But another material factor to be weighed, the fee, is not a voluntary matter. The typical charge is one-half of one per cent of the capital fund for the first million dollars, with a graduation thereafter. The customary minimum fee (in the absence of extenuating factors) is $400-$500. This fee represents a considerable burden, one-half per cent being the equivalent of somewhere between one-sixth of the income he gains from his combined holdings of bonds and preferred stocks, and one-tenth of his investment return from common stocks. But investment counsel fees are an expense deductible from income tax. Hence if a $500,000 portfolio gains an annual income of $20,000 (4%), or a net-after-tax of about $14,000, the counsel fee of $2,500 gross would be reduced to about $1,750, making his net income $12,250 instead of $14,000. It would seem to be up to each individual to make his own decision whether the service is worth the fee to him.

At any rate the technique of the counsel's unconditional fee would seem to be more logical and satisfactory than is the brokerage commission system of remuneration conditioned on the number of transactions and whose amount is not correlated with the amount of extra services rendered.

Halsey, Stuart Offers Wisconsin Utility Bds.

Halsey, Stuart & Co. Inc. was the successful bidder November 5 for $4,000,000 Wisconsin Public Service Corp. first mortgage bonds, due Nov. 1, 1977, naming a 3% coupon and bidding 100.2099%. Eight other bids were received by the company. Reoffering is being made at 100.75% and accrued interest.

Proceeds from the sale of the bonds, together with $1,000,000 from the sale of additional common stock, will be applied to retirement of $5,000,000 bank loans which were incurred to finance additions, betterments, and extensions to the company's properties.

Wisconsin Public Service Corp. furnishes electricity and gas and, to a small extent, bus transportation service and steam, in north central and northeastern Wisconsin and an adjacent part of Michigan. Among the larger cities furnished with one or more types of service are Green Bay, Sheboygan, Oshkosh, Wausau and Menominee.

For the 12 months ended July 31, 1947, operating revenues were derived approximately 81% from electric operations, 14% from gas and 5% from transportation. In that period gross income, before Federal income taxes but after depreciation, were reported to be $4,272,330; the annual interest requirement on long-debt, including this issue, will be $940,625.

Economic Profile of the Americas

(Continued from page 6)

tinued to raise their prices as manufacturing costs rose in the United States.

The impact of all these combined forces on the reserves of Mexico's central bank was immediate and disastrous. As exportations decreased and importations not only augmented but were bought at higher prices, the Bank's monetary reserves steadily and rapidly diminished to the point of endangering the stability of the currency. The Mexican people discovered that they had sold their export goods on peculiar terms: first, during the war, they were paid in a currency—dollars—which could not be used to buy many of the things they needed; and later in a post-war period, those dollars bought less and less as the prices of imported goods increased. Someone has described this process as equivalent to a loan granted by Latin America to the United States without interest and payable at a discount.

To circumvent the dangers which such a situation spells, every country in the Americas is attempting the impossible: to export but not to import; to sell and at the same time not to buy. This may be a foolish attitude, but what else can these countries do?

Equalizing Balance of Payments

In the case of Mexco, the government is taking steps to correct, on the one hand, the existing inflation, and, on the other, the lack of equilibrium in its balance of payments. Let me describe briefly some of these steps. First of all, the government established a balanced budget in which all government expenses were taken into consideration, to be paid for by the revenues obtained from taxes. This principle was adopted even in the payment of public works such as highway construction, irrigation and electrification. A very small increase in the public internal debt was decided upon, To be exact, only 150,000,000 pesos (roughly $30,000,000) were voted by Congress. Second, certain restrictions on credit were established. 50% of the deposits of private banks were, by regulation, deposited with the Central Bank and a gentleman's agreement was signed to limit the Bank's loans to the maximum in effect as of the end of 1942. In spite of its decreasing reserves, the federal government has met all of its obligations, has paid exactly on time both interest and principal on its internal debt—a comparatively small one, around one billion pesos (about $200,000,000)—and has lived up to its agreements with the bondholders of Mexico's old foreign debt. In addition, the government has paid the American oil companies punctually for the exprporiation of their properties in Mexico, a debt which, I may say in passing, has been liquidated to the last cent. A similar payment has just been made for the properties of the Mexican Railway, an English property which runs from Mexico City to Vera Cruz, and which was bought by the federal government and paid for in cash.

Since a policy of credit restriction endangered the productivity of the country, and since the final answer to a favorable balance of payment is an increase in production—which would make it unnecessary to import foodstuffs and possible to export surpluses—the government had to make an exception to the general rule and follow a liberal policy, both through private and official banks, for credit to agriculture and to specific industries.

That the policy of increasing agricultural production has been successful is shown by the fact that importations to Mexico of such foodstuffs as sugar, rice, corn, beans, cocoa-beans, etc., have not only decreased but, in some cases, notably sugar and rice, Mexico has been able to produce enough to satisfy its local demand and still have surpluses for exportation.

Industrialization Program

In her industrialization program, Mexico has also been fairly successful as shown by the number of new industries organized lately, some of them quite prosperous. It is not Mexico's purpose to be self-sufficient in the industrial field as she strives to be in the case of foodstuffs, neither does she pretend that all industrial enterprises started during the war are necessarily sound and worthy of protection regardless of their commercial ability to pay out. Rather, what Mexico aspires to is no longer to export her raw materials in their crudest forms as has been the case since time immemorial, and also to have those fundamental industries for which she has the natural resources, local market and potential ability.

It may be thought that the industrialization of Latin America would be detrimental to foreign trade as, obviously, the products of the new industry will compete with these coming from already industrialized countries which will eventually find themselves eliminated from the Latin American market. Such a premise, however, is as mistaken as the old fallacy upholding the view that new and better machinery is harmful for the workman. In the same fashion as industrial development really helps the working classes by creating new and higher-paid jobs, even though here and there a particular group of workers may suffer a transitory displacement by the new and more efficient machinery, so the industrialization of Latin America will in fact invigorate foreign trade as it will promote a new and more substantial market for the United States' industrial products even though in particular instances a specific company in the United States may suffer a decrease in its sales. The example of Canada leaves no doubt in my mind. Higher industrialized than the other countries of America—with the exception of the United States—Canada with her 14 million inhabitants is a better market for United States' products than all of Debtor America with some 125 million inhabitants. Industry that would make a better living possible for our working classes will immediately create customers for imported goods.

Restrictions on Importations

Agricultural surpluses, strangely enough, have helped Mexico's balance of trade but little for we are confronted with almost insuperable difficulties to find a market for them, since the countries that need these foodstuffs are lacking in foreign exchange with which to pay for them. In view of this situation, Mexico decided reluctantly to establish some rather drastic restrictions on importations. It prohibited the importation of certain luxury articles altogether, and raised the tariff on some other non-essential goods. In doing so Mexico was careful to comply with her international agreements and not to affect either essential consumer's goods or necessary capital goods. The government felt that the prohibition of imports such as radios, washing machines, fur coats, wines, perfumes and assembled automobiles would not work a too severe hardship on the people of Mexico. The measure affected a very small minority of the population and was in truth a very low price to pay for the protection of a sound currency.

Although this measure was effective in balancing Mexico's foreign trade and therefore in stopping the continuous outflow of the reserves of the Bank of Mexico, it is not a step in the right direction to bring about normalcy in foreign commerce. Should all the countries of the world take similar measures, the final result could not be anything but disastrous as it would eventually paralyze the exchange of goods among nations. And yet the urgency of protecting national currencies and the lack of free dollars are such that, one after another most of the countries of America have imposed restrictions of one sort or another on their importations. Some of them, in fact, have gone a step farther and have established exchange controls. Let me state here as a matter of record, that Mexico and the United States are two countries which have never in their history established any kind of exchange controls. Let me hope that we both may continue to follow this policy of freedom of exchange in the future.

Effect of Foreign Exchange Restrictions

The controls on foreign exchange which the European nations have found necessary to impose are already harming America's exports. In the case of Mexico, as I have already said, we have been unable so far to export our surplus of sugar, rice, and other products because of the lack of free dollars in the hands of the countries badly needing these products. Thus we have come to a situation in which we have simultaneously, on the one hand, countries with surpluses, the exportation of which is essential for their economy, and, on the other hand, countries which are in terrible need of those very products but which are prevented from buying them because they are unable to find a market for their own exports. We are in a vicious circle: A country, anxious to export but short of foreign exchange, establishes restrictions on her importations, restrictions which make it impossible for other nations to export to this particular country, and therefore unable to buy that country's exports. To this absurd situation I was referring when I said that foreign trade has been dislocated.

Mexico's individual efforts to secure a sound financial and economic policy in her internal affairs, and the measures she has unwillingly taken to regulate her foreign trade are symbolic of what is happening in practically all the countries of America, and prove that no individual unit can find by itself the right solution to a problem that has to be tackled collectively by all the countries of America. As a matter of fact, the problem should be visualized on a world basis, but, at the present time, it would be mere folly to think that we could have a world understanding on these questions.

Hemispheric Solution of the Americas Problems

Fortunately, this is not the case in America. In this continent we can, and actually do, think in terms of the whole hemisphere when looking for a proper solution to our problems.

You may ask what is my solution; how to go about reorganizing world markets; how to guarantee that exportable surpluses be sold, that importations be free, that the surplus capital of the United States not be idle but instead be reaping its proper returns, that the natural resources of America be used for the benefit of the industry of the two Americas; that the normal ambition of the undeveloped countries to have their own fundamental industries be realized, thus giving them in time of peace a better living for their workmen and in time of war an effective way to cooperate in the collective defense of the continent.

The answer in principle is not so complicated as one might think. You, of the United States, have the capital and the technical knowledge; we, of the rest of America, have the resources and the labor. It is of the essence of capital that it be invested. Natural resources which are not developed are not wealth. You are already a creditor nation, and you must accept your position as such. We of the nations needing capital must also accept the necessity of further loans and investments for the development of our countries. This idea is not new, nor is it my own. The International Monetary Fund, the International Bank for Reconstruction and Development and the Export and Import Bank are institutions created for the purpose of helping in this tremendous task. Yet the International Monetary Fund is mainly concerned with short-term monetary maladjustments; the International Bank for Reconstruction and Development has been preoccupied mainly with Europe's urgent need for reconstruction, and, as it turns for capital to private banking, this institution may be forced to adopt a commercial attitude in its loan policies, thus limiting its possibilities. The Export and Import Bank, which has already done an excellent job is helping Latin America carry out its programs of industrialization and of improvement in transportation, has, unfortunately, limited resources at its disposal. However, the work done by all three of these international credit institutions is highly significant, above all in that it shows a step in the right direction.

The same attitude was shown at the last Conference of Petropolis in Rio de Janeiro, Brazil, where a resolution was adopted (it was the Ninth Resolution) according to which the Inter-American Economic and Social Council is to formulate a basic agreement for economic cooperation among the Americas. This agreement is to be discussed and, it is to be hoped, approved in the next Inter-American Conference which will meet at Bogota, Colombia. Then, of course, you have private investments which have been the normal way of returning to Latin America International economic equilibrium by giving back to it the necessary purchasing power to pay for its imports. A substantial flow of capital from the United States must go to Latin America as investments and remain there as re-investments, if we want to compensate the excess of Latin American purchases from the United States.

At the same time, this investment policy, not to be a source of future friction, requires on the part of the investors the realization that capital has the right to fair profits, but should not look for political control in foreign countries. As a counterpart, foreign capital which does not seek special privileges should be free from any kind of discrimination.

There seems to be an increasing fear in America of what people think is the growth of external disruptive forces, and yet those who have this fear seem to forget that there is only one effective way to fight disruption, a way that is neither negative nor war-like: it is to work collectively and harmoniously for the purpose of making our economic and political system effective and successful. Such a cooperative achievement is quite feasible in America. Different as our economies are, we have in common similar political regimes and the same aims and ideals. Within every country of America an attempt is being made to make democracy and liberty effective. In foreign commerce the same principles hold true. How are we to have economic freedom at home if we must have restrictions and controls in dealing with our neighbors? Let us not lose sight of the fact that economic restrictions lead us, even though unwillingly, towards political regimes we dislike; regimes which would have been imposed upon us had we lost the war. We fought the totalitarian governments, among other reasons, for the specific one of not having such an economic system as they proclaimed, and yet, without meaning to, we seem to disregard the danger of creating just such a system. Going back to barter in our international dealings, increasing regimentation, imposing exchange controls, government management of exports and imports, depreciation of currencies, disguised dumping are all, in short, parts of a regime which restricts individual liberty, limits private enterprise and economic freedom, and is not very different in the economic sphere from the one Germany had up to the end of the war. Such is precisely what the world is going to have if we do not realize in time the danger and do not take, with courage and decision, the proper steps to avoid it.

Economic Liberalism Is Past

It is no solution in my opinion to go to the opposite extreme and pretend that returning to classic liberalism can be the correct policy at the present time. Experience has shown that trusting the normal work of the blind forces of nature is no guarantee that everything will come out right in the end. Liberalism, as a policy of complete non-intervention of the State in the economic field, is a thing of the past. It was precisely due to its failure that every country has drifted more and more into a practice of intervention by government.

Our efforts rather should be directed toward restoring those conditions which will make normal trade possible. This involves harmonizing our investment policy with our foreign trade policy, which have often in the past been contradictory to each other.

We must recognize the unity of America, the complementary nature of the economies of the two Americas and the interdependency of our economic activities which make a harmonious solution for our problems possible and which will keep this hemisphere safe and democratic in a world of economic and political chaos. If we are to prove to the world and to our own people that our economic system works for the benefit of the greatest numbers, we must have a sound economy for every one of the countries of the Americas.

We must defend our way of living and our philosophy of life, and the only way to do so is by making our economic system successful. Every country of America should have full employment for men and for capital, a free and expanding volume of foreign trade, and increasing production and an accessible market for it. This requires the development to the fullest extent of America's natural resources for the benefit of her peoples. This, in turn, means, for the industrialized countries, an equal access to the raw materials of the world; for the undeveloped countries a real chance to develop and an equal access to industrialized products; for both Creditor America and Debtor America; a continuous rise in their standard of living and the possibility of healthy, happy peoples living in an atmosphere of liberty.

E. J. Roth Co. Admits

E. J. Roth & Co., 41 Broad Street, New York City, members of the New York Stock Exchange will admit Eva B. Ungerleider to limited partnership as of Nov. 13.

We Must Help Abroad in Businesslike Way

(Continued from page 15)

come back themselves without some help. The whole basis of Europe's economy has been dislocated. On top of that, a severe winter and a summer of drought have resulted in the worst European crop failures in a hundred years. In China the people are not only hungry but their economy is prostrate and they are under heavy military attack from the very forces into whose hands they were betrayed at Yalta.

In my judgment we have no choice today whether or not to act in this emergency. It is unthinkable that after a successful war at staggering cost in blood and resources, we should now stop and surrender the fruits of victory. We will be doing just that if we permit the free nations to fall into economic chaos and then under Soviet control.

Our only choice is whether we act effectively or stupidly as we have in the past; whether we act in time or too late and, finally, whether we show our determination to succeed and inspire those we aid to the same determination.

No Guarantee Against Waste

I cannot say that we are bound to succeed. We cannot be positive that the further money spent will not be wasted. The Russians are confidently counting on our failure. They believe that their great allies, misery and starvation, will bring communist revolutions the world over. That is why they are opposing us so violently in the United Nations. That is why they oppose every effort to restore economic health and well-being to the free nations. They also hope that we are going to bungle the job of using our resources, which are not unlimited, and thus bring on inflation followed by depression here at home. All these are possible, but as reasonable men, we must make up our minds which course is most likely to succeed and then follow that course with a degree of perseverance and skill we have not yet shown in the last 14 years.

Only the quickest look at the alternative gives a ghastly picture. If, as a mere 140 million people, we found ourselves in the midst of a conquered world, from France to China, we should find more than a billion people in an armed camp under the control of an aggressive dictartorship arrayed against us. In terms of dollars, such a condition would cost us in national defense alone, a great deal more than any program of aid to Europe and it would cost us that annually for years to come. In terms of living standards, we should sink to a level not seen by any living person in this country. In terms of our liberties, I find it difficult to see how we could avoid a degree of economic control which would cut the very heart out of our system.

Our Sole Hope

We have only one choice and that is wisely to aid those who stand with us in the world in the hope that they will rise again as bulwarks of the institution of human freedom.

There are even more problems in determining the nature of such a program as in determining its wisdom. It has been suggested that we should not help any nation which has nationalized any industry. Such a policy would, I think, be very unwise. There are two worlds today. That is enough. In fact, it is one too many. We should not adopt a course which would create three worlds. In the free world, economic systems are not all alike. We do not share the socialist ideas prevailing in some nations and we believe some of their programs to be affirmatively dangerous to the welfare of their people. I am sure in my own mind that if those nations would restore initiative and free enterprise their progress would be immediately accelerated. But we will not achieve that result by lecturing from afar or withholding aid if they do not change their practices. So long as human liberty is maintained as a principal objective of a government, that government is our friend.

In a task as immense as this, we should find out to the best of our ability what needs to be done, and then, learning from the errors of the past, chart a course which has a maximum chance of success. We have seen plenty of errors. In the 2½ years since the end of the war with Germany, the United States has provided around $20 billion in assistance to foreign nations. Much of this has been handled in the most incompetent manner. Much has been so distributed that the Soviet got credit for it. Our motives have been suspected and our purposes grossly maligned. What is most important, we have not succeeded.

Our Foreign Help Bungled

Foreign borrowers have been allowed to use some of the money we have advanced to compete with each other in our domestic markets to purchase commodities in short supply. This has helped further to create speculation and price inflation.

Our government has also failed to encourage initiative and enterprise. The Ruhr is a conspicuous example. For some time past, we have shared a direct responsibility in the Ruhr and for a long time we have had a great opportunity if we had only seized it. As far back as the summer of 1944, I urged that an international status be worked out for the Ruhr so it could never become the mainspring of a new, warlike Germany but could, instead, start promptly to serve, without menacing, the free people of Europe. For 2½ years we have failed to do that job. So the American taxpayers will, this winter, supply coal and steel which ought to come from the Ruhr.

For our own sake and for the sake of the world, it is imperative that we avoid the blunders of the past. This will take hard thinking and straightforward action and both are long overdue. First, as to the aid which is given to prevent starvation: this should not take the form of loans repayable in dollars and we know of no means of importing sufficient goods from Europe to repay ourselves without demoralizing both the European and American economies.

The governments which receive our aid, however, should not be allowed to sell the food and then use the proceeds for further deficit financing. These proceeds should be used to develop the productive resources of the nations so as more speedily to make them self-supporting. They should also be used to develop new productive resources out of which might later come the means of at least partial return on our investment through acquiring important strategic materials needed in our own defense.

On the second, or reconstruction aspect of our aid, we can legitimately regard the money advanced as a straight loan. But it should be made for business purposes and not left, as during the last two and a half years in the hands of social planners who do not know a loom from a corn husker. It is time we got business men into a business job. It would seem reasonable that the men who built the greatest productive plant in the world should be called on to help. Much of the best work being done in Europe today is by the American manufacturers who have plants in Europe, and are speeding their own rehabilitation. One motor company alone has turned out since the war more than 250,000 cars and trucks in Europe and in one nation is recently made its 50,000th postwar farm tractor.

Prevent Waste Through Supervision

We shall want to make really certain, for once, that the aid we provide is not wasted. To provide firm and continuing management I should like to see the entire program closely supervised by a special authority created for that specific purpose. This authority should be under the direction of a genuinely bi-partisan board. The Chairman should be an individual of outstanding ability, equipped by training and experience to assume the enormous responsibilities involved and entitled by reputation to the full confidence of the American people.

Having provided for a business-like administration of our foreign aid program, the Congress might well adopt a statement of policy which would make our purposes clear, so clear in fact that nobody could misunderstand them, not even the men in the Kremlin. The Congress could declare it to be a basic policy of the American nation to assist freedom-loving peoples elsewhere in the world who are ready to work with us to find a way back to economic stability. Such a statement, which might well be endorsed by the leaders of both parties, will make it clear that the United States has a settled policy and the means of carrying it out; that we will not suddenly or capriciously abandon those in other countries who risk their lives to uphold the principles of freedom in the face of the menace of a police state.

Insist on Continued Results

Having made such a statement of policy, we should then make it clear that we expect results. Aid should be extended only as a prudent person would, in instalments, at frequent intervals, depending upon concrete demonstration that the aid is being wisely employed for the purposes for which it is intended. This does not mean that we need to dictate concerning the internal affairs of other nations. The fact is that the program of European economic cooperation drawn up by the 16 nations in response to the suggestion of Secretary Marshall contains in broad terms solemn commitments on the part of these nations progressively to increase their output of food, raw materials and industrial products, to take rigorous measures to stabilize their finances, to cooperate fully with one another in a program of mutual help and to work as rapidly as possible toward a European customs union. We may properly require of these nations that they spell out in detail the measures they will undertake to achieve these major objectives. Having done so, we should firmly insist that they adhere to the program they themselves have formulated and that they demonstrate, country by country, a consistent and effective pursuit of those broad goals as a requisite to continued assistance.

Republican Congress Understands Business

The committees of Congress will soon report their findings. By the greatest of good fortune, both for our country and for the world, we have a Republican Congress. It understands the nature of business, and I am confident that these able men will bring forward a sound program. It may well eventuate that the election of a Republican Congress last year not only saved the domestic affairs of the United States, but it may well also save the peace of the world.

I earnestly hope that the story of American achievement can be told at the same time that we bring American aid. It cannot be told, as in the past, by shipping around the world modernistic paintings done by Communists, at the expense of the American Government. It can be told by the concrete demonstration that human freedom and free enterprise go hand in hand. Neither can succeed or survive without the other. When they are teamed together, they can bring elsewhere the freedom and economic achievement they have brought to us.

Tell Our Story

To help others make the choice wisely between freedom and slavery, we should tell our story to the world. It is a great, an almost unbelievable, story. I am very tired of hearing our success attributed solely to our great resources The truth is that our success is due to the American system of political liberty and competitive free enterprise which has proved to be the most efficient productive system in the world. It is that system which gives to the average man the highest rewards in improved living standards, increased leisure and growing economic security.

In this time of world crisis we can demonstrate that the American system has succeeded. This success alone is a complete answer to the advocates of a return to the ancient systems of dictatorship and slavery. It is an answer in material terms—the only language they can understand. But what they cannot understand is that we would surrender all our material success and live on their own abysmal standards before we would surrender what is much more precious—the liberty which God has given us. We know that the exchange of freedom for the security of a police state, brings only misery. We know that the spiritual liberty of the individual is the most precious thing on earth.

I am confident that the America we love will move forward, secure in the knowledge that it is the greatest nation on earth because it is generous, because it is free and because it represents the whole cause of freedom on earth today.

Even So!

". . . Many people in the United States, inside the Congress as well as outside, are extremely uneasy because a number of the prospective Marshall Plan countries have nationalized some of their industries, though by undeniably democratic procedures. In addition, many Americans have intimated publicly and privately that we should not give help to these countries in their present desperate crisis unless they will undertake not to push further with their plans for nationalization, or with other steps for the socialization of economic life.

"The objection is not based on the ground (quite possibly valid) that socialized economies are somehow less productive, or otherwise less 'efficient.' It is based on the allegation that socialism is somehow 'a bad thing' and morally reprehensible. Therefore, it is said, even if partial socialization is the free democratic choice of these nations, we should not help them unless they will abandon their own right to choose, and instead will adopt our choices on internal economic organization.

"It is hard to see much difference in principle between this type of threatened coercion, and those practiced more ominously by Hitler and the USSR."
—JAMES W. ANGELL in the New York "Times."

It is unquestionably into just such logical cul-de-sacs that we frequently wander in pursuing our political bribery in Europe.

But, for our part, we can not see why we should provide the capital gratis for socialization, nationalization or any other revolutionary change in social or economic systems—change we know full well reduces, not enhances, the likelihood of recovering any investment we may make in such a land, and which hardly contributes to the relief of suffering.

Wall St. Committee in Philanthropic Drive

The Wall Street Division of the Federation of Jewish Philanthropies of New York has accepted a quota of $750,000 as its share of the 1947 Federation appeal for $15,000,000, it was revealed in a statement by the nine members of the division's Executive Committee.

The committee consists of Joseph Klingenstein of Wertheim & Company, an Associate Chairman of the overall Federation campaign; Henry L. Heming, L. F. Rothschild's Company; Harold C. Mayer, Bear Stearns and Company; Benjamin J. Buttenwieser, Kuhn, Loeb and Company; Edwin H. Posner, Andrews. Posner and Rothschild; Ira Haupt, Ira Haupt & Co.; Jerome E. Lewine, Henry Hentz and Company; and Jacob C. Stone, Asiel and Company.

At the same time it was announced that the Wall Street Division of Federation would initiate its phase of the campaign at a cocktail party at the Harmonie Club, 4 East 60th Street, on Tuesday, November 18. The gathering represents the focal point of the Division's drive to meet its increased quota.

Eschleman With Zuber Co.

(Special to THE FINANCIAL CHRONICLE)

COLUMBUS, O.—William J. Eschleman has become associated with W. M. Zuber & Co., 16 East Broad Street. He was previously with Hawley, Shepard & Co. and prior thereto with the Ohio State Division of Securities.

O'Malley Joins Hirsch Staff

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, O.—Patrick A. O'Malley has become associated with Hirsch & Co., 1010 Euclid Avenue. Mr. O'Malley was formerly with Ball, Burge & Kraus and prior thereto for many years with Hornblower & Weeks.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market still mulling "unknown" factors. Congressional action in special session now big question mark.

Last week being one of those periods where nothing much happened, I decided to go deeper into what is laughingly called the stock market, rather than just huddle over a piece of ticker tape. I read a batch of earning statements, studied balance sheets, compared ingot production and car loadings. In fact I did about everything but go around to the heads of companies and ask their opinions. Oh yes, I even spent a day in Washington talking to people who once seemed to know where the grease was that made the wheels mesh smoothly.

* * *

On the basis of corporate statements there seemed to be little doubt but that common stocks were cheap. Even a yardstick of seven times earnings applied to many issues made them look reasonable at present prices. Industry index also bore out this belief. So far, so good. All one had to do was to buy a hat full of the right stocks and then sit back and watch them go up.

* * *

The Washington lads were a mite more diffident. Where they used to know before, they only guess today. They thought taxes might be cut, but felt that the Marshall Plan would prevent it. They thought privately that the steel people were in for knuckle wrapping for having lifted their prices too much and too fast. They thought the leather industry's stand on production curtailment to maintain a price structure, showed a dangerous stupidity. But most of all they felt that even a Republican Congress will have to do something about the price spiral, though the method is open to question.

* * *

The market which evaluates all these things and acts accordingly, is apparently in the midst of a digestion period. What I have been told in Washington isn't exactly a secret. If I've been told what I have, it's a certainty that people much better placed than I, know it too. The market, which is fundamentally where beliefs are exchanged for pieces of paper, is now studying all these things before making up its mind.

* * *

Nobody knows better than I how tiresome it can be to sit back week after week doing nothing, or practically nothing, and telling others to do the same. Yet, until the market itself can say something, it would be silly to do anything else. Don't misunderstand me. I'm all for fundamentals. Without them, stocks can't go up very much or hold their gains. But buying on fundamentals alone means tying up cash for what may mean a long time, and that is where timing comes in.

* * *

So until some of the invisible factors become a little more visible the advice will continue to be, ". . . hold off."

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.]

John McKeon Dead

John J. McKeon, senior partner in Chas. W. Scranton & Co., New Haven, Conn., and a member of the New York Stock Exchange, died at the age of 70. Mr. McKeon began his career in the investment business with the old firm of Bunnell & Scranton; he was successively Assistant Treasurer and Secretary of the firm and in 1922, when it was changed from a corporation to a partnership under the name of Chas. W. Scranton & Co., he became senior partner. He was a former member of the board of governors of the Investment Bankers Association of America.

Joins Allen Co. Staff

(Special to THE FINANCIAL CHRONICLE)

LAKELAND, FLA.—Leonard C. Visscher has joined the staff of Allen & Co., 211 East Lemon Street.

Modernists' Attacks on Savings: A Rejoinder

(Continued from first page)

they did not go into investment properly.

There are various other grounds on which attacks on savers and savings have been, and are still being, made. Few good words have been said for saving or savers in the United States since 1932. A relatively large proportion of our people apparently have decided that it is easier and temporarily more satisfying to try to get an unearned share of the savings of others, by the simple process of voting for those officials who are willing to distribute the earnings of other people, than it is to try to build their own incomes and savings by their own efforts. This is a dangerous type of thinking. The younger generation of voters, so many of whom seem to think in these terms, appear to overlook the fact that later on, if this trend of affairs continues, their incomes and savings may be voted away just as they are now voting for the distribution of the savings of their elders. "The self-sufficiency of the individual" in this country is a concept that appears to be passing away rapidly if, indeed, it is not already dead.

Keynes' Theories

The groundwork for these attacks, aside from that laid by Karl Marx and others like him, apparently goes back in no small degree to the book, "Economic Consequences Of The Peace," by John Maynard Keynes of England, published in 1920. The more direct, and recent, attack was launched by Keynes in full-fledged form in 1935-1936 when his book, "The General Theory Of Employment, Interest, And Money," was published.

Following the apperance of the latter book this country was deluged with agitation and activities in behalf of the Keynesian-Socialistic philosophy by the "me, too" followers of Keynes. The Keynesian type of thinking appears to have been thoroughly in harmony with, and perhaps a factor contributing to, England's plunge into Socialism.

The Keynesian-Socialist doctrines thoroughly permeated our Federal government, and they soon reached into our colleges and universities and filtered down to the high schools, into the press, and, in some degree, even into business circles.

These doctrines have gone into our Federal laws and policies in a multitude of ways. All of them have resulted, in one form or another, in a dissipation of our national patrimony to a degree never before seen in this nation. The manner in which the savings of the people have been taken by the Federal government or otherwise impaired and blanketed by heavy mortgage is something new in the history of the United States but not in the history of the world. Governments have collapsed and nations have been left prostrate by pursuing courses similar to that implied in the doctrines of Keynes and his followers.

Since the Keynesian philosophy is in essentials the philosophy of Socialism, Socialists naturally embraced the more extreme forms of the so-called New Deal, which, after 1935, rested to such a great degree on the Socialist-Keynes theories; and even the Communists found the program acceptable and embraced it in practically all its forms.

The peace-time spending programs of our government, beginning roughly late in 1933, and considerable portions of wartime expenditures, have, in large degree, rested upon the Keynesian theory that saving is fundamentally anti-social in its effects and that spending is virtuous. As a consequence, our spending has been profligate and our taxes and debt have become extremely high. The tax rates have been made sharply progressive, and the tax burden has become more characteristic of that under a totalitarian government than that of a republic. One of the basic purposes of these taxes has been to level down the large incomes of both individuals and corporations. The tax programs for the enforced distribution of corporate earnings have rested upon the notion that corporate surpluses and reserves represent a withholding of purchasing power from the needy. These various tax programs have had destructive effects on savings and the accumulation of capital goods.

The "Economic Maturity" Concept

Closely related to this anti-saving, pro-spending, program of our government was the concept of economic maturity which some of our economists and others were able to inject into our Federal policies. Since, so it was alleged, we had reached economic maturity, savers, it was claimed, could no longer find adequate outlets in investment and, therefore, it was now necessary for the government to step in, take surplus savings, and invest them in activities to be provided by the government. The assumption that government paternalism was superior to private enterprise was a companion notion of that of economic maturity.

The profligate spending and the wild accumulation of debt were fostered in part by the notion propagated by these same economists (and others) that government debt can do no harm and, indeed, has many virtues because, they said, "we owe it to ourselves" —as though that contention justified their policies. The alleged virtues of public debt were expounded vigorously by these economists. Practically none of them seemed to see any dangers in it. Taxpayers had no rights or virtues that called for protection; they were impersonal objects—automatons—fit for nothing except to be plucked by those who deemed themselves best qualified to do the most thorough job.

As a part of this widespread attitude, there has been an almost uniform tendency among this group of economists, and others, who embraced such notions, to give away a very large portion of the savings of the people of the United States. All sorts of reasons have been provided and are still being provided for the expropriation and exportation of our wealth. Our prosperity and the welfare of other people were said to depend upon our spending and gifts and upon the maintenance by us of heavy exports of our wealth. Prosperity and depression were said to be "indivisible." This jargon spread as though it were a fundamental truth although it was merely another device employed by those devoting themselves, in part, at least, to the dissipation of the national patrimony of the people of this country.

Our currency was depreciated in a variety of ways—another means of dissipating our national patrimony. This depreciation was, among other things, supposed to aid us by making it easy for people in other countries to buy our goods, and more difficult for us to buy theirs.

Artificially low interest rates were instituted and maintained to make it easier for the government to borrow and spend, and because savers were held to be essentially anti-social people who did not need, or deserve, any appreciable compensation in the form of interest when they loaned their savings.

Another attack on the savings of this nation comes through the tendency of our government to subsidize uneconomic enterprises at home and abroad as a part of a governmentally-managed economy concept and as a part of our government's policy of distributing taxpayers' money to all pressure groups that are supposed to have large voting power at their disposal.

Virtues of Saving

One of the arresting situations in this country today is the fact that it seems necessary to explain and to defend the virtues of saving. Just what do savings do, and what is the virtue in saving? Here the word "saving" is used in its proper economic sense of accumulating and preserving things of value.

Savings have provided the chief aid to production aside from natural resources and the supply of effective labor. They have enabled man to increase production and to raise his plane of living. Indeed, it has been savings, along with intelligence in their use, that have raised human beings from the economic state of the savage. Savings provide individuals with some degree of protection and security amidst the uncertainties of unemployment, sickness, old age, and other misfortunes. They provide the means by which we educate ourselves, by which we endow our great and useful social institutions, by which the mature aid and protect the young, by which the strong protect the weak, and by which men provide for their widows and orphans. They tend to give regularity to income and purchasing power. They reduce the demands upon charity. They permit the accumulation of those more durable production and consumption goods which serve the consumer better and over a longer period of time. They increase ownership and reduce borrowing and renting. They make possible a better family life. It is out of savings, present and future, that governments are financed. It is out of savings, present and future, that spending power is derived. It is through saving that leisure and the arts of leisure have been made possible.

Can anyone scrutinize this brief enumeration of the economic functions and virtues of saving and seriously question the importance of a continuation and increase in saving if humanity is to continue to progress?

The preceding enumeration should also suggest clearly both the necessity of saving and the fact that oversaving can never constitute a danger to humanity—individually or in the aggregate.

The practical impossibility of oversaving appears in the following facts, among others: The necessities of life must be met, and relatively few people can or will cut very deeply into consumption when their purchasing power does not reach far, it at all, beyond the principal necessaries of life. So long as there is a positive rate of interest paid for savings, there cannot be too much saving. The general optimism of people as to the future militates against excessive saving, and increases the tendency to spend in the present. Since people must grow old, most of them must, as a consequence, lose their productivity and eat into their savings. Savings are also impaired by unfortunate investment; by taxation; by obsolescence; by destruction, through use, accident, or waste; and by declines in value. The desires of people to spend never die and are, practically, without limit. Oversaving in the face of this human characteristic seems impossible.

The attacks on the savings of the people of this nation, which have been pronounced and unprecedented during the last 13 or 14 years and which are continuing in a multitude of ways, have been and are among the most dangerous movements that have ever taken place in this country.

According to the July bulletin of the Institute of Life Insurance "the return on savings is currently nearly a third less than it was in prewar 1939 and well under half the level of return that prevailed in the late '20s. Penalizing thrift to such an extent," says that bulletin, "has far-reaching implications for the individual and family."

That bulletin says further: "The decline in the earning power of savings and investments has a direct effect on personal long-range security and protection programs which, under conditions as they are now, are falling short of meeting original objectives."

One of the stupid things that we are doing in this country is agitating for more and more social insurance while we at the same time attack private savings, reduce the returns on them, and undermine in a variety of ways the future security of our people.

It would seem that the philosophy of Socialism which underlies in a fundamental way a large proportion of these attacks could easily be understood to be destructive economically, socially, and individually. At least every respectable economist is supposed to be able to understand the destructive and evil nature of Socialism.

The economic maturity concept rests upon no scientific basis; those who embrace it have no appreciation, apparently, of the history of economic development throughout the world.

Savings Related to Investment

The discussion which is taking place principally in academic circles of the equality, or desirability of equality, between saving and investment have been and are in the main economic nonsense. It would seem that any experienced adult would know that investment may and often does run far beyond the common measurements of current saving for a selected period of time for the simple reason that a large proportion of investment can rest upon credit. Conversely, investment for a selected period of time, including investment resting upon credit, may fall far short of savings since the latter may in part represent centuries of accumulation and preservation of things of value. Savings are rarely defined accurately and they cannot be measured with any precision. The time periods in respect to saving and investment involve considerations that make much of the discussion of the equality or inequality between saving and investment naive and foolish.

Closely related to the spread of the Keynesian-Socialist doctrines has been the failure on the part of a large group of our people, among whom the Keynesian economists have been leaders, to understand the virtues of free and fair competition and the use of government to maintain such competition among the people as they produce, exchange, and consume.

Free and Fair Competition

In the light of the trend of events in this country in recent years and even today, it needs to be emphasized again and again that there are no objective standards by which we can measure what is proper in production, prices, profits, savings, investment, and in the distribution of wealth and income except as these matters are determined by the operation of the forces of free and fair competition. Any other decision in matters of this sort rests upon a subjective appraisal; and these are always arbitrary.

When a government undertakes to substitute its judgment as to what is proper in the economic world for the results that flow naturally from free and fair competition, that government is substituting its power and will for the objective standards of science. The net result is economic waste and possibly a disastrous destruction and dissipation of a nation's patrimony. We have seen much in this world in recent years, and throughout the history of the world, as to what happens to people when governments presume to tell them what they may produce, what they may consume, and what prices may or must be.

Any defender of a governmentally-managed economy must of necessity take the position that the standards of objectivity produced by the operation of the forces of free and fair competition, in which all society records its judgment, are inferior to the judgment of a few men in assuring the general welfare of the people of a nation. Such a position cannot be defended in science.

When we depart from the standards of right and wrong as provided by the operation of the forces of free and fair competition we are lost in a forest of subjective appraisals in which there are no scientific or objective guides. In the realm of subjective values there is no science of Economics.

There is no judgment that can possibly equal the combined judgment of all the buyers and sellers when they are free to express their judgment of everybody affected. Producers, buyers, and sellers all get their best and their proper guidance from free markets. When a government regulates monopolies it is presumed that it will attempt to reproduce or approach the conditions that would prevail if free and fair competition could operate.

When governments intrude, and presume to ignore or override the objective standards of the free market, the latter are replaced by the subjective evaluation and caprice of those in power. Will and power become the factors that determine what shall be. When a government undertakes to force its will in the market place economic disturbance is the result. Artificial values appear. The effect on production, exchange, consumption, saving, investment, and prices can be, and usually is, unfortunate.

The widespread failure in this country to understand what objective standards of value mean, that these are the only objective guides known as to what is good or bad, desirable or undesirable, in the economic world, and that they are the best possible guides to producers, consumers, buyers, sellers, savers, and investors has permitted this country to go far astray and to drift into or to embrace a multitude of devices that are uneconomic in nature and are costing the people of this country a fabulous sum. Along with this has come an almost general acceptance of the notion that a government can manage an economy better than can society acting collectively through the exercise of the judgment of all buyers and sellers operating freely and fairly in the market place.

We obviously need to remind ourselves over and over today that there is no sound basis for the notion that the judgments of government officials are superior to the forces of the market place.

When Sir George Paish, long a close student of business fluctuations, visited the United States in 1937, he put the matter accurately and well when 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 widespread failure of the people of this country to understand clearly the value of standards determined under conditions of free and fair competition in the market place and the drift to an increasing amount of governmentally-managed economy are probably the most dangerous tendencies involving the welfare of this nation that have occurred in our history. The impairment of our savings and the dissipation of our national patrimony are part of this development. Some of the concrete results thus far are a burden of taxes and a blanket of debt on our people and national patrimony reaching far beyond anything of which we have ever dreamed. The effects that probably will flow from this exceedingly unhealthy situation appear not to be widely understood. We seem to be in the same general situation as the individual borrower who has borrowed almost to the limit and is busy spending the proceeds. He feels prosperous and has a sense of well-being. He sees the outward symptoms of prosperity—a large flow of money, large bank accounts, much buying, and great activity.

Real Wealth Relatively Scarce

But there are some sobering aspects of this picture: There are the matters of debt and taxes and of the situation in respect to our real wealth. Our real wealth is relatively scarce as prices and the absence of goods reveal. Prices are high. We cannot get automobiles, we cannot build houses, we cannot get a multitude of things that we should have. Our productive activities must be very great and persist for a long time if we are to overcome the nonproduction of various commodities that characterized the years of the war and the preceding depression. We are beginning to perceive a few of these sobering things, but the real days of reckoning have not yet arrived. We, like the profligate individual borrower and spender, are still in the stage of intoxication, pleased with our spending and its results and, therefore, wish to prolong it and to use the same devices to scatter our real wealth to the four corners of the world. We still seem to wish to borrow and to mortgage and to spend until the bitter end finally overtakes us—an end which we seem to think is nonexistent. We seem to be living up to our supposed assumption that God takes care of fools and the United States. Although we act as though we actually entertain such a belief, and that it makes no difference how foolish we may be, we would do well to remind ourselves that the history of the world is replete with chapters on the wreckage of nations that were similarly foolish.

The people of the United States sorely need to understand the nature, implications, and background of the Keynesian-Socialist doctrines which have afflicted this nation like a pestilence in recent years and have done so much to lead us away from private-enterprise-competitive markets and toward governmentally - managed economy with its profligate spending, waste, and destruction of our national patrimony.

Keynes' Attacks on Capitalism

When, in 1920, John Maynard Keynes published his "The Economic Consequences of The Peace" (Harcourt, Brace and Howe, New York), he made some cynical and sarcastic observations on the nature of saving and the capitalistic system (especially on pp. 18-22) from which have evolved the more recent Keynesian attacks on savings that have bedeviled both England and this country.

He described how European society was organized in the nineteenth century to secure the maximum of capital accumulation and how this accumulation was fostered by, and depended upon, inequality in the distribution of wealth. He pointed out that it was "those vast accumulations of fixed wealth and of capital improvements which distinguished that age from all others" and insisted that in this fact lay "the main justification of the Capitalist System."

He then advanced the following peculiar contention: "this remarkable system depended for its growth on a double bluff or deception. On the one hand the laboring classes accepted from ignorance or powerlessness, or were compelled, persuaded, or cajoled by custom, convention, authority, and the well-established order of Society into accepting, a situation in which they could call their own very little of the cake that they and Nature and the capitalists were co-operating to produce. And on the other hand the capitalist classes were allowed to call the best part of the cake theirs and were theoretically free to consume it on the tacit underlying condition that they consumed very little of it in practice. The duty of 'saving' became nine-tenths of virtue and the growth of the cake the object of true religion. There grew around the non-consumption of the cake all those instincts of puritanism which in other ages has withdrawn itself from the world and has neglected the arts of production as well as those of enjoyment. And so the cake increased; but to what end was not clearly contemplated. Individuals would be exhorted not so much to abstain as to defer, and to cultivate the pleasures of security and anticipation. Saving was for old age or for your children; but this was only in theory,—the virtue of the cake was that it was never to be consumed, neither by you nor by your children after you."

Then he comes to the remarkable conclusion from which the uneconomic and destructive Socialist-Keynesian doctrines of the last decade seem clearly to stem. He said: "It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely. The war has disclosed the possibility of consumption to all and the vanity of abstinence to many. Thus the bluff is discovered; the laboring classes may be no longer willing to forego so largely, and the capitalist classes, no longer confident of the future, may seek to enjoy more fully their liberties of consumption so long as they last, and thus precipitate the hour of their confiscation."

It should be noticed that he says: "It was not natural for a population, of whom so few enjoyed the comforts of life, to accumulate so hugely." and that he speaks of the disclosure of the vanity of abstinence and of the possibility of consumption disclosed by spending for war. In short, he is saying that the time may soon come when the economic pie is to be cut up and the savings of generations consumed. That is, of course, what we in the United States have been, and are, doing in pursuing the sophistries of the Keynes-Socialist variety of economic thinking.

In his book, "The General Theory of Employment, Interest, and Money" (Harcourt, Brace and Company, New York, 1936), we find in full bloom the theories whose roots reach back to the ideas planted more or less subtly in his book published in 1920. Basically, these full-blown theories of 1936 are anti-saving, prospending, managed-economy, and Socialist. These are the famous Keynesian theories of which so much is heard and with which so many, chiefly young, economists in this country and in England have allied themselves. In important and basic respects these Keynesian theories are simply Marxian economic doctrines dressed up in a different garb. They have given rise to an orgiastic eruption of economic twaddle probably exceeding anything that the science of economics has ever experienced. Some of the orgiasts, who have been revelling in the Keynes new economic jargon, have been labelling their writings "sophisticated" or "recondite"! A more appropriate label would describe them as a new variety of ridiculous academic affectation by people who are advertising themselves as unable to do independent scientific thinking and who, therefore, find it necessary to follow some leader. Regarding these Keynesians, few descriptions seem more apt than that used by Keynes in describing what he called the orthodox economists: "The part played by . . . [these] economists, whose common sense has been insufficient to check their faulty logic, has been disastrous to the latest act." (*The General Theory*, p. 349.)

These Keynesians and their philosophy, operating chiefly through our Federal government, have cost the people of this country billions piled upon other billions of dollars. And the end is not yet in sight. They have poured the people's savings down rat holes domestically, and internationally they seem determined to give away our wealth until stopped not by elementary common sense but only when we are drained dry and lie prostrate.

(The arguments being advanced in support of the so-called Marshall Plan will not in general withstand careful analysis and are rarely supported by facts. Most, if not all, of them are marked by superficial and inconsistent thinking and by emotional attitudes. Although the dissipators of our national patrimony are busy in connection with this so-called Plan in their efforts to give away our welath and to weaken our nation still further, it is fortunate for this country that a fairly large group of more level-headed, better-informed, and more experienced men will sit in judgment on this proposition. It seems probable that this latter group will reduce in a marked manner the risks that are now involved in this proposal and in the typical emotional arguments being offered in support of a continued reckless giving away and export of our wealth and well-being.)

Although it is not completely satisfactory to lift sentences or paragraphs out of the Keynes "General Theory" since it is the drive of the argument running throughout the work that reveals the true nature of his contentions and recommendations, perhaps a few sentences from his last chapter will reveal with sufficient accuracy some of the significant aspects of his anti-saving, prospending, Socialistic doctrines and their relation to the seeds planted in his book of 1920 and to what has been taking place in this country in recent years.

From page 372: "The outstanding faults of the economic society in which we live," he says, "are its failure to provide for full employment and its arbitrary and inequitable distribution of wealth and incomes."

The Keynes position here is that government officials can have better standards than those yielded in the market place for determining the proper distribution of wealth and income. The facts, of course, are just the opposite; but this assumption of Keynes is the assumption of those who advocate a governmentally-managed economy.

Then there is the full-employment concept which is widely used and accepted in our current economic jargon as though it were valid. The concept will not withstand careful analysis. No one can possibly know what full employment is. In the practical

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Modernists' Attacks on Savings: A Rejoinder

(Continued from page 39)

world the concept becomes nonsensical. If we had such a thing —assuming that the words mean literally what they say — a new industry could not start since there would be no available employees. There would be no inventors or managers to start a new enterprise because they would already be "fully employed." The nonsense involved in the general run of current discussion regarding full employment is a sample of some of the foolish things in the economic world that we embrace from time to time under the stimulas of slogans and cliches which we do not take the time to analyze.

From page 373: "... Experience suggests that in existing conditions saving by institutions and through sinking funds is more than adequate, and that measures for the redistribution of incomes in a way likely to raise the propensity to consume may prove positively favourable to the growth of capital."

"... In contemporary conditions the growth of wealth, so far from being dependent on the abstinence of the rich, as is commonly supposed, is more likely to be impeded by it. One of the chief social justifications of great inequality of wealth is, therefore, removed. I am not saying that there are no other reasons, unaffected by our theory, capable of justifying some measure of inequality in some circumstances. But it does dispose of the most important of the reasons why hitherto we have thought it prudent to move carefully."

The meaning of that last sentence deserves emphasis: It is that it is no longer necessary to move carefully in this levelling process.

Well, we have seen that theory at work in England under the Socialist government; and that government has been and still is running to our people for handouts while economic stagnation there continues with destructive effects. And, as a further commentary on the application by Keynes of this levelling theory to Keynes himself, reliable reports from England are that while associated with the Treasury and Bank of England he built for himself a relatively large fortune —so large that when it was discovered at the time of his death, the Civil Service of Britain, so the report goes, was disillusioned and shocked.

We have seen several instances of the same thing in this country. A fairly large number of Keynesians involved in our government service, while busy levelling down others, have been busy levelling themselves upward.

"Euthanasia of the Rentier"

In some of the remaining concluding sentences in this book Keynes says he feels "sure that the demand for capital is strictly limited" (p. 375); that the supply could be increased to a point at which the return would be very small (p. 375); that although "this state of affairs would be quite compatible with some measure of individualism [note that "some measure of individualism" would be left], yet it would mean the euthanasia of the rentier, and, consequently, the euthanasia of the cumulative oppressive power of the capitalist to exploit the scarcity-value of capital." (Pp. 375-376.)

Note that he would put to sleep the rentier group — the people with fixed incomes from investments—and the capitalists who would charge for the use of their capital.

Is it any wonder that the poorly-grounded and immature economists—mostly youngsters trying to climb on top of the heap in an effort to exercise power, to become managers in government, to feather their nests—ran wild with this Keynesian Socialism? Why a few older economists took up this collection of economic fallacies—and fortunately there were relatively few—probably calls for a different explanation in each case. It would seem that none of them could have any justifiable pride or confidence in his position since it is obvious that he was unable to reach such conclusions himself—he had to have a leader to show him the way. If he spent ten or twenty or more years in the field of Economics before Keynes presented his theories and could not place his feet on solid ground, there is little reason for supposing that he is ever likely to recognize solid ground in Economics. It seems to be a good guess that some of the older economists who suddenly blossomed out as "me, too" Keynesians are hoppers-of-bandwagons. If they were actually Socialists, as was Keynes basically, then it seems reasonably clear that they kept their Socialism under cover until it appeared safe or popular to bring it out in the open.

The artificially low interest rates which have done so much harm in this country was an important part of the Keynes theories. This is what he says (p. 376): "Interest to-day rewards no genuine sacrifice, any more than does the rent of land."

It would seem that that sentence alone should be sufficient to convince any intelligent person that its author was outside the pale of respectability in so far as economic science is concerned.

Still further, on the Socialism of Keynes: He says (p. 378) that "The State will have to exercise a guiding influence on the propensity to consume partly through its scheme of taxation, partly by fixing the rate of interest, and partly, perhaps, in other ways.... I conceive ... that a somewhat comprehensive socialization of investment will prove the only means of securing an approximation to full employment.... The necessary measures of socialization can be introduced gradually and without a break in the general traditions of society."

He says further (p. 381): "The authoritarian state systems of today seem to solve the problem of unemployment at the expense of efficiency and of freedom. It is certain that the world will not much longer tolerate the unemployment which, apart from brief intervals of excitement, is associated—and, in my opinion, inevitably associated—with present-day capitalistic individualism. But it may be possible by a right analysis of the problem to cure the disease whilst preserving efficiency and freedom."

That paragraph deserves careful scrutiny. He says it *may* be possible to cure the disease whilst preserving efficiency and freedom. But suppose widespread unemployment occurs in another depression, what is his answer? It is that this will not much longer be tolerated and, by clear implication, that an authoritarian State system must follow even at the expense of efficiency and freedom.

Freedom and Totalitarianism

Well, an authoritarian State can provide employment. But with it goes loss of freedom. David J. Dallin and Boris I. Nicolaevsky in their book, "Forced Labor in Soviet Russia" (Yale University Press, New Haven, 1947), gave a series of what they regarded as the best estimates on slave labor in Russia, and of these a figure of 14,000,000 or 15,000,000 would seem to be typical. They point out (p. 84) that guesses on the number of prisoners in all kinds of forced labor institutions "go up to 15, 20, and even 30, million men."

Since "full employment"—whatever that may mean to those who use that term—is one of the principal keys to the Keynes arguments, the State is to provide the means for its attainment. The other things that characterize Socialism and authoritarian government follow as a matter of course —despite the apparent qualifications which Keynes sets up here and there in his writings.

There is a large collection of evidence and writings by Keynes and others as to his Socialism. For example back in 1933 he said: "The decadent international but individualistic capitalism, in the hands of which we found ourselves after the war, is not a success. It is not intelligent, it is not beautiful, it is not just, it is not virtuous—and it does not deliver the goods. In short, we dislike it and are beginning to despise it." —"National Self-Sufficiency," *Yale Review* (Summer, 1933), p. 760.

Surendra J. Patel, writing on "Marxism and Recent Economic Thought" in "Science and Society" (Winter, 1947), pp. 52-65, says (p. 64) that "Keynesian economic approach ... has made it possible for the Marxian and Keynesian economists to approach each other on the basis of intellectual honesty and equality." Throughout this essay the parallelisms between the Keynes theories and Marxianism are pointed out.

It has been on the diet revealed in part by these excerpts from the Keynes doctrines that our young and a few other Keynesians have been feeding during the last decade. Some of them have been even wilder than Keynes. Their so-called contributions to the science of Economics and to the welfare of the United States are a sorry chapter, indeed, in our history.

The distinguished French economic scientist and government official, Jacques Rueff, writing on "The Fallacies of Lord Keynes' General Theory" in "The Quarterly Journal of Economics" (May, 1947), ends his discussion with this sentence: "Whom Jupiter wishes to destroy, he first makes mad." That is an observation that the Keynesians, and, of course, the people of this country would do well to ponder with care.

Qualities of Presidential Candidates

The thing that the United States needs above all others is a Presidential candidate, and President, competent in Economics and completely honest, who will talk to the people of this country directly, honestly, firmly, without fear of the consequences, and with allegiance to nothing but the truth in so far as science can produce it. If he would govern others, he should be a man who is able and willing to govern himself.

Considering the typical behavior and procedures of the typical office-seeking politician, such a Presidential candidate and President would be unique. But considering that it is highly probable that there is still a majority of people in this country who understand what it was that carried this country in the space of 159 years to standards of living never attained by any other nation in the history of this world, it seems reasonable to suppose that the response of the people to such a man and to such treatment would be gratifying and reassuring indeed. Most self-respecting people seem to consider it a compliment to their character and intelligence to be dealt with on the assumption that they can face the truth, harsh and unpleasant though it may be. The typical politician's assumption and presumption that the public must be given sugar-coated pills and tricked by clever little devices and equivocal statements is not a compliment to the people of this country; and it seems reasonably clear that among the fruits of such an attitude is the widespread cyncism with which the typical politician is regarded.

In any event, straight, sharp talk from a Presidential candidate who knows Economics, who knows what made this nation great within such a short period of time, and who knows the dangers in the courses we have been pursuing, is what the great majority of the people of this country need and probably would like to hear.

What would such a man say to us? Among other things, he would tell us that we must repudiate the idea that a governmentally-managed economy is socially beneficial. He would tell us that we must remove our government from business, make it a regulative agency, and return to the private enterprise system in which free and fair competition will be the guiding procedure in our economic activities.

He would tell us that reckless spending and waste by the government must stop; that the budget must be balanced, taxes reduced sharply, and the debt paid off as best we can.

He would tell us that the money of this nation is the people's money, not that of any political party in power, and that therefore the gold-coin standard should be restored so that every individual would once more have some control over the manner in which his representatives use or abuse the public purse. He would remind us that a governmentally-managed economy could not exist along with a gold-coin monetary standard, and that a return by us to such a standard would be one of the most potent means of speedily terminating our recent and present march toward Statism. He would make it clear that those who oppose a return to a gold-coin standard are either intentionally or unwittingly giving support to a governmentally-managed economy.

He would tell us that subsidies for pressure groups and uneconomic enterprises will end.

He would tell us that with the ending in this country of a governmentally - managed economy the huge government bureaucracy, which has been living off other producers and making life so complicated and government so oppressive and distracting, will be stripped down to bare essentials and these people sent out to see if they can add anything to the real wealth of this country.

He would explain to us the virtues of the objective standards as to what is desirable and undesirable that are yielded by the operation of the forces of free and fair competition and make it clear that these would be our standards of judgment henceforth.

He would point out that our government is to serve all alike with justice, without fear or favor—labor, capital, the employer, the weak, the strong, the rich, the poor, the good, the bad.

He would tell us to go to work, to deliver honest labor for our returns, to save, to be thrifty, to be honest, and to practice the decencies and courtesies which smooth out the difficulties in social intercourse and make life worth while.

He would tell us that if people cannot settle their differences peaceably they must settle them in court; that force is not the means by which justice is obtained; that therefore industrial strife in the form of strikes, lockouts, boycotts, and so on would be ended, and that the methods of peace would be substituted and enforced.

He would tell us that trickiness and clever little devices for circumventing the law would not be tolerated in his Administration, and that he would return this nation to strict observance of our Constitution and statutes.

He would tell us that special effort would be made to repeal all those statutes that have made life so needlessly complex, and that only those regulatory laws necessary to the smooth operation of a private enterprise competitive society, all well within the limits of our Constitution, would be retained or enacted.

He would make clear the factors and characteristics that make a strong and self-reliant people and, as a consequence, a strong nation.

With such a man at the head of our government in Washington, and assuming his success in restoring this nation to such a course, the mental and physical resources of the people of this country, freed from the stifling, oppressive, destructive, and distracting restraints and interferences which have so sorely afflicted them in recent years, should again take us on to a great and healthy economy and society.

The individual would be returned to his rightful position. His appropriate freedom would once more be his. The capacity of such a people for attainment would be boundless.

Each of us needs to do all he can to help bring about this reversal in the trend of events in this country. Individual freedom has been slipping away from our people rapidly in recent years. The amount of time we are now working for the Federal government, on the average about three months per year, should shock us out of our obvious attempts to adjust ourselves to it. The efforts of so many people to be cooperative, decent, and self-sacrificing in this matter contain a genuine danger for this nation. It is not only ruthless and stupid leaders who lead a nation into trouble; it is also the decent people who permit such leaders to take advantage of these decencies. The tax load and mortgage on our future earnings are extremely heavy, and they probably will prove very dangerous for us should we be engulfed in another sharp business recession and depression. In these ways and in various others we have been sinking steadily and progressively into the dangerous status of government employees.

We need to free ourselves from such government domination while there is yet time. A sufficient amount of such domination has always carried a people to their doom. If we think we are safe, let us look at England. We need, today, to rededicate ourselves to the cause of freedom from such government domination, to the restoration and preservation of individual liberty, and to a return to the principles and practices that have enabled us to advance so rapidly and so far in the 159 years since the adoption of our Constitution.

Transgulf Corp. Stock Offered by S. B. Cantor

S. B. Cantor & Co., New York, is making a public offering of 296,016 shares of Transgulf Corp. capital stock (par 10c). The stock, offered as a speculation, is priced at $1 per share. The company, which was incorporated in Delaware Dec. 31, 1946, was formed to take over certain oil and gas leases and to operate and develop them, as well as to carry on and expand its business generally. The company is now a going concern with assets consisting, in part, of an interest in producting oil properties in the Humble Oil Field of Harris County, Texas. These producing properties are being drilled up under a contract with W. T. Mack & Co. and they provide a back-log of development for future income without requiring the use of additional working capital to be provided by this stock issue. The company has the full use of the proceeds of this issue for developing values and production in its other leases and new properties.

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. 16	96.9	96.1	96.8	91.2
Equivalent to—					
Steel ingots and castings produced (net tons)	Nov. 16	1,695,700	1,681,700	1,693,900	1,607,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Nov. 1	5,274,250	5,295,350	5,207,550	4,758,550
Crude runs to stills—daily average (bbls.)	Nov. 1	5,224,000	5,165,000	5,309,000	4,709,000
Gasoline output (bbls.)	Nov. 1	15,926,000	16,529,000	16,458,000	14,528,000
Kerosine output (bbls.)	Nov. 1	1,903,000	2,050,000	2,071,000	1,957,000
Gas oil and distillate fuel oil output (bbls.)	Nov. 1	6,793,000	6,638,000	6,241,000	5,203,000
Residual fuel oil output (bbls.)	Nov. 1	8,364,000	8,666,000	8,517,000	7,272,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 1	82,092,000	82,003,000	81,607,000	86,885,000
Kerosine (bbls.) at	Nov. 1	22,566,000	23,014,000	22,778,000	21,960,000
Gas oil and distillate fuel oil (bbls.) at	Nov. 1	62,749,000	62,609,000	60,223,000	67,946,000
Residual fuel oil (bbls.) at	Nov. 1	57,259,000	57,419,000	57,504,000	61,180,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 1	940,746	954,627	942,533	922,312
Revenue freight rec'd from connections (number of cars)	Nov. 1	743,195	742,077	735,966	747,955
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Nov. 6	$97,298,000	$82,237,000	$92,983,000	$52,958,000
Private construction	Nov. 6	46,867,000	33,509,000	44,819,000	35,179,000
Public construction	Nov. 6	50,431,000	48,728,000	48,164,000	17,779,000
State and municipal	Nov. 6	41,228,000	44,894,000	43,958,000	14,277,000
Federal	Nov. 6	9,203,000	3,834,000	4,206,000	3,502,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 1	12,850,000	12,635,000	12,190,000	12,658,000
Pennsylvania anthracite (tons)	Nov. 1	937,000	1,230,000	1,289,000	846,000
Beehive coke (tons)	Nov. 1	142,800	*132,200	132,900	124,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 1	315	*306	326	277
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 8	5,057,455	5,009,286	4,958,062	4,682,085
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Nov. 6	72	70	62	25
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 4	3.19141c	3.19141c	3.19141c	2.73011c
Pig iron (per gross ton)	Nov. 4	$36.96	$36.96	$36.93	$28.1[illegible]
Scrap steel (per gross ton)	Nov. 4	$41.50	$42.58	$38.08	$19.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 5	21.200c	21.200c	§21.225c	14.150c
Export refinery at	Nov. 5	21.425c	21.375c	‡21.425c	17.425c
Straits tin (New York) at	Nov. 5	80.000c	80.000c	‡80.000c	52.000c
Lead (New York) at	Nov. 5	15.000c	15.000c	‡15.000c	8.250c
Lead (St. Louis) at	Nov. 5	14.800c	14.800c	‡14.800c	8.100c
Zinc (East St. Louis) at	Nov. 5	10.500c	10.500c	‡10.500c	9.250c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 10	†102.37	†102.62	†103.69	†103.97
Average corporate	Nov. 10	113.31	113.50	114.27	116.61
Aaa	Nov. 10	118.20	118.60	118.80	121.25
Aa	Nov. 10	116.61	116.80	117.40	119.20
A	Nov. 10	113.31	113.50	114.27	116.22
Baa	Nov. 10	105.52	105.69	107.09	110.34
Railroad Group	Nov. 10	107.98	108.16	109.42	112.37
Public Utilities Group	Nov. 10	115.04	115.24	115.82	117.60
Industrials Group	Nov. 10	117.00	117.20	117.80	120.02
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Nov. 10	†2.34	†2.32	†2.25	†2.24
Average corporate	Nov. 10	2.99	2.98	2.94	2.82
Aaa	Nov. 10	2.74	2.72	2.71	2.59
Aa	Nov. 10	2.82	2.81	2.78	2.69
A	Nov. 10	2.99	2.98	2.94	2.84
Baa	Nov. 10	3.42	3.41	3.33	3.15
Railroad Group	Nov. 10	3.28	3.27	3.20	3.04
Public Utilities Group	Nov. 10	2.90	2.89	2.86	2.77
Industrials Group	Nov. 10	2.80	2.79	2.76	2.65
MOODY'S COMMODITY INDEX	Nov. 10	447.6	443.9	445.2	356.5
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Nov. 8	228.5	228.7	232.1	201.9
Fats and oils	Nov. 8	248.3	235.5	234.8	279.3
Farm products	Nov. 8	256.6	256.7	266.3	222.8
Cotton	Nov. 8	307.8	306.4	297.6	265.6
Grains	Nov. 8	291.9	288.2	294.9	214.4
Livestock	Nov. 8	245.0	246.5	262.1	225.1
Fuels	Nov. 8	195.0	195.0	190.3	154.2
Miscellaneous commodities	Nov. 8	174.1	172.9	169.3	154.8
Textiles	Nov. 8	217.2	217.0	215.7	200.5
Metals	Nov. 8	159.5	159.6	159.1	125.0
Building materials	Nov. 8	232.5	232.6	232.7	184.5
Chemicals and drugs	Nov. 8	154.5	154.5	151.5	128.2
Fertilizer materials	Nov. 8	136.3	135.5	135.4	122.4
Fertilizers	Nov. 8	136.9	136.9	135.7	125.1
Farm machinery	Nov. 8	128.3	128.3	127.1	116.6
All groups combined	Nov. 8	212.5	212.0	213.6	181.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 1	192,927	169,061	233,861	205,422
Production (tons)	Nov. 1	182,029	182,173	176,834	174,752
Percentage of activity	Nov. 1	100	101	100	100
Unfilled orders (tons) at	Nov. 1	436,178	431,860	492,845	601,787
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Nov. 7	148.4	147.9	146.3	148.6
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Nov. 1	157.4	158.0	157.1	134.8
Farm products	Nov. 1	187.7	190.7	187.5	166.5
Foods	Nov. 1	173.8	176.2	178.3	165.9
Hides and leather products	Nov. 1	195.9	191.3	186.7	143.3
Textile products	Nov. 1	142.7	142.1	141.0	127.3
Fuel and lighting materials	Nov. 1	118.3	117.4	115.3	94.8
Metal and metal products	Nov. 1	151.3	151.3	150.7	114.4
Building materials	Nov. 1	185.2	184.4	182.3	137.4
Chemicals and allied products	Nov. 1	127.8	126.9	123.9	103.5
Housefurnishings goods	Nov. 1	133.4	132.9	131.9	117.3
Miscellaneous commodities	Nov. 1	117.2	117.1	115.9	105.4
Special groups—					
Raw materials	Nov. 1	175.9	177.0	172.9	150.9
Semi-manufactured articles	Nov. 1	154.6	154.1	151.3	120.6
Manufactured products	Nov. 1	150.0	150.6	151.4	130.4
All commodities other than farm products	Nov. 1	150.8	150.9	150.4	127.9
All commodities other than farm products and foods	Nov. 1	140.9	140.2	138.6	114.0

*Revised figure. †Figures are for taxable securities; previous figures given were for non-taxable. ‡Oct. 4 quotations. §Oct. 3 quotations.

	Latest Month	Previous Month	Year Ago
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS RECORD—Month of October:			
Total U. S. Construction	$575,089,000	$494,805,000	$488,457,000
Private Construction	350,736,000	301,785,000	292,441,000
Public Construction	224,353,000	193,020,000	196,016,000
State and Municipal	193,590,000	152,979,000	177,805,000
Federal	30,763,000	40,041,000	18,211,000
CLASS I RRS. (ASSOC. OF AMER. RRS.)—Month of September:			
Number of miles represented	227,209	227,349	227,209
Total operating revenues	$726,549,842	$745,257,959	$660,412,496
Total operating expenses	588,591,241	565,605,880	529,791,700
Operating ratio—per cent	81.01	75.89	80.22
Taxes	$75,939,347	$84,227,673	$49,394,870
Net railway operating income before charges	47,979,446	80,824,802	67,510,230
Net income after charges (est.)	21,150,000	52,300,000	39,800,000
COAL EXPORTS (BUREAU OF MINES—Month of August:			
U. S. exports of Pennsylvania anthracite (net tons)	1,045,541	528,831	761,359
To North and Central America (net tons)	558,075	53,415	557,112
To South America (net tons)	------	------	------
To Europe (net tons)	485,018	464,776	204,247
To Asia (net tons)	------	------	------
To Africa (net tons)	2,448	*10,640	------
COTTON SEED PRODUCTS—DEPT. OF COMMERCE—			
Crude Oil—			
Stocks (pounds) Sept. 30	57,307,000	19,209,000	66,044,000
Produced (pounds) Aug. 1 to Sept. 30	135,457,000	31,109,000	97,971,000
Shipped (pounds) Aug. 1 to Sept. 30	105,599,000	29,677,000	61,383,000
Refined Oil—			
Stocks (pounds) Sept. 30	92,081,000	116,709,000	160,107,000
Produced (pounds) Aug. 1 to Sept. 30	81,765,000	24,913,000	47,946,000
Cake and Meal—			
Stocks (tons) Sept. 30	37,844	26,416	55,416
Produced (tons) Aug. 1 to Sept. 30	203,144	47,068	139,647
Shipped (tons) Aug. 1 to Sept. 30	212,216	67,568	115,959
Hulls—			
Stocks (tons) Sept. 30	48,427	34,580	42,151
Produced (tons) Aug. 1 to Sept. 30	104,286	23,210	75,470
Shipped (tons) Aug. 1 to Sept. 30	91,343	24,114	59,244
Linters—running bales—			
Stocks Sept. 30	114,960	72,396	93,503
Produced Aug. 1 to Sept. 30	136,827	31,807	100,389
Shipped Aug. 1 to Sept. 30	101,298	38,842	41,936
Hull fiber (500-lb. bales)—			
Stocks Sept. 30	762	103	1,225
Produced Aug. 1 to Sept. 30	1,204	134	1,579
Shipped Aug. 1 to Sept. 30	591	180	857
Motes, gabbots, etc. (500-lb. bales)—			
Stocks Sept. 30	11,931	9,486	3,486
Produced Aug. 1 to Sept. 30	5,068	1,428	4,092
Shipped Aug. 1 to Sept. 30	3,385	2,190	2,336
DEPARTMENT STORE SALES (FEDERAL RESERVE SYSTEM)—1935-39 Aver.=100)—Month of October:			
Adjusted for seasonal variation	278	*290	257
Without seasonal adjustment	300	*298	278
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of August (000's omitted)	18,099,123	17,307,950	16,473,601
Revenue from ultimate customers—month of August	$315,590,400	$305,854,600	$287,055,200
Number of ultimate customers as of Aug. 31	37,626,367	37,419,113	35,459,415
GRAY IRON CASTINGS (DEPT. OF COMMERCE)—Month of August:			
Shipments (short tons)	951,859	912,939	973,232
For sale (short tons)	550,961	519,137	567,164
For producers' own use (short tons)	400,898	393,802	406,068
Unfilled orders for sale at end of month (short tons)	2,631,273	2,675,138	2,814,430
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of September:			
Shipments (in pounds)	247,000	253,000	656,000
METAL OUTPUT (BUREAU OF MINES)—Month of August:			
Mine production of recoverable metals in the U. S.—			
Copper (in short tons)	71,847	*73,082	‡50,196
Gold (in fine ounces)	230,330	*200,120	‡125,296
Lead (in short tons)	29,788	*28,766	‡27,705
Silver (in fine ounces)	2,816,032	2,659,302	‡1,814,853
Zinc (in short tons)	48,521	*47,565	‡47,149
MONEY IN CIRCULATION—TREASURY DEPT.—As of Sept. 30:	$28,567,322,694	$28,434,214,326	$28,506,662,707
NEW CAPITAL ISSUES IN GREAT BRITAIN—Midland Bank, Ltd.—Month of October	£3,942,000	£5,101,000	£6,098,000
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Month of August:			
Aluminum (thousands of pounds)	30,441	30,197	36,382
Copper (thousands of pounds)	75,060	70,603	93,303
Magnesium (thousands of pounds)	523	492	745
Zinc (thousands of pounds)	28,135	31,313	34,637
Lead die (thousands of pounds)	1,000	1,013	1,264
PORTLAND CEMENT (BUREAU OF MINES)—Month of July:			
Production (bbls.)	16,342,000	15,971,000	15,420,000
Shipments from mills (bbls.)	20,099,000	18,179,000	16,249,000
Stocks (at end of month) (bbls.)	13,338,000	*17,095,000	11,064,000
Capacity used	80%	81%	75%
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of August:			
Shipments (short tons)	120,405	116,956	129,666
For sale (short tons)	88,719	85,014	94,063
For producers' own use (short tons)	31,686	*31,942	35,603
Unfilled orders for sale at end of month (short tons)	478,649	473,923	373,745
TRAILER COACHES—HOUSING, TYPES ONLY (DEPT. OF COMMERCE)—Month of August:			
Production (number of units)	6,741	6,051	Not Avail.
Shipments (number of units)	6,523	6,078	4,616
Shipments (value of)	$10,859,515	$9,814,500	$7,661,914
TRUCK TRAILERS (DEPT. OF COMMERCE)—Month of August:			
Production (number of units)	3,174	2,953	7,650
Shipments (number of units)	3,727	3,347	7,046
Shipments (value in dollars)	$10,147,715	$8,697,635	$13,994,222
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—As of Oct. 31	$259,154,526,070	$259,220,548,079	$263,917,666,708
General fund balance	4,106,957,605	3,952,317,483	8,070,328,251
Net debt	$255,047,568,465	$255,268,230,596	$255,847,338,457
Computed annual interest rate	2.129%	2.128%	2.036%

*Revised figure. ‡Monthly average in year 1946.

The Marshall Plan Must Succeed!

(Continued from page 15)

hasn't changed the British worker. To say, as the British worker's wife does in that article, "We'll get through all right. Of course, we will, we always have, haven't we?" might do credit to British tenacity, but it doesn't make much sense economically — and that is what counts right now. The Socialist Government in England today has so far refused to face the public and state the British position in a brutally realistic manner. The Socialists have promised the British worker a better diet, a five-day week and more social security. The workers have been promised more without producing more. They need to be told the truth—they must accept direction of raw materials to the export industries—they must accept as workers a more rigid direction from the Labor Government they voted into power.

A Last Hope for Liberty in Western Europe

The Marshall Plan is, so to speak, a last hope for liberty in Western Europe. If it fails, the European peoples will become desperate enough to try still other solutions — each demanding a higher price in terms of human liberty and freedom. We have every interest in the outcome. For our island of freedom could not for long exist in a totalitarian world. But this is what I am trying to say and I want to leave with you: If the Marshall Plan is to consist of aid to individual countries of Western Europe—then it will not and cannot succeed. The Plan can succeed only if it spells aid to Western Europe as a single economic and political unit.

Digressing for a moment, let me say that Europe's present plight is not principally due to World Wars I and II. Look at out economy over the last several decades. It is a record which should make any American proud to be an American and to have been part of that process—not to mention the material benefits derived from it. But while we went up the economic ladder, the Europeans went down. When you discuss this strange antithetical development with Europeans, you will be told that their hard luck or their bad showing is due to both the wars and the superior resources of this country. If you ever find yourselves in such a conversation, may I suggest that when the conversation comes to this point, as I can assure you it most certainly will, the best and most emphatic retort you can make to this erroneous European argument is the classic American expression: Aw, Nuts! The main cause of European misery has not been war or alleged lack of resources, but the development of economic separatism in each of the politically sovereign European states—a fact which led to a most uneconomic utilization of available resources.

Western Europe Not a Poor Area

We have been told again and again, by the Europeans themselves and by our own do-gooders, that Western Europe is a poor area when it comes to economic resources. Don't you believe it—and for that matter, don't believe me. Look at any Almanac; you'll find it there. Western Europe is not a poor area. Sure, they must import certain items—but don't we? With the exception of petroleum and grains, Western Europe has resources comparable to our own. There are coal, iron ore, steel-making capacity, electric power resources, trained technicians and workers—above all, the distances are less than here so they don't need as much petroleum products because the automobile does not have to play the role it does in the United States where you have the larger distances. We here figure often in terms of a 1,000 mile shipment of goods whereas in Western Europe it is often a question of a 100 miles. At that, waterways are much more available than here in this country.

Take coal production, for example, in Britain, France, and Germany as compared with this country's pproduction. Our production, say around 1942-43, was about 650 million tons. But theirs, Britain, France and Germany, was nearly 740 million tons. Is that the record of a poor area? In iron ore production, their production was just about half our own production. Steel capacity the same way. Electricity they have nearly two-thirds of our own. In potatoes, they had nearly ten times U. S. production. In hog production, in 1938, they had 34 million heads; we, 44½ million. Cattle, they had 45 million heads; we, 65 million. Beet sugar, they raised more than twice our crop. I admit, since then, boundaries have shifted. But I am merely stressing resources of these countries, discounting additional capacity in Belgium and Holland and their colonial resources such as the Belgian Congo —not to speak of British colonial resources.

No, it certainly cannot be said that superior resources made us. Our 140 million people live and work in a single economic and political unit. The 230 million people of Western Europe are slowly but surely dying in umpteen separate economic and political cubicles. The average size of such a cubicle is about the size of the State of N. Y. Think of that State trying to produce its own steel, its own cars, grain, wool, movies, cigarettes, etc., by shutting out the production of other states by the erection of tariff barriers.

Think of going to your bank and exchanging Vermont dollars for Florida francs to pay for a crate of oranges or Michigan marks to buy an automobile, or Pennsylvania pounds to pay for your coal or Kansas guilders to pay for your wheat?

The Marshall Plan must succeed. The only way it can succeed is for us to see to it that the conditions are created in Western Europe under which it can succeed. And if that, in the words of the Kremlin, is Yankee imperialism and interference with the sovereignty of other nations, a sovereignty which of course the Russians have always been so careful never to violate, then, by God! I say let's make the most of it. Certainly no plan will do any good if each European nation requests what it needs and is free to say how it is to be spent and free how to organize its own production. If that is what the Marshall Plan will do, then we are merely recreating the old fragmentation in Europe—which economically means a low standard of living and politically is always a potential source of friction.

Question of Economic Union

Moreover, what I just said here fits very well into the present European picture. We have today the so-called Benelux—the Belgium, Netherlands, Luxemburg customs union. I have talked with influential Hollanders and Frenchmen who tell me that they feel convinced this customs union ought to include France. But that isn't enough for the Marshall Plan. I very much agree with the suggestion made in the New York "Times" by a former Lend Lease official. He feels that we should insist upon the creation of an economic council of Western Europe, with full power over the economy of the entire area. Any aid from us, in form of dollars or goods or technical experts, should go to this international council—and not to each country to use as it sees fit. The power to dispose of economic aid from us would give the council the power to make the necessary institutional changes without which Europe cannot become again a functioning economic unit.

I don't believe union in Europe, or for that matter anywhere else in the world, will come voluntarily. Union becomes feasible only when the alternative to union is chaos. Europe now has something to unite against and something to unite for. Besides, what is the alternative to forcing the issue of *union now* for Western Europe? Separate credits to each nation merely postpones the inevitable collapse. Sure, these financial blood transfusions would enable them to struggle on a little bit longer by themselves. And then what would happen here? The American people would become disgusted with the failure of yet another loan. And on top of everything else, it would then be too late for a union or for anything but chaos—the very thing that the men in the Kremlin are trying to bring about—I was almost tempted to say, are praying for.

Laugh, if you must, at my colossal conceit or my unbelievable naivete—but Europe's economic problems (including our own) are in the final analysis essentially simple. What you need is this: Export of coal from Britain and increased production and exports from the Ruhr valley. Before the war, Britain exported 37% of the world's coal shipments. Now British coal exports have virtually stopped. The market for British coal is practically at their doorstep. In the year ended June 30, Western Europe paid more than half a billion dollors for coal from us. Think what that would have meant to Britain, if she could have had a production high enough to supply it? There are some people in Washington who think British coal exports should be an essential condition for receiving aid under the Marshall Plan. Then, of course, there must be a financial housecleaning in Europe, particularly in France and Italy. Without that, price systems cannot function and when price systems don't function then you get black markets and a lot of other inefficient utilization of resources and manpower.

Monetary Stability

If you were a European farmer, would you want to sell your produce against money which at best would have a problematic value? It that case, you would hoard your produce and swap it for whatever goods come to you—thus the black market feeds you the goods you need and the grain from you in exchange feeds the black market. Moreover, this sort of set up is not an incentive for more production, is it? You will produce the most only if you know your efforts will be rewarded—if the currency is sound, you are willing to keep it until such time as you feel your demand for goods must be satisfied. Besides think of the uneconomic utilization of manpower and the high distribution cost involved in black market distribution. The best distribution of your goods is to put them on the shelves at a fixed price, and let the customer help himself.

I am sure, you can see for yourselves why I say the problem is fundamentally simple. There are a few other aspects. For example, France certainly must increase her production and deliveries of cereals, at least to prewar levels—French meat and wheat prices are out of line too, and so on. Above all, some sort of union must be established—without that we will be throwing money down the drain.

Taft-Hartley Act—Not Partisan, Nor Punitive!

(Continued from page 19)

riety trouble maker of a Communist, but all the union can do is expel him. It cannot force his discharge. This may be good or it may be bad. That is not for me to say. But it is the law and it will be observed as long as it remains unchanged on the books.

Discharges "for Good Cause"

Another question which has caused some considerable amount of comment is that provision which emphasizes discharges "for good cause." That provision neither adds to nor takes away from the law in any respect. Good cause has always been justification for a discharge and it always should be regardless of the employee's union activities. I doubt that any conscientious union representative or union member would quarrel with the proposition that any employee, whether an active union member or officer or not, would richly deserve to be discharged if he habitually flouted the regulations of the plant, or destroyed property through wilfullness or carelessness, or did other things of that character which made him objectionable or undesirable as an employee. The "good cause," however, must be real. It could hardly be said, where a number of persons have been caught violating some rule or regulation and have not been disciplined, that it would be justifiable to discharge a union leader for doing the same thing. Good cause is a question of fact. It must be real and not a subterfuge; that has been the rule with the board ever since I can remember. The difficulty has been in determining whether the circumstances represent good cause or a subterfuge. In my opinion, this provision of the Act does nothing except set up a warning to the board and to the General Counsel to give due consideration to the circumstances surrounding a discharge when it is said to be based on good cause, and not to let the mere fact that a man may be active in the union outweigh his actual conduct, in arriving at a decision.

I'm not going to attempt to dwell at length on the subject of union misconduct which the Act provides must be stopped by the General Counsel when it falls within the categories that are described in Section 8 (b) (4) of the Act other than to call your attention to the fact that these things that are forbidden by subsections (a), (b) and (c) of that section and subsection must be predicated upon a strike or upon the union inducing or encouraging the employees of any employer to engage in a strike or in a concerted refusal to use, manufacture, process, transport or handle, or to work on, goods, material, or commodities of any character, or perform any services. In other words, the attempts of the union to force a self-employed person to join a union or to force an employer to join an employer organization or to force him to stop handling the products of some other person, or to cease doing business with some other person, and the various other things that are embodied therein, may not be made the subject of a mandatory injunction unless the strike, or the encouragement or inducement of employees to strike, or to refuse to handle so-called "hot goods" is present.

And I do not think I am justified in the limited time available in attempting to go into the subject of excessive fees or featherbedding, for I strongly suspect some of you also have an interest in the matters pertaining to representation.

Employers' Right to Petition for Elections

Again, I cannot begin to cover it, but I think one of the outstanding features of the representation provisions of the Act is that section which permits an employer to petition the board for an election when any demand has been made on him by a labor organization for recognition. He does not have to wait until he is faced with the conflicting claim of two competing unions as has been the rule heretofore. The purpose of this is obviously to discourage unfounded claims, for if a union now makes a premature claim on an employer and, in an election on the employer's petition growing out of this claim, the union is unsuccessful, there may not be another election in the same unit for a full year. Most unions will soon learn that it does not pay to demand recognition until they are able to stand the test of an election.

Another feature of the Act is the one which permits the employees themselves to initiate an election proceeding where there is a union in the plant which has become distasteful to them to test the continued choice of that union by a majority of those whom it has been representing. The value of this to the employees is that where a union has enjoyed recognition by the employer year after year, and no other union was seeking to get into the plant, the employees have had no way of ridding themselves of the union, no matter how much they desired to do so. Now they have the right to put the union to the test, so long as 12 months have elapsed since the last election, provided, 30% of those in the unit so desire and sign a petition for the election. The value of this privilege to the individual employees is too obvious to warrant comment.

Union Affidavits and Certification

Another feature to which you have undoubtedly given thought is the question of union qualification to utilize the processes of the board. Under Section 9 (f) (g) and (h) of the Act, local unions and the national or international labor organizations with which they are affiliated or of which they are constituent units, are required to file certain data with the Secretary of Labor—and affidavits of their officers that they are not members of the Communist Party and do not subscribe to the overthrow of the government by force, with the National Labor Relations Board. These filings are an absolute condition precedent before any union may receive any consideration at the hands of the General Counsel or the board. An unqualified union may file a petition for representation, but it will not be processed, and if the compliance requirements are not met within a reasonable period the petition will be dismissed. No petitions for union shop authorization will even be entertained unless the petitioning union has met the qualification requirements. And in complaint cases, there will be no complaint issued in the absence of such qualifications. This simply means that if a union does not qualify, not only will it not be heard to complain that the employer has engaged in any unfair labor practice, but most of all, it will not be allowed to engage in any election held by the board or in any other manner enjoy protected representation of employees. In short, it simply deprives itself of all the valuable facilities of the board if it is unwilling or unable to meet these requirements.

There probably are a dozen or more other topics I could touch upon which might be of interest. I wish I had the time to do so. The subject is an extremely broad one and a terribly important one to all of us; but there is one final feature I think you ought to have called to your attention. In many shops, it has been the custom to recognize an established union and deal with it year after year as the recognized representative of the employees. Such an arrangement is convenient—but it has been the experience of many employers that new unions have come along—they call it "raiding"—and after a short organizational campaign, have demanded recognition and then called a strike if they didn't get it.

Under Section 8 (b) (4) (c) such a strike is an unfair labor practice if there is a certified union in the plant, and when it occurs and a charge is filed, the law requires the General Counsel to give the case priority and to apply for an injunction to put an end to the strike. But if the incumbent union is not certified, but is only a recognized union, there is no action provided for in the statute to proceed against the raiding organization.

What Taft-Hartley Act Does

In general comment, I can only say that while this Act brings into play something which the employers have been seeking for a long time in the form of machinery for equalizing the responsibilities and relations between employers and labor organizations, by providing standards of conduct for both, violations of which can be made the subject of unfair labor practice charges, that fact is not the panacea that is going to cure the ills of industrial relations. It may be a vehicle, but no more. Industrial relations are human relations and all the legislation in the world is not going to write a single labor contract that will fix and stabilize the relations of an employer with his employee. Rushing to the National Labor Relations Board every time the union does something which seems to be obnoxious may provide a degree of satisfaction, but it too often will only provide an additional irritant. Sitting around a conference table and threshing the matter out in a collective bargaining conference will do more to settle those things and leave a better taste in everybody's mouth than all the litigation you can ever conduct before the board.

The board is here to serve you and the others who require its services if you reach the point where such services seem necessary. While there was a time when the law required it to specialize in serving labor organizations only, that day is gone. Today, our clients are you, the labor organizations and the individual employees, and our duty is to the public to see that the law that is entrusted to us is fairly, honestly and impartially administered. Our staffs are selected because they have the capacity to do just that, but we all so much prefer to see your problems solved between yourselves and your employees when that is possible.

The strength and prosperity of all of us depends upon our own internal peace and stability of production, but to achieve that we must have, first of all—loyalty—to our organization and to our country—and then for internal peace and stability of production—there must be acquaintance with the other fellow and confidence in his sincerity, too, when he is bargaining with you for something he thinks he is entitled to have. You know, he may have some sound basis for his position. You never can tell until you explore it and help him to explore yours. That takes patience and wisdom and understanding—but if you didn't have these things, you wouldn't be the employers of today.

However, I'm not here to preach. I am here to try to tell you something about the Taft-Hartley Act—what it means and how it works. It is a magnificent piece of legislative machinery. A few "bugs"—yes. But even with them—an excellent law. Its excellence, though, lies in its objective and not in its penal features. That objective is promotion of industrial peace and protection of commerce by elimination of disputes that disrupt. There is only one sure way of doing that—Don't let them reach the litigation stage.

The State of Trade and Industry

(Continued from page 5)

with the steel industry retaining control of domestic steel distribution, according to "The Iron Age," national metalworking weekly.

The news of the individual responsibility of steel firms to produce for the European countries under the plan will take form of "directives." With Marshall Plan steel requirements calling for no more than 60% of 1947 exports for the following year, the program will be largely one of redirecting steel exports to those western European countries in the most dire need.

Steel officials feel that even if the 2 million tons of steel which will be exported in 1948 above the Marshall Plan requirements were shifted to Europe, there would still be no necessity for controls on domestic allocation.

Experience this year in the highly complex business of doling out steel indicates that exports have probably been neither too large nor too small. Keeping in mind the desperate condition of thousands of steel consumers in the U. S. and the recommendations of the Harriman Committee there is little likelihood of any expansion of the total tonnage of steel exports next year.

The case is clearly made, then for statesman-like control of exports states the magazine, but there is no evidence of the desirability of formally allocating the remainder of steel output. As the administration of the Marshall Plan progresses, there will be the danger of constant lobbying for additional controls in an effort to smooth the flow of steel to consumers in this country who are participating in the plan by shipment of machinery or manufactured products.

Barring this kind of interference, the steel industry will remain free to do the best it can with the remainder of steel production for distribution to consumers in this country. Steel officials feel that imposed regulation of distribution at this time would only mean a complete screwing up of the steel delivery situation which makes more sense now than it did a year ago despite all the shortages.

Before the government can impose price controls on the steel industry there must be new legislation. But there is a disposition in some government circles to obtain this authority if possible, "The Iron Age" points out. There will be a fight to place controls on wages as well, if ceilings are to be reimposed on steel prices. It is certain that there will be an effort by the government to shackle both labor and industry in irons of "moral suasion."

Without wage controls, the President would find himself with another hot potato in his hands. In 1946 he had to settle the steel price-wage mess by aggreeing that wages should be increased, and permitting prices to go up simultaneously. He will not wish to travel that road again. Steel companies will make every effort to hold the line on prices just as the government will continue to avoid action in the wage-price dilemma. The next move will be Mr. Murray's—on wages early next year.

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 96.9% of capacity for the week beginning Nov. 10, 1947. This compares with 96.1% one week ago, 96.8% one month ago and 91.2% one year ago. Current operations represent an increase of 0.8 point or 0.8% from the preceding week.

The week's operating rate is equivalent to 1,695,700 tons of steel ingots and castings compared to 1,681,700 tons one week ago, 1,693,900 tons one month ago and 1,607,300 tons one year ago.

RAILROAD FREIGHT LOADINGS SHOW A SEASONAL DECLINE FOR LATEST WEEK

Loadings for the latest week Nov. 1, 1947, totaled 940,746 cars, according to the Association of American Railroads. This was a decrease of 13,881 cars below the preceding week, but represented an increase of 18,434 cars, or 2% above the corresponding week in 1946 and an increase of 88,784 cars, or 10.4% above the same week in 1945.

ELECTRIC OUTPUT 8% HIGHER THAN A YEAR AGO

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 8, 1947 was 5,057,455,000 kwh., according to the Edison Electric Institute. This compares with 5,009,286,000 kwh. in the preceding week, and was 8% in excess of the 4,682,085,000 kwh. produced in the corresponding week of last year.

AUTOMOTIVE PRODUCTION OFF DUE TO MODEL CHANGEOVER AND DIP IN TRUCK OUTPUT

In the automobile industry the shutdown by Ford truck lines to effect changes in models and a slight decline in truck output by G. M. divisions resulted in a decline in total production for the week.

A moderate upturn in car output is looked for this week as Ford puts to use materials and manpower made available by the truck shutdown.

Production in the United States and Canada during the past week totaled 105,022 units, compared with a revised figure of 107,240 units in the previous week and 92,760 units in the comparable period of last year, states Ward's. In the corresponding 1941 week the figure was 96,585 units.

BUSINESS FAILURES HOLD STEADY

Little change occurred in commercial and industrial failures in the week ending November 6, reports Dun & Bradstreet, Inc. Seventy-two concerns failed, 2 above the 70 in the preceding week but almost three times as many as in the comparable week of 1946 when 25 occurred. Concerns going out of business with loss to creditors were considerably more numerous than in the corresponding weeks of the years 1943-1946; they were, however, only one-fourth as high as in prewar 1939.

Failures involving liabilities of $5,000 or more continued to predominate. Numbering 59, concerns failing in this size group were up slightly from 56 a week ago and exceeded by a wide margin the 21 reported a year ago. Of the week's 59 larger failures, 8 went out of business with losses in excess of $100,000. Small failures involving liabilities under $5,000 declined from 14 in the previous week to 13 in the week just ended. Although remaining at a very low level, concerns failing in this liability class were over three times as numerous as last year.

Almost half of the week's total failures occurred in manufacturing. Retail failures fell off from 32 a week ago to 22 this week. Despite this drop, the most marked rise from the 1946 level was in retailing.

WHOLESALE FOOD PRICE INDEX UNCHANGED IN LATEST WEEK

Mixed movements in food prices left the Dun & Bradstreet wholesale food price index for November 4 unchanged from the previous figure at $6.78. This represented a rise of 10.4% above the $6.14 recorded on the corresponding date a year ago.

DAILY WHOLESALE COMMODITY PRICE INDEX HELD TO A NARROW RANGE IN LATEST WEEK

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., moved in a fairly narrow range last week. The index figure finished at 288.45 on November 3, as compared with 288.55 a week earlier and with 234.25 at this time a year ago.

Grain markets were somewhat erratic and in rather wide fluctuations, prices moved downward during most of the period but rallied toward the close to eradicate most of the losses.

Wheat closed lower but corn ended with moderate advances over a week ago. Early liquidation and selling was largely due to uncertainties over prospective legislation by Congress when it convenes on November 17. The upturn late in the week was attributed mainly to the announcement of an increase in grain allocations for December, continued government buying of cash wheat for export and reports of dry weather over much of the southwestern and western Winter wheat belt, despite the fact that many areas received beneficial moisture last week. Domestic demand for flour showed little if any improvement from recent low levels with most buyers limiting takings to small fill-in-lots. Trading in lard was slow with prices easier.

Movement of hogs increased last week and prices continued to decline. Arrivals at principal Western markets totalled 372,800 head for the week, compared with 320,800 the previous week and 477,200 for the corresponding week last year. Cattle and sheep prices also trended lower.

Cotton markets were irregular last week. Prices moved moderately lower, reflecting a let-up in mill buying, continued slow export demand, and uncertainty regarding Congressional action on price control.

Reported sales in the 10 spot markets dropped quite sharply to 438,800 bales last week, from 584,800 the previous week, but were well above the 119,300 for the corresponding 1946 week. Farmers, merchants, and shippers continued to offer freely in most sections of the belt. The October 15 parity price for the staple was announced at 29.64 cents per pound, up 13 points over a month previous. Prices received by farmers for cotton as of October 15 averaged 30.65 cents per pound, as compared with 31.21 in September and 33.15 in October a year ago. Entries of cotton into the 1947 loan stock rose sharply to 50,301 bales in the week ended October 24, from 21,053 and 15,236 one and two weeks previous. Cotton textiles continued in good demand at firm to higher prices.

There was a substantial increase in activity in domestic wools in the Boston market and in the West as a result of the adjustment of selling prices of fine and medium wools as announced by the Commodity Credit Corporation to take effect October 25. Demand for fine staple wools in the Australian auctions continued strong at firm to higher prices. Consumption of apparel wools in August, on a daily average basis, increased sharply to 1,940,000 pounds. This was the highest daily rate for any month since last April, and compared with only 1,540,000 pounds consumed daily in the vacation month of July.

RETAIL AND WHOLESALE TRADE STIMULATED BY HOLIDAY BUYING

Early holiday shopping and cooler weather in many areas gave impetus to consumer buying in the week. Retail volume rose moderately above the level of the previous week and was well above that of the corresponding week a year ago, according to Dun & Bradstreet Inc., in its trade survey. The termination of Regulation W on November I was noted with interest by consumers and retailers alike and very little change in credit buying has yet been reported.

Consumer interest in apparel improved with articles of good quality still preferred.

Interest in furs and fur-trimmed coats increased somewhat, while dresses and sportswear were popular. Jewelry, gloves and cosmetics also sold well with demand for black lacy lingerie heavy. Men's and boys' coats, sweaters and sport clothing attracted favorable attention. Known brands of white shirts were eagerly sought. In the matter of footwear, dollar volume of both men's and women's shoes rose but unit volume declined.

Demand for practically all types of merchandise was very large in the past week. Wholesale volume rose moderately above the levels of both the preceding week and the corrsponding week a year ago. Buyers generally continued to be optimistic and many retailers augmented their inventories of holiday merchandise. The supply of some goods remained limited and deliveries were generally more prompt than in recent weeks.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 1, 1947, increased by 14% from the like period of last year. This compared with an increase of 7% in the preceding week. For the four weeks ended Nov. 1, 1947, sales increased by 7% and for the year to date increased by 8%.

Here in New York the past week retail trade tapered off with department store sales approximating closely the volume of a year ago.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Nov. 1, 1947, increased 37% above the same period last year. This compared with an increase of 30% 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 Nov. 1, 1947, sales increased 29% and for the year to date rose by 10%.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

● Allen (J. J.) & Co., Inc., Buffalo, N. Y.
Nov. 10 (letter of notification), 744 shares of common stock (par $25). **Price**—$25 per share. **Underwriter**—J. J. Allen. To pay mortgage on building and operate a store.

● American Bankers Insurance Co. of Florida, Miami.
Nov. 3 (letter of notification) 2,500 shares of class A (par $10) common, 5,000 shares ($10 par) class B common, and 11,250 shares 8% ($10 par) cumulative preferred. **Price**—$240 per unit, consisting of 2 shares of class A, 4 shares of class B and 9 shares of preferred. No underwriting. For capitalization of company to enter into stock fire insurance business.

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., N. 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; Herbert W. Schaefer & Co., Baltimore, Md., and Comstock & Co., Chicago. **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 Investm't Co. of Illinois, St. Louis, Mo.
Nov. 7 (letter of notification) 30,000 shares ($1 par) common. **Price**—$10 a share. No underwriting. To discharge a portion of indebtedness and for general corporate purposes.

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.

Appalachian Electric Power Co. (12/2)
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. **Bids**—Bids for purchase of securities will be received up to 11:30 a.m. (EST), Dec. 2, at 30 Church Street, New York.

● Ark Bakers, Inc., Wichita, Kansas
Nov. 5 (letter of notification) 1,076 shares ($100 par) preferred and 538 shares (no par) common. **Price**—$100 a preferred share and $1 a common share. No underwriters. To pay off note and for working capital.

● Associated Clothiers, Inc., New York (11/14)
Nov. 6 (letter of notification) 6,000 shares of capital stock (par $50). **Price**—$50. **Underwriting**—None. For working capital.

Associated Telephone Co., Ltd.
Oct. 16 filed 150,000 shares of cumulative preferred stock (par $20). No bids submitted Nov. 12 for preferred stock. **Proceeds**—To reimburse treasury for capital expenditures. Statement became effective Oct. 31.

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**—Common will be sold at not less than $22 a share and the preferred at not less than par. **Proceeds**—To redeem unexchanged shares of old preferred.

California Water Service Co. (11/18)
Oct. 21 filed $1,500,000 first mortgage 3¼% bonds, series C, to be sold through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Union Securities Corp., and Harris, Hall & Co. (Inc.) (jointly). **Proceeds**—Will be used to retire $900,000 bank loans, to reimburse the treasury for expenditures on construction and for other corporate purposes. **Bids**—Bids for purchase of bonds will be received up to 9:15 a.m. (PST), on Nov. 18, at American Trust Co., 450 California Street, San Francisco.

Callaway Mills, LaGrange, Ga.
Aug. 28 filed 123,306 shares (no par) common. **Underwriting**—No underwriting. **Offering** — Shares will be offered only to those stockholders who exchanged their holdings of common for preferred in 1945. **Price**—$35 a share. **Proceeds**—For corporate purposes.

Carpenter Paper Co., Omaha, Neb. (11/18)
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 (11/24)
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 Louisiana Electric Co., Inc.
Oct. 20 (letter of notification) 11,519 shares ($10 par) common. **Price**—$25.50 a share. Offered for subscription by stockholders of record Oct. 10 in ratio of one new share for each 9.6 shares held. Rights expire Nov. 17. To finance construction program.

● Central Maine Power Co., Augusta, Maine
Nov .10 filed $4,000,000 first and general mortgage bonds, series P, due 1977, and 160,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding for the bonds. Probable bidders: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; Harriman Ripley & Co.; The First Boston Corp. and Coffin & Burr (jointly). **Offering**—The bonds will be offered publicly while the common will be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share held and one-tenth share of new common for each common share held. Price by amendment. **Proceeds** — For construction and repayment of bank loans.

Central Power & Light Co. (12/8)
Oct. 31 filed plan to sell $6,000,000 1st mtge. 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., Blyth & Co. and Harriman Ripley & Co. and Smith, Barney & Co. (jointly); Lehman Brothers and Glore, Forgan & Co. (jointly). Proceeds would be used for construction of additional generating capacity and for other facilities. Bids expected to be opened Dec. 8.

● Cessna Aircraft Co., Wichita, Kansas
Nov. 3 (letter of notification) 25,000 shares ($1 par) common, being offered by D. L. Wallace, President of the company. To be sold at market through Dempsey-Tegeler and Co., Los Angeles.

Cleveland (Ohio) Electric Illuminating Co.
Sept. 26 filed 254,989 shares (no par) preferred, series of 1947. **Underwriter** — Dillon, Read & Co., New York. **Offering**—To be offered share for share plus a cash adjustment for outstanding $4.50 preferred. Unexchanged shares of new preferred will be sold publicly. Price by amendment. **Proceeds**—To retire unexchanged shares of old preferred. Offering indefinitely postponed.

● Cleveland (O.) Electric Illuminating Co.
Nov. 12 filed $20,000,000 35-year first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Blyth & Co.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Dillon, Read & Co. Inc.; The First Boston Corp. **Proceeds**—For construction program.

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.

● Consumers' Cooperative Services, Inc., New York (11/17)
Nov. 7 (letter of notification), 30,000 shares of common stock (par $5). **Price**—$5 per share. **Underwriting**—None. Working capital to be used in outfitting a new cafeteria, etc.

● Cowles Co., Inc., Cayuga, N. Y.
Nov. 5 (letter of notification) 1,000 shares ($5 par) capital stock. **Price**—$30 a share. No underwriting. For additional working capital.

● Delaware Power & Light Co.
Nov. 7 filed $10,000,000 1st mtge. coll. trust bonds, due 1977. **Underwriters**—To be sold at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp., and Blyth & Co., Inc. (jointly); Morgan Stanley & Co.; Lehman Brothers. 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 Mfg. Corp., Chicago (11/13-14)
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.

Dogpaw Gold Mines Ltd., Toronto
Oct. 22 filed 1,000,000 shares ($1 par) capital stock. **Underwriter**—Name to be filed by amendment. Price by amendment. **Proceeds**—To develop mining properties in Flint Lake locality of Ontario.

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.

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.

NEW ISSUE CALENDAR

November 13, 1947
Dodge Mfg. Corp.________________Debentures
Graham-Paige Motors Corp.____________Common

November 14, 1947
Associated Clothiers Inc.__________Capital Stock

November 17, 1947
Consumers' Cooperative Services, Inc.____Common
Liberty Loan Corp.______________Pfd. & Com.

November 18, 1947
California Water Service Co., 9:15 a.m.(PST)Bonds
Carpenter Paper Co.________________Common
Consolidated Edison Co. of New York, Inc.
11 a.m. (EST)______________________Bonds
Interstate Department Stores, Inc._____Debentures
National Oil Burner Corp.______________Stock
Rowe Corp.________________________Common
Speer Carbon Co.____________________Common
Western Maryland Ry.__________Equip. Trust Ctfs.

November 19, 1947
American-Marietta Co.________________Common
Chesapeake & Ohio Ry.
Noon (EST)________________Equip. Trust Ctfs.

November 20, 1947
Harbor Plywood Corp.________________Common

November 24, 1947
Celotex Corp.______________________Debentures
Munising Wood Products Inc.___Pref. and Common
Southern Pacific Co.
Noon (EST)________________Equip. Trust Ctfs.

December 1, 1947
California Oregon Power Co.___Pref. and Common

December 2, 1947
Appalachian Electric Power Co.___Bonds and Pref.
Georgia Power Co.____________________Bonds

December 4, 1947
Phillips Petroleum Co.________________Common
White Motor Co.________________________Stock

December 8, 1947
Central Power & Light Co.___Bonds and Preferred

● **Era Mining Co., Deadwood, S. D.**
Nov. 4 (letter of notification) 100,000 shares ($1 par) common. **Price**—$1 a share. To be sold through officers of company. For mining purposes.

● **Firemen's Insurance Co., Newark, N. J.**
Nov. 12 filed 120,462 shares ($5 par) common. **Underwriter**—Blyth & Co., Inc., New York. **Offering**—Shares initially will be offered to stockholders on basis of two shares for each 31 shares held. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—To be added to company's capital and surplus.

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. Indefinitely postponed.

● **General Finance, Inc., Concordia, Kansas**
Nov. 5 (letter of notification) $100,000 of 5% debenture notes. To be sold at face amount. **Underwriter**—Robert J. Long & Co., Abilene, Kansas. To pay off mortgage indebtedness and for working capital.

● **Georgia Power Co., Atlanta (12/19)**
Nov. 7 filed $10,000,000 30-year first mortgage bonds. Underwriting to be determined by competitive bidding. **Bids**—It is expected that the time for presentation and opening of proposals will be 11 a.m. (EST), Dec. 9. Probable bidders include: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co.; Smith, Barney & Co. and Kidder, Peabody & Co. (jointly); Lehman Brothers; Harriman Ripley & Co.; Goldman, Sachs & Co.; Lazard Freres & Co. and Equitable Securities Corp. (jointly); Shields & Co.; Drexel & Co.; The First Boston Corp. **Proceeds**—For construction program.

Gerity-Michigan Corp., Adrian, Mich.
Sept. 29 filed 40,049 shares ($1 par) common. **Underwriter**—Name to be filed by amendment. Price by amendment. **Proceeds** — The shares are being sold for the account of James Gerity, Jr., company president.

● **Golconda Mines, Inc., Denver, Colo.**
Nov. 5 (letter of notification) 550,000 shares of stock. **Price**—50 cents a share. No underwriting. For mine development.

Graham-Paige Motors Corp., N. Y. (11/13)
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.

Great Western Biscuit Co., Los Angeles
Aug. 11 filed 249,972 shares ($1 par) capital stock. **Underwriter** — Fewel & Co., Los Angeles. **Offering** — Shares will be offered to stockholders at $2 a share in the ratio of one new share for each two now held. Unsubscribed shares will be offered publicly at $2 a share. The underwriters will receive a commission of 25 cents a share. **Proceeds**—For business expansion and to reduce short term indebtedness.

● **Great Western Oil Co., Denver**
Nov. 4 (letter of notification) 3,160 shares ($10 par) common. **Price**—$10 a share. **Underwriter**—James T. Chiles, Denver. For development of oil and gas leases in Kansas.

Greenback (Tenn.) Industries, Inc.
Sept. 17 (letter of notification) 25,000 shares ($10 par) preferred and 50,000 shares (10¢ par) common. **Price**—$10 per unit, consisting of one share of preferred and two shares of common. **Underwriter**—L. L. Bailey & Co., Knoxville, Tenn. To pay for equipment and buildings.

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.

Harbor Plywood Corp. (11/20-24)
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.

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.

● **Holtville (Calif.) Development Corp.**
Nov. 3 filed 15,000 shares ($10 par) common. **Price**—$10 a share. To be sold through J. W. Harold of Los Angeles, and J. A. Osborn of Holtville, as security salesmen. For construction of hotel and store.

Hungerford Plastics Corp., Murray Hill, N. J.
Nov. 3 (letter of notification) 5,000 shares of common stock (par 25¢) being offered by two stockholders. To be sold at market through Buckley Brothers under an option which expires Nov. 24.

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**—Names by competitive bidding. Probable bidders: Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co. **Proceeds**—For new construction purposes.

● **Industrial Credit Co., Cleveland**
Nov. 7 (letter of notification) 875 shares of cumulative preference stock, of which 600 shares will be offered at $47.50 a share and 275 shares are to be issued as a stock dividend to holders of common and preference shares. No underwriting. For investment in commercial and consumer loans.

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.

Interstate Power Co., Dubuque, Iowa
May 13 filed $19,400,000 of first mortgage bonds, due 1977, and 2,132,223 shares ($3.50 par) capital stock. **Proceeds**—For debt retirement, finance new construction and for working capital. Bonds awarded Sept. 24 to Halsey, Stuart & Co. Inc. on bid of 101.90 for a 3½% coupon rate. Stock awarded Sept. 24 on bid of $4.05 per share to Lehman Brothers, Goldman, Sachs & Co. and Wertheim & Co. The SEC on Sept. 25 rejected the bid for the stock. The SEC in its decision declared the price offered for the stock "would not effectuate a reorganization plan which would be fair and equitable to the persons effected thereby." The SEC's action also held up the sale of the bonds.

Johnson Automatics, Inc., Boston
Oct. 10 (letter of notification) 95,000 shares of common. To be sold at market. **Underwriter**—George F. Breen, New York. For additional working capital. Issue will be placed privately.

● **Kalamazoo (Mich.) Paper Co.**
Nov. 5 (letter of notification) 2,359 shares of common being sold by the trustees of the estate of George L. Gilkey, deceased. **Price**—$22.50 a share. **Underwriter**—Paine, Webber, Jackson & Curtis, Grand Rapids, Mich.

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.

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.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. **Underwriter**—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price**—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. **Proceeds**—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

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.

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.

● **Middle States Telephone Co. of Illinois, Chicago**
Nov. 7 (letter of notification) 13,125 shares of common. No underwriting. For additions and replacements to its property.

Munising Wood Products Co., Inc. (11/24)
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.

● **National Oil Burner Corp., Newark, N. J. (11/18)**
Nov. 10 (letter of notification), 801 shares of class A (voting) and 781 shares of class B (non-voting). **Price**—

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$50 per share. **Underwriting**—None. Purchase of factory building, equipment, etc.

● **Nevada Monarch Consolidated Mines Corp., Ontario, Canada**
Nov. 6 (letter of notification) 200,000 shares of common. Price—25 cents a share. To be sold to Wm. M. Archibald, President of company. No underwriting. For note retirement and development of mining property.

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.

● **North American Oil Co., Baltimore, Md.**
Nov. 7 (letter of notification) 25,000 shares of common. **Price**—90 cents a share. **Underwriter**—Henry White & Co., Baltimore, Md. For payment and development of mining lease.

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.

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.

● **Peter Paul, Inc., Naugatuck, Conn.**
Nov. 6 (letter of notification) 11,955 shares (no par) common, to be offered for subscription at $25 a share to present stockholders. No underwriting. For expansion and working capital.

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. 19 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 loan and for working capital.

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.

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.

● **Refrigerator Doors, Inc., White Plains, N. Y.**
Nov. 10 (letter of notification), 600 shares of non-convertible preferred stock (par $100). **Price**—$100 per share. **Underwriting**—None. Purchasing equipment and materials to manufacture doors.

● **Rochester Consolidated Mines Co., Dayton, Nev.**
Nov. 7 (letter of notification) 250,000 shares of capital stock. **Price**—50 cents a share. No underwriting. For mining operations.

● **Rock Manufacturing Co., Stoughton, Mass.**
Nov. 4 (letter of notification) 1,500 shares ($100 par) preferred, to be offered publicly at $100 a share and 1,500 shares (no par) common to be sold to President of firm for $500. **Underwriter**—A. W. Charbonneau, President. will solicit subscriptions. To purchase new machinery and for working capital.

● **Romec Pump Co., Elyria, O.**
Nov. 7 (letter of notification) 39,700 shares (50¢ par) common. **Price**—$2.75 a share. No underwriting. For reduction of debt and for working capital.

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.

● **San Antonio (Texas) Machine & Supply Co.**
Nov. 6 (letter of notification) 2,500 shares ($100 par) common. **Price**—$120 a share. To be offered to present stockholders. No underwriting. For additional working capital.

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.

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., Lehman Brothers and Lazard Freres & Co. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Harriman, Ripley & Co. **Proceeds**—To finance construction program.

Speer Carbon Co., St. Mary's, Pa. (11/18)
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.

● **Sterling Engine Co., Buffalo, N. Y.**
Nov. 5 (letter of notification) 5,000 shares of common on behalf of Addison F. Vars, board Chairman. To be sold at market through A. G. Becker & Co. as agents.

● **Sunray Oil Corp.**
Nov. 12 filed $40,000,000 20-year debentures and a new issue of cumulative convertible second preferred stock, series of 1947 (par $100). The interest rate of the debentures and the dividend rate of the second preferred stock will be filed by amendment. **Underwriters**—Eastman, Dillon & Co. heads a group of underwriters. **Purpose**—The financing is in connection with the proposed merger of Pacific Western Oil Corp. and Mission Corp. into Sunray. The number of shares of second preferred to be issued, which also will be filed by amendment, will vary between 112,500 and 250,000, depending upon the extent to which minority stockholders of Pacific Western accept the cash offer of $68 per share which is to be made by Sunray. The merger agreement provides that outstanding shares of capital stock of Pacific Western will be converted into 7/10ths of one share of new 4½% prior preferred stock of Sunray (par $100); each cutstanding share of capital stock of Mission will be converted into six shares of Sunray common, and each outstanding share of 4¼% cumulative preferred stock, series A, of Sunray will be converted into one share of prior preferred of Sunray. There will be no change in Sunray's outstanding common stock. The merger will result in Sunray's ownership of approximately 59% of the common stock of Skelly Oil Co. Upon conclusion of the merger Sunray will sell to Tide Water Associated Oil Co., at $25 per share, the 1,923,447 shares of Tide Water now owned by Pacific Western and Mission. **Proceeds**—Proceeds from the sale of the securities registered together with a $14,000,000 1 to 10-year bank loan, proceeds from the sale of the common stock of Tide Water and cash from the company's general funds, will be used to purchase shares of Pacific Western capital stock, to redeem $20,000.000 Sunray's 20-year 2⅞% debentures, due July 1, 1966, at 103¾, and to repay $9,000,000 1⅞% promissory note.

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.

● **Union Bag & Paper Corp., New York**
Nov. 12 filed 21,861 shares (no par) capital stock. **Underwriter**—Morgan Stanley & Co., New York. **Offering**—Shares will be offered to stockholders on basis of one share for each six held of record Dec. 1. Price by amendment. **Proceeds**—To finance new construction. **Business**—Bag and paper business.

● **United Hardware Co., Kansas City, Mo.**
Nov. 7 (letter of notification) 1,500 shares ($100 par) common. **Price**—$100 a share. No underwriting. For organization of usiness.

● **Washington (D. C.) Gas Light Co.**
Nov. 7 filed 85,000 shares (no par) common. No underwriting. **Offering**—The shares will be offered for subscription to common stockholders on the basis of one share for each five held. Price by amendment. **Proceeds**—To be added to general funds for current construction program. **Business**—Public utility.

● **Western Light & Telephone Co., Inc., Kansas City, Kansas**
Nov. 6 (letter of notification) 10,000 shares of 5% cumulative preferred. **Price**—$28.50 a share. **Underwriters**—The First Trust Co. of Lincoln, Neb., and Harris, Hall & Co. (Inc.), Chicago. For expansion of plant facilities.

White Motor Co., Cleveland, O. (12/4)
Oct. 28 filed 275,000 shares ($1 par) stock. **Underwriter**—Hornblower & Weeks, New York. **Offering**—For subscription by stockholders of record Nov. 17 on basis of one share for each 2½ shares held. Rights expire Dec. 3. 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.

● **Winged Cargo, Inc., Philadelphia**
Nov. 4 (letter of notification) 2,000 shares ($100 par) common. **Price**—$100 a share. To be sold through officers of the company. For business expansion.

Prospective Offerings

● **Aluminum Industries, Inc.**
Nov. 10 stockholders approved an increase in capital from 100,000 to 500,000 shares (no par) common, the declaration of a 100% stock dividend and the issuance of 100,000 shares for subscription to stockholders at rate of one share for each two shares held. Hallgarten & Co. may be underwriter.

● **Baltimore & Ohio RR.**
Nov. 7 reported company planning the issuance of some $5,000,000 additional equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

Chesapeake & Ohio Ry. (11/19)
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.

● **Goodyear Tire & Rubber Co.**
Nov. 18 preferred stockholders will vote on approving the creation or assumption of additional funded debt.

● **International Harvester Co.**
Nov. 12 William R. Odell, Jr., Harvester Treasurer, disclosed that the company plans a public offering of securities in the "next few months" to finance its expansion program. The underwriting syndicate will be managed jointly by Glore, Forgan & Co.; Harris, Hall & Co. (Inc.), and William Blair & Co. Although no decision has been reached as to the type or amount, the bankers and the company were reported planning a debenture issue, and $85,000,000 was advanced as the most likely amount. Harvester's expansion program involves the expenditures of $100,000,000 to $150,000,000.

● **Minnesota Power & Light Co.**
Nov. 24 the SEC will hold a hearing on company's proposal to reclassify its outstanding 550,000 shares ($10 par) common into a like amount of no par shares. Following reclassification, company plans to sell additional common to supply funds to finance its construction program.

● **Southern Pacific Co. (11/24)**
The company is asking for bids on $14,500,000 equipment trust certificates, series W, maturing Dec. 1, 1948-57. All bids must be received before noon Nov. 24, at Room 2117, 165 Broadway, N. Y. City. Proceeds will be applied toward a $21,785,790 equipment program. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Western Maryland Ry. (11/18)**
Company has issued invitations for bids to be considered Nov. 18 for $3,000,000 1¾% equipment trust certificates. The certificates will be dated Dec. 1, 1947, and are to mature semi-annually from June 1, 1948 to Dec. 1, 1952. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Our Reporter's Report

Many of the investment banking firms and dealer organizations which go to make up the country's underwriting industry spent months fretting over the antitrust action which they knew, far in advance, the Department of Justice was in process of preparing.

Naturally they would rather have seen the whole matter settled quietly and without the fanfare which is certain to attend the court proceedings when the case goes to trial. At least that was the feeling through the weary months of anticipation when the rank and file of houses hoped against hope that they would not be involved in the litigation.

But with the filing of the civil action about a fortnight ago, naming 17 of the major investment banking firms, there seems to have been a pronounced change of heart on the part of many of those who escaped being cited. The action is now looked upon as perhaps the best way to clear up the situation which has been hanging fire for a long while.

People involved, as they have stated in most instances, welcome the litigation as a means of getting out into the open a matter which has been held, so they claim, unjustly over their heads.

And curiously enough, those who fretted the most over the possibility that their firms would be among the ones named are now decidedly upset for quite the opposite reason.

Now, it appears, if your firm is not listed among the seventeen cited, you are a bit on the "small-fry" side. Or at least that is reportedly the feeling of a few firms who have been subjected to good-natured bantering by some of their clients.

Texas Eastern Offering

Handled through a nation-wide banking syndicate yesterday's offering of 3,564,000 shares of no par common of the Texas Eastern Transmission Corp. met with decidedly good response.

One of the largest common stock undertakings in many months, it was sought after by investors who were willing to accept the possibilities of appreciation over a period of years in place of immediate dividends.

Priced at 9½ the stock was in heavy demand around the country presumably helped in no small measure by the widespread publicity given the Big and Little Inch Pipelines which are its principal assets and the likewise well-publicized fuel situation.

Some of the participating underwriters were seeking stock from others in the group in order to cover their requirements, according to reports.

Peabody Coal Bonds

One of the first new issues for the account of a coal mining company reached the market today.

This deal involves an offering of $12,500,000 of new 15-year first mortgage series A 4% sinking fund bonds for the account of the Peabody Coal Co.

Handled by Chicago bankers, it will provide the company with funds needed for construction of new mines and for the modernization of its present operating properties in Illinois.

Cleveland Electric

Recent developments in Cleveland Electric Illuminating Co.'s financing plans do not mean any change in the utility's policy as regards competitive bidding or negotiated sale of its securities, Elmer L. Lindseth, President, states.

Its recent proposal to sell $25,000,000 of new preferred stock, via the negotiated route, to redeem its outstanding senior issue, created quite a furore, it will be recalled. Cleveland banking interests attacked the projected refinancing vigorously but the Ohio Public Utilities Commission gave the plan its blessing.

However, due to unfavorable market conditions as regards preferred stocks, the company decided to postpone that undertaking indefinitely. It now is prepared to sell $20,000,000 of new oonds, by way of competitive bidding, to provide part of the funds needed for its construction program.

Halsey, Stuart Offers Peabody Coal Bonds

Halsey, Stuart & Co. Inc. heads a group which is offering $12,500,000 Peabody Coal Co. first mortgage sinking fund bonds, series A, 4%, due Oct. 1, 1962, at 100% and accrued interest. The proceeds from the financing are to be applied largely to the company's construction program necessitated by increasing demands for its coal. The program includes two additional modern Illinois mines, modernizing of three existing large mines, acquisition of an additional mine and coal reserves and improvement of subsidiary properties.

The first mortgage bonds are to be secured by an indenture which, in the opinion of counsel, will constitute a first lien, subject to permissible encumbrances, upon land, unmined coal, coal rights, mining machinery and equipment owned by the company. In addition, all outstanding shares and evidences of indebtedness of certain subsidiaries will be pledged. The bonds will have the benefit of a fixed sinking fund designed to retire $9,600,000 bonds prior to maturity and a contingent sinking fund based upon earnings which may retire an additional $250,000 annually, beginning in 1950.

A. G. Becker Group Offs. Heyden Chemical Debs.

A. G. Becker & Co., Inc., and associates publicly offered on Nov. 13 a new issue of $6,000,000 principal amount of Heyden Chemical Corp. 15-year 2⅞% debentures, due Nov. 1, 1962. The securities are being offered at 100% and accrued interest, to yield 2⅞% to maturity.

Of the net proceeds from the sale of the debentures, estimated at $5,895,000, $2,000,000 will be used to prepay a bank loan obtained last December to provide additional working capital. Approximately $1,300,000 will be used to expand the company's facilities in Princeton for the production of anti-biotics, including streptomycin. The remaining will be added to working capital and may be used in part to expand plant facilities in Memphis for the manufacture of chlorine, caustic soda and organic chemicals.

The company and its subsidiaries manufacture and sell synthetic organic chemicals for industrial and medicinal uses, as well as certain drugs, pharmaceuticals and anti-biotics. Consolidated net sales for the nine months ended Sept. 30, 1947, totaled $16,264,539 and net income for the period was $1,940,262.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

In a capital where reports by the bushel are issued every day, it is rare to expect that a single one of these could revolutionize the entire outlook for a legislative session—perhaps a major policy for years. Yet that is just what the Harriman report appears to have done.

For one thing, it has cut the ground completely out from under the drive to use foreign aid as a means of stopping the personal income tax cut. For another, it actually has given inferential aid and comfort to the proponents of that tax reduction. This report also has failed to sustain the Administration's effort to revive domestic controls.

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There is close similarity between the thinking of the Harriman committee of citizens and the special Congressional (Herter) committee on the subject of foreign aid.

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Both groups favor foreign aid, but they also favor caution. They both agree as to the "unrealistic" character of the Paris committee's program for expanding capital assets. Both are in agreement in scaling down the dollar totals in the Paris committee's proposals. Both favor independent, non-partisan administration of foreign aid by an independent agency — although with reconcilable differences in details.

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One of the outstanding conclusions of the Harriman committee is its placing of the dollar drain upon the U. S. at somewhere between $12 and $19 billion. This is a lot better than $19 to $22 billion. In terms of drain by years it also is much better. Specifically, it means a net of only $5 billion above what has been appropriated for the calendar year 1948. And this includes money for stop-gap aid.

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Republicans sponsoring the tax cut will not be slow to point out that this means only $2.5 billion more than already budgeted in the present fiscal year. If the President follows through with his program to crack the $37 billion floor on Federal expenditures by $2 to $3 billion, the overall budgetary situation will not be much worse off than it otherwise would have been without the Marshall Plan. With the surplus (exclusive of foreign aid) expected to rise to $5 to $7 billion for the present year, there is room for both a tax cut and some debt reduction. That is what the friends of tax reduction will say.

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Overall, the report reduces the foreign aid problem to just about manageable proportions. It will not be the tremendous thing that will overhang the domestic economy the Nourse group has been thinking. It will not be a problem requiring of itself and for itself vast increases in governmental powers and controls. The Harriman committee even hinted that tax reduction was possible. It said the program could be handled and leave room for "tax adjustment" and debt retirement.

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Thus it may have been more than a coincidence that President Truman abandoned the idea of pushing a large-scale foreign aid program in the special session—just after getting a preliminary look at the Harriman committee report. His drive to push full foreign aid so as to preclude a tax cut, died aborning. He announced that the special session would consider first, stop-gap aid, and second, price control.

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Republicans quickly took the cue. Speaker Joe Martin "predicted" that the special session would not have time to pass both stop-gap aid and a permanent foreign aid program. What he in effect said was that if Truman was willing to give up the strategy of shoving the long-term foreign aid program through ahead of taxes, Republicans would hold off their drive on the income tax cut.

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It is generally considered that this was smart politics. Republicans will now avoid casting suspicion upon themselves for jeopardizing emergency aid for Europe for the sake of their political objective of a tax cut.

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This does not mean that the basic fight is not still the same. The fight is over which shall pass first, long-term foreign aid or the income tax cut. The Administration will still try to get foreign aid on the books or on the way to enactment first. It may still say that this precludes a tax cut within a balanced budget. And Republicans will still drive for the tax cut first, so they won't be boxed up. The row has been delayed until the regular session in January.

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The big difference, however, is that the Harriman committee report takes the starch from the Administration's position.

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In the days ahead probably will be developed the Administration's rationalization of its objectives. Maybe the Administration will limit its objectives — give in on tax reduction, admit the reduced scale of foreign aid, get less anxious for domestic controls. Then there will be sweet harmony between the legislative and executive branches.

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But this may be doubted. The Administration is shifting tactics so fast that printers cannot set up the latest strategy in type before it is abandoned.

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Don't expect Marriner S. Eccles to stay quiet while Dr. Edwin G. Nourse, Chairman of the President's Council of Economic Advisers, does all the brain trusting on credit and economic matters. The Chairman of the Board of Governors of the Federal Reserve system will be heard from.

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One of the open but not publicly-expressed "secrets" of the foreign aid program around Washington is that Britain's dollar deficit is almost exactly equal to her dollar out-of-pocket cost of maintaining her armed forces outside the United Kingdom, even on a reduced scale. If England withdraw from world outposts completely, she would have no dollar problem. It's easier to finance Britain, officials say privately, than to "sell" the U. S. in maintaining troops in such unpleasant places as Palestine and elsewhere.

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Short-term money rates are bound to rise, in the government view. The Treasury "ceiling" of 1% on 1-year money has given way in favor of a goal of making Treasury issues a little more attractive than some of the riskier commercial and consumer loans, and to effect a somewhat higher commercial loan rate. However, it takes a Treasury issue as much as three or four months to rise by ⅛ of 1%. Officials are complacent about the hints that high grade corporate issues might rise 0.5% beyond the top rate on government long-term loans—a rate, incidentally, which will hold for the foreseeable future. They say that the differential is normal. The cracking of the 1% on the 1-year rate is only the FIRST step directed at inflation control.

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There is now little doubt that home building in 1947 will top 800,000 units. And the expansion in construction is expected to continue into 1948. With Congress away, it is not possible to measure the effect of this development on public housers, but it should cut at least one leg off their britches. Their argument—that without public subventions, housing would not be built. Commerce Department will issue its forecast of building for '48 in a couple of days, showing a total construtcion for next year of $15 to $16 billion, versus around $12.6 billion this year. Industrial construction will be down in '48. But home, commercial, and public works construction will be up. Builders are limiting their real immediate objective to $500 million of Title VI FHA money, the soonest possible.

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That controversial thing, the secondary market for GI home loans, will be revived for one class of lenders in the near future, the savings and building and loan associations. John H. Fahey's resignation as Chairman of the Home Loan Bank Board has been expected before the New Year. Naming of Howard McGrath as Chairman of the Democratic National committee, may delay this. Home Loan Bank Board hopes to make the share-holding "savings and loan" institution something like two or three times as important as it now is in the savings picture.

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If farm groups do not agree upon the outlines of a revised farm program in the next two or three months, look for Congress to continue the 90% supports "temporarily" for another year. If farm groups agree, there can be revised farm legislation. For neither Republicans nor Democrats can get very far on farm legislation without majority support of the farm lobbies. Target of a discussed agreement: Still government supports and government controls, but lighter supports and smaller controls, except for tobacco and one or two other crops which want to be the heavily controlled and supported.

BUSINESS BUZZ