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Shall We Construct Or Conscript?

By JOHN M. SWOMLEY, JR.

Acting Director, National Council Against Conscription

Mr. Swomley, urging military training proposal be dropped, says probable $20 billion conscription cost, plus Marshall Plan outlay, would cause economic collapse.

America must choose either to help reconstruct Europe or to pass compulsory military training. It cannot do both without injuring the American economy. During the next four years the Marshall Plan for reconstruction of Europe will cost the United States about $20 billions. Peacetime conscription for the same period would cost in all close to $20 billion.

John M. Swomley, Jr.

The Marshall Plan for reconstruction provides for American aid to Europe to supplement what the European nations are jointly able to do to help themselves. For a four-year program beginning in 1948 western Europe wants $22,440,0000,000, of which about $19 billion would come from the United States. The remaining $3 billion would be drawn from the World Bank. The schedule of aid calls for about $8 billions in 1948, with somewhat smaller amounts

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Division of Family Income—A Tax Red Herring

By HARLEY L. LUTZ

Professor Emeritus of Public Finance, Princeton University

Asserting device of dividing income between husband and wife is a scheme to defeat fundamental revision of individual income tax, Dr. Lutz holds to principle of taxing legal owner of income, and points out compulsory joint income returns are as defensible as splitting of income, and would be easier to handle. Says national adoption of divided income between husband and wife would hamper recasting income tax rates and is unfair to single persons.

The scheme to divide family income between husband and wife for income tax purposes has become very popular as a device to beat the Federal income tax. Several states have been foolish enough to enact it for this purpose. It has been said, on good authority, that the inclusion of such a provision in either of the 1947 tax bills would have carried it over a Presidential veto. The Senate minority tried hard to insert a division of income amendment, hence it may be assumed that this minority will go along in 1948 with a tax bill containing a provision for income splitting between husband and wife. Indeed, no one should be too much surprised if credit for the idea is not claimed by the minority.

Dr. Harley L. Lutz

The device is superficially attractive, but it is really a scheme to defeat more fundamental revision of the individual income tax. It is a phase of the Treasury's long struggle to change the basis of individual income taxation over to the family income rather than to tax each individual on the income of which he is the legal

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The Inflationary Bond Standard

By DR. MELCHIOR PALYI

Professor at the University of Wisconsin

Pointing out present U. S. monetary system is no longer a gold, but an inflationary bond standard, Dr. Palyi holds system tends toward continuous "self-inflaming" inflation. Says full employment economy operates under law of diminishing returns, which means rising costs per unit of output, and contends President's proposals to cut inflation will be ineffective. Sees as remedies: (1) "sky-high" taxes; (2) curbing debt monetization; (3) neutralizing gold reserve accruals; and (4) withdrawing Federal Reserve support of bond market. Looks for mild depression as needed to balance our economy.

The Bureau of Labor Statistics' general wholesale index of all commodities hovers at this writing—toward the end of November, 1947—in the neighborhood of 160 (1926=100). In 11 months it has risen roughly by 25% and has just about doubled since the outset of the European war. Earlier this year, nine out of ten forecasters, predictors, analysts, and prognosticators were expecting a depression, more or less, by midsummer. This near-unanimity of sentiment among forecasters is characteristic of the profession. Now, as in the 1920's, it follows the climate of the stock market, which in turn reflects the emotional outlook of the business community. At first, it was the fear that inventories were overstocked, having skyrocketed by some $8 billion in the second half of 1946 alone; next, the argument

Dr. Melchior Palyi

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EDITORIAL

As We See It

Some Common False Assumptions

A number of the current "programs" of the Administration, and of some others, too, rest upon completely false assumptions. Not only the great rank and file, but more than one of the national and international leaders of the day, appear often to be quite unaware of the weakness of the logical foundations upon which their arguments rest. Here is a situation which must not be permitted to continue.

One of the most common of these assumptions, and certainly one of the most glaring, is that someone somewhere in public life, or some group of individuals in the Administration or at its command, has reached that stage of superhuman wisdom which enables them to know what are the "most essential uses" for a long list of materials not in sufficient supply to meet all the demand arising in the existing highly abnormal situation. We are constantly being informed that such things as steel, for example, must be allocated, or "channeled" into the most essential uses, and it is, of course,

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Program of Limited Price and Wage Controls

By HON. W. AVERELL HARRIMAN*
Secretary of Commerce

Commerce Secretary, maintaining it is essential to promote stability in domestic economy and, at same time, to implement foreign aid program, urges power be given government to control consumer credit, allocation of railroad equipment and facilities, exports, inventories of scarce materials, as well as re-instalation of price and wage controls in selected categories. Denies desire to renew overall wartime controls, but holds some government action is required.

It is essential that consideration be given measures necessary to promote stability in the domestic economy, and to implement the foreign aid program with a minimum effect upon domestic supply and demand. It is apparent that positive steps are required, since we lack assurance at the present time that these ends can be achieved without definite government action.


W. Averell Harriman

The agencies principally concerned with particular segments of the economy are presenting to you their detailed descriptions of the existing situation and their proposed actions. My testimony is directed toward areas of primary concern to the Department of Commerce First, however, I wish to refer to two proposals. One of these, though not the direct responsibility of the Department, is related to its work. The other is a field in which I share a joint responsibility.

*From statement of Secretary Harriman before the House Banking and Currency Committee, Dec. 1, 1947.

Instalment Credit Controls

With regard to instalment credit controls, it is evident that restraints used prior to last month were a factor in restricting the expansion of such credit. Relaxation under present conditions—when the supply of goods, and particularly consumer durable goods, can not be substantially expanded—adds to the upward pressure on the price level. Instalment credit has increased by more than two billion dollars during the past year. Another billion dollars would be added to total consumer credit simply by reversion to prewar terms, if controls remain lapsed. This amount is over and above that resulting from the basic upward trend of the amount of goods sold on consumer credit. I share the conviction that these controls should be promptly reenacted.

Transportation Controls

My second proposal relates to the extension of authority to allocate transportation facilities and equipment.

The Second Decontrol Act of 1947 authorized the continuation of controls over the use of transportation equipment and facilities by rail carriers. These controls are administered by the Office of Defense Transportation, subject to my over-all review. In the first quarterly report to the Congress under the Second Decontrol Act I stated that there is greater need now for controls over such facilities than existed at the time of the enactment of the Second Decontrol Act of 1947. I, therefore recommend that these powers be continued.

It is appropriate to emphasize the results achieved in this instance with the aid of limited con-

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A Gold Coin Standard to Halt Inflation

By HON. HOWARD H. BUFFETT*
U. S. Congressman from Nebraska

Congressman Buffett, in stressing evils of inflation, holds our money deterioration started in 1933, when revolution in U. S. money system took place. Says real anchor for sound currency is gold coin standard and no form of regimentation will stop present money depreciation, and political parties will not stop inflationary spending. Proposes introducing bill to restore gold coin standard and concludes inflation will not end until people again possess final power of restraint on government spending.

Congress has been in special session for two weeks. During that time we have had a number of reports about conditions in Europe and Asia. At the risk of interrupting this travelogue series, I am going to discuss briefly the most talked about problem on the main streets of America—the rising cost of living.


Howard Buffett

I must concede that the problem of inflation in America has not the emotional appeal of current foreign events.

It is hard to dramatize the losses suffered by the thrifty and frugal people of America, who have seen their dollar savings more than cut in two in purchasing power.

Inflation Is Involved Problem

But one does not have to be an expert nor a prophet to foresee the eventual disaster if this money deterioration continues. Yet I must confess that I speak on this problem with some reluctance.

*A speech delivered in the House of Representatives by Congressman Buffett, Nov. 28, 1947.

For over 14 years the endeavor to clearly comprehend and understand the intricacies of inflation and money deterioration has held first place in my life. Yet, after those years of study, I still often find myself temporarily following one of the countless blind alleys that so easily confuse the student of this problem.

Copernicus, the great scientist, once pictured the difficulty that confronts us on inflation.

In 1526 King Sigismund of Poland called in Copernicus to discover what was the matter with Poland and what might be done about it.

The king did not pretend to be an economist. But he sensed that there might be some connection between the economic distress of his people and his dilution of the money by frequent coin-clipping.

Copernicus made a study and opened his report with these observations:

"Among the innumerable calamities which ordinarily cause the downfall of the kingdoms, principalities, and republics, there are four, which according to my opinion are the most dangerous ones:
"(1) Discord.
"(2) Great mortality.
"(3) Sterility of the soil.
"(4) Deterioration of money."

Copernicus continued:

"The evidence of the first three is so great that nobody dares ignore them. But as regards the fourth—concerning the deterioration of money—very few . . . take any interest in it. This is because it ruins the state not at once, but by small degrees, by an action which is in a certain sense hidden."

Copernicus was certainly right. The deterioration of money is a hidden and long-drawn-out process.

People Are Aroused About Prices

But while the processes of currency deterioration may be in-

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More Production and Government Economy to Offset Spiraling Prices

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

Senate Republican leader attacks President's proposed price controls and asserts spiraling prices can only be curbed by more production and less government spending. Says there is distortion in price structure, and warns we are building up production in some fields beyond normal level. Recommends increased workers' productivity, decreased government spending, limits on exports, restraint of bank and consumer credits, and reduced percentage of government guarantee on housing loans. Urges campaign to discourage spending and to encourage savings.

In the domestic field, as in the international, the principles of economics which can bring good times or bad times are infinitely complicated. The relative strength of conflicting economic forces is impossible to measure and there is plenty of disagreement, even on the basic principles. According to prevailing opinion, the spiraling increase of prices and wages presents the greatest threat to our stability, but there is practically no agreement on the best method of stopping this spiral.

Robert A. Taft

Rising prices are not an unmixed evil. As prices of a commodity rise, people buy or use other things so that consumption tends to decrease and production to increase, so that the problem of that particular commodity is ultimately solved. Thus, at the moment the high price of grain is conserving grain for shipment abroad because it does not pay to feed it to livestock. Mr. Anderson is claiming some credit for the decreased weight of cattle and hogs coming to market because of his campaign of education, but I think even he will admit that the high price of grain is a much greater factor. If we arbitrarily reduce the price of grain, its use for feed will rapidly increase and their will be less wheat for human consumption and shipment abroad.

Price Spiraling Dangerous

But a continuation of the present spiral of prices and wages is dangerous because it creates all kinds of distortions which, when they get bad enough, will seek a violent readjustment. The income of certain groups like farmers and factory workers has increased faster than the cost of living, but those who live on a fixed return from investments are in a pitiful condition with a 65% increase in the cost of living. White collar groups and unorganized workmen have had increases much less than the increase in the cost of living. Institutions relying on endowment funds find their income decreased, to meet increased expenses. States and municipal governments are unable to increase their tax receipts as rapidly as necessary to meet increased expenses and pay adequate compensation to their employees. These income groups are using up their savings. Sooner or later there will be falling off in the purchasing power of millions of people which may bring a violent reduction of prices such as occurred in 1920 after prices had outrun all wages. Once this purchasing power falls off, many manufacturers will find the high cost of their particular labor and materials an obstacle to continued production. Without production unemployment can rapidly cumulate.

If prices can be stabilized where they were, it may be possible to correct the present distortion. We could increase the minimum wage, and gradually increase the wages of those who have been left behind. The present high prices in themselves may not be dangerous if the whole economy can be adjusted to some new price level, below where it is today, but 50% or 60% above prewar. The United States is such a tremendous factor in the world today that world prices will tend to adjust themselves to American prices, so that there may be no great distortion in international trade. But a gradual stabilization may be impossible if prices, and the wages in all highly organized industries, continue to rise. From the point of view of the increasing hardship to the poorer families, and of the continued prosperity of the entire world we should do what we can to prevent further increases.

There is another kind of inflation going on also. We are building up our production in some fields beyond what can be hoped for in normal times. If, for instance, we create a great activity in some industries based on an abnormal export market which we cannot hope to retain, the sudden cessation of that export market may bring sudden and dangerous unemployment. So, also, in various manufacturing fields where the production is abnormal to make up for wartime deficiencies. This abnormal inflation of production where it exists cannot be carried to further extremes without serious danger.

Deficit Standing and High Prices

Except from a political standpoint, it is somewhat futile to dis-

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*An address by Senator Taft at the 200th Anniversary Dinner of St. Andrew's Society, Philadelphia, Pa., Dec. 1, 1947.

Transitions in Securities Business

By JAMES F. BURNS, JR.*
Partner, Harris, Upham & Co.
Former President, Association of Stock Exchange Firms

Securities broker points out new concepts of securities business which has placed it on a better and sounder basis. Says there is better public understanding of securities transactions and recognition of importance of economic functions on securities business. Sees profitable use of greater investment research and more corporate publicity, and cites valuable work of NYSE public relations program. Holds shift has been from speculation to prudent investment and points to general decline in volume of stock transactions. Scores Federal Reserve margin restrictions and contends certain Federal regulations and heavy taxation are impeding flow of investment capital.

To be invited to speak before the members of the Junior Investment Bankers and Brokers Association is indeed a great honor. I know that sounds like the usual hackneyed introduction, but I say it with all sincerity. You have just entered the securities business and you have done so, I hope, to make it your life's work. You want to find out about its problems, its objectives; and therefore for you to consider me as one qualified to talk on these matters is extremely flattering, to say the least. I assure you that I am very happy indeed to be here.

James F. Burns, Jr.

The founding and rapid growth of your organization is a significant development in the securities industry. The seriousness, the thoughtfulness, and the cautious planning which has characterized your undertaking from its inception typifies the spirit today which in my opinion exemplifies our business in this year of 1947.

And your initiative in this respect is catching on in other parts of the country. I am delighted to learn of similar developments among the younger men and women in other financial communities.

This serious approach which you have made to the field of endeavor which you have chosen augurs well for the future of our industry and for the leadership with which you will eventually supply it. It is certainly in great contrast to that which existed in the 1920's, when to a large extent the approach was haphazard and was surrounded by an atmosphere of "Get rich quick—win or lose." In those days trainee courses were almost unheard of. An individual overnight could become a customer's man or customer's broker or account executive, or whatever you want to call it, and in many instances, at the outset, at least, he knew little, if anything, concerning the values or the prospects of the securities which he was discussing with his clients. I can assure you that was my personal experience.

A New Concept of Securities Business

A great deal of water has gone over the dam since those days. We have developed a new concept of our business—a new understanding of our obligations to the public—and a fuller appreciation of the part that we play in the system of free enterprise. During this period—this period of the last 15 years—vital and important transitions affecting our business have taken place. Some of them have resulted in making our business a better and sounder one. Others have acted as deterrents to its progress and to the proper fulfillment of its economic functions. It is concerning some of these developments that I would like to talk to you today.

Some of you are principally interested in the securities commission business; some of you are working in the investment banking field; and others are engaged in the over-the-counter business. These three inter-dependent functions when taken together constitute what is referred to as the securities industry. In that respect, my personal experience has been confined primarily to the operations of our securities exchanges and their member firms, and what I have to say to you is based upon that experience and will be devoted to the operations and problems of that segment of the industry.

Transitions

For the purpose of this discussion, I have grouped into three broad general categories what I believe can be considered as the most important transitions affecting our business in the past decade and a half.

The first of these major transitions involves the development of a public understanding of our business and an appreciation on our part of our obligations to the public in the services which we render.

In the late 1920's the stock exchange business was afflicted with an unfortunate glamour. It possessed an atmosphere of unsavoriness, which perhaps was due to some questionable use of the industry's facilities. The result of it—the failure of those of us in the business at that time to do anything about it, along with the "holier-than-thou" attitude which many exhibited—was certainly the political investigations and regulations which ensued.

Today, however, instead of such an atmosphere we find that our industry is more highly respected and more completely recognized as a fundamental American institution, carrying on fundamental American economic functions, than ever before in its history. Briefly what has caused this.

The personnel now engaged in our business, from the top to the bottom, understand that they are performing a definite economic and social function in American progress. They possess a new and healthy attitude toward the industry and a revised and broader conception of its functions and obligations. Such an attitude reflects itself in the relations between broker and client.

The facilities of our business have been developed to such an extent that today we are better equipped to render proper service to the public.

More Research and Publicity

Instead of the old sales psychology of advising a client to purchase or sell securities on almost anyone's say-so, today we present the facts. We indicate the meritorious or unsatisfactory elements of a security and the degree of risk which may be involved in purchasing or retaining that security.

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*An address by Mr. Burns before the Junior Investment Bankers and Brokers Association, New York City, Nov. 25, 1947.

LETTER TO EDITOR:

Comments on Stock Market Formulas

Theodore Prince, securities consultant, in commenting on Mr. May's articles, points out limitations and shortcomings of Dow Theory and other mathematical formulas for forecasting market trends. Also takes issue with Mr. Barbour on "Defense of Dow Theory."

Editor, Commercial and Financial Chronicle:

I should like to comment on the five articles written by A. Wilfred May, published in "The Commercial and Financial Chronicle" of Oct. 9, 16, 23, 30 and Nov. 13 of this year, covering a wide range of subjects; relating to the various "methods," "systems" and the Dow Jones averages whereby profitable transactions in securities may ensue. In my opinion, such operations involve and affect the sale of securities to the public by which capital is secured. The need for a more scientific approach to the preservation of capital and income is urgent, not only on account of heavy taxes but also because our economy is being extended further and deeper in all the causative symptoms throughout the world. To secure a better understanding of the method by which capital is made, preserved and supplied to our great industrial empires that give us the power for security, prosperity and the will to "save the world for democracy" is, therefore, of outstanding importance.

Theodore Prince

Mr. May has in these articles "de-bunked" in an impressive judicial review, critically yet constructively, the various methods by which the purchase of securities by investment or speculation are made to appear amenable to certain pseudo mathematical and physical laws, rhythms and cycles. It is time that part of our economic functioning should no longer be based on a pari-mutuel series of configurations or a roulette table theory of operations. It is time that Wall Street should acquire a serious scientific professional atmosphere instead of being indoctrinated by a haphazard philosophy or unsound dogmas which in effect, Mr. May challenges.

The level of Wall Street operations should be raised to that of the experienced and skilled lawyer, doctor and engineer. The contribution of the activities of the "Street" should be to the economic system not just to brokers or bankers. In time, Wall Street may then become respected instead of being the subject of criticism and suspicion. Since this is a fundamental and sound cause I think further analysis of these articles might be in order.

The Dow Jones theory has usurped for many decades the judgment that comes to men of maturity and experience and become a revered, respected implementation of the ancient soothsayer. But, as Mr. May points out, it is a thermometer not a barometer and cannot foretell the future although it records the various ascending or descending forces of the stock market. Mr. May claims the followers of this cult (article of Oct. 9) "commit the same error indulged in by gamblers which the mathematician Steinmetz termed the 'maturity of the chances'" which is also in evidence by those who risk their money on the theory that repetition of a chance number, color or face of a coin makes its reversal logical.

The Dow Jones theory has in no sense maintained the prescience claimed for it by its adherents as Mr. May points out in particular instances. Conspicuously, the Dow Jones average failed in giving its "bear" signal and remained ominously quiescent, regarding the slump from May 1946 from a high of 212.50 in the Dow Jones average to 163.12 on Oct. 9, 1947. The reason of that violent and unexpected decline is still shrouded in the labyrinth of quixotic market and economic behavior. In fact, the behavior excited the curiosity of the SEC which took a full year to compile and analyze the various factors underlying these unaccountable movements. The report indicates that the bear signal was given by the Dow Jones average when the February low of 186.02 was broken at 12 o'clock on Sept. 3, with the averages closing at 178.68. (That would be 26 to 34 points from the high or from 53 to 10% of the decline to Oct. 9.) The SEC further gives importance to the effect of the Dow Jones average on the slump following, but finds no business or economic reason for the market precipitous decline.

Mr. May emphasizes the above analysis by the SEC and adds that "The mechanistic trend reason was 50 times as preponderant as was broker or investment advisory influence."

A recent extended article from the citadel of Dow Jones authority—"Barron's National Business and Financial Weekly" of Nov. 17, 1947 written by A. J. Cortese, under supervision of Barron's regular commentator on that theory, states in effect that the Dow Jones theory, is discarded as a market forecaster but "is merely a definition of a rising or falling market. . . . The formula describes only what has happened and says nothing about the future of the market." The author sets up 13 definite terms "Deceptive Bull or Bear Signals" from 1899 to Sept. 1936. The cruelest "deception" was the Bear Signal of June 20, 1923: "Down 5 points (5½%) in

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Observations . . . .

By A. WILFRED MAY

Obstacles to Stock Market Forecasting

(Eighth of a series on investing problems)

In our last article the insufficiency of correct predictions of business and general economic trends **in terms of stock market behavior** was pointed out. Now we shall see the similar perversity of stock market behavior in relation to specific external events. Looking back at the years immediately preceding the Second World War, we remember that recurrently through 1938 and 1939 stock prices suffered war-jittery sinking spells, correlated with Herr Hitler's recurring Sportpalast and similar oratorical blasts. Then in the climactic days at the end of August, 1939, when the war's outbreak was recognized as imminent, stocks declined sharply, presumably as the result of both long- and short-sales. Consequently, after Hitler had actually marched into Poland at dawn on Friday, Sept. 1, and England and France finally declared war on Sunday the third, the reopening of the New York market after the long Labor Day weekend was awaited with fear and trembling by the longs and with pleasant anticipation by the shorts. But . . . to the complete surprise of most of the public (including the London and Paris financial centers) the news was received that the New York market had reopened after the actual outbreak of hostilities at sharply higher instead of lower prices, with a subsequent further general rise of about 20%.

A. Wilfred May

Divergent Effects on Industry

In a somewhat narrower way we have seen wholly unexpected and varying consequences to specific industries resulting from crucial external events. For example, after Pearl Harbor the rumored and actually promulgated rationing in this country was viewed by investors and speculators as all-inclusively bearish. Since the *varying* effects of rationing throughout the economy were not realized by either financial economists or the investing public, that event resulted in the decline to their 10-year lows of the share prices of our petroleum as well as consumer finance companies—prices that in both cases logically could only reflect the expectation of permanently extinguished earning power or near-bankruptcy. Actually, however, the reduced sales of gasoline to civilian consumers was soon more than compensated for by the tremendous military demands, while for the other industry there was little offset to fill the void left by the cessation of hard-goods production. The unforeseen consequence, therefore, was that oil company earnings during the war years rose considerably above the pre-war average, while the consumer finance earnings were sharply reduced, and only now are entering the upgrade.

Long-Term Selective Price Behavior

The great permanent difficulty of appraising the price movement of individual industries and companies in peacetime also, is proved by the record. A recent compilation shows that despite the intervening reduction of the Dow Jones Industrial Average by more than 50% since the 1929 all-time peak; nevertheless 185 stocks are selling above their 1929 highs. Furthermore, 147 are higher than both 1937 and 1929, and 38 issues are higher than 1929 but lower than 1937. For the period since V-J Day we have witnessed a virtual crazy-quilt of simultaneous net advances and declines; showing the great double-difficulty of correctly appraising individual industries, even if, for one reason or another, one manages to predict the trend of the general market average.

"Liquidity" and Outguessing the Crowd

An important outgrowth of the prevalent concept of the *liquidity* of the stock market is the fallacious conclusion that the share of the corporate equity that is Exchange-listed is esentially a different kind of property than is the share in a business concern which is not traded in on the market place. As a result the investment-speculative public buys and speculates on *changes in price* rather than appraisable *value*; in other words, each individual engages in a game of trying to outguess the other players on the course of prices (not values). This frequently takes the form of trying to out-"psychologize" the rest of the "public." During a major bull or bear swing this may merely consist of estimating by means of "internal" market "tools" how long the trend will be extended, from "technical" rather than "external" causes (a la Dow Theory); or the investor (speculator) may suit his decisions, not even according to his expectation of future extrinsic events, but to his estimate of the psychological effect of those events. Sometimes these judgments do not stop at the next level but are extended to the third or fourth "degree"; that is, in estimating what the "smart operators" will esti-

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The State of Trade and Industry

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

The picture of industrial production for the past week reflected modest variations in the prevailing high level with output generally being maintained at a very high peak.

For the current week steel operations are scheduled at 97.7% of capacity, a rise of 1.4 points, or 1.5%, being the highest since the week of June 5, 1944.

Following the pattern of recent months, employment and payroll in the week held close to record highs with labor disputes at a minimum. The probability that production in general will hold up well into the future is sustained by present large backlogs of orders in many lines and new orders booked well into 1948.

In the textile field, mills continued to operate at a very high level with bookings for many fabrics considerably in excess of current output. Output of clothing made some slight gains with orders for shoes, hosiery and some other items on the increase. Lumber shipments of 402 mills for the week ending Nov. 22, 1947, advanced 6.2% above production with the year-to-date increase of reporting identical mills, according to the National Lumber Trade Barometer 1.6% above output.

* * *

Reviewing the business situation for November last, the National Association of Purchasing Agents revealed that 46% of its agents reported a general upward trend in business. It noted a marked change of trend, compared with the June, low point of the year when only 6% reported increases, with the figure for November said to be "the highest number so far this year."

These advances were coupled with a leveling off of the overall price trend, for the number that reported moderate increases was equalled by those who noted no change for the month.

The general policy it reported was "watchful waiting, while exercising extreme caution." Purchases were held to be more selective, with increasing competition found, particularly in fabricated items.

Noting a real bright spot in the picture, it stated that 58% cited an increase in labor productivity, while only 4% reported a decrease.

* * *

Consumers responded very favorably to promotional sales of holiday items the past week resulting in retail volume rising moderately above the level of the preceding week and holding well above that of the corresponding week a year ago. Considerable interest was evidenced in Christmas gifts and toys; and with Thanksgiving Day occurring within the week many varieties of foods were purchased.

Practically all types of merchandise were sought by retailers as they endeavored to augment inventories. Wholesale volume in the week continued to rise moderately and remained well above that of the corresponding week of 1946. Articles appropriate for holiday promotion were in large demand and in addition, interest in Spring apparel was enthusiastic.

STEEL OPERATIONS SCHEDULED AT 97.7% OF CAPACITY ESTABLISH NEW HIGH SINCE JUNE 5, 1944 WEEK

Capitulation of Congress to the government's demand for steel allocation powers would carry with it the power to destroy the present peacetime steel distribution setup. The current voluntary quota system in the steel industry has its weak points but it is based on practical applications and administered by those who realize the explosive character of the delicate balance between supply and demand, states "The Iron Age," national metalworking weekly in its current survey of the steel industry.

Government officials apparently have no definite plans while they ask for allocation powers and have lost sight of the important fact that peacetime steel business is a far cry from wartime output, the magazine notes.

Today the number of steel customers and the number of actual orders placed are far in excess of the normal war year.

Individual steel orders call for different sizes, grades, tonnage, destinations and end uses. For any government or any company to attempt to determine the difference—if there is any—between essential and nonessential demand in peacetime could result in industrial suicide, the above trade authority points out.

Great Britain, it says, is going through the same process of allocation breakdown which occurred in this country during the early years of the war and early this year set up allocations or priorities favoring steel demand for fuel, power and oil conversion uses. By the second quarter of this year such priorities earmarked the complete output of light plate production in Great Britain. Now, faced with the need for even higher priorities for the export drive, a whole new system is being planned.

There is already in this country the present week complete

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Rowles, Winston Co. Formed in Houston

HOUSTON, TEX. — Announcement is made of the formation of the firm of Rowles, Winston & Co. with offices in the City National Bank Building as successors to the investment business of Rowles & Co. Officers of the firm are Russell R. Rowles, President; James O. Winston, Jr. and Allterton Cushman, Vice-President, and George A. Small, Jr., Secretary-Treasurer.

R. R. Rowles

Cassatt Balt. Exch. Member

BALTIMORE, MD. — Anthony D. Cassatt, a partner in Merrill Lynch, Pierce, Fenner & Beane, has been elected a member of the Baltimore Stock Exchange.

Speculation Not Cause of Rising Prices

By WILLIAM J. REID*

Partner, Bache & Co., Members, New York Stock Exchange

Member of stock brokerage firm attacks recent attempts to blame rising prices on speculation and "big business." Says speculation can influence markets only temporarily and has beneficial effect in promoting enterprise and progress. Lauds services of organized exchanges and points out hedging through futures markets is form of insurance.

You have undoubtedly read in the papers about rising prices being generally attributed to speculation and with the usual tendency to place the blame on Big Business and these commodity exchanges. Well, in the first place, I would say you have to make a sharp differentiation between speculations of various kinds. Certainly one could not condemn the tendency to speculate on the part of people who put their money in constructing the railroads in this country. Many of them lost their money, but their tendency to speculate certainly had very beneficial effects on this country and one could go on and quote many such instances, like the speculation that induced Marshall Field, Henry Ford, and others to start enterprises and what resulted out of it.


William J. Reid

There is certainly a vast stretch through various degrees of speculation from investments in government bonds, real estate, down to the other extreme where I suppose we would reach race tracks, betting, and slot machines.

*An address by Mr. Reid at the Third Annual Meeting of the National Hide Association, Chicago, Ill., Dec. 3, 1947.

In regard to these exchanges, it has been stressed and I think one cannot stress it enough, that the exchanges do not do any business, but just keep a market where buyers and sellers can meet and they lay down certain principles insuring that everybody will get a square deal. I don't believe it is generally appreciated to what extent they are of tremendous benefit to the business and agricultural interests and to the people in the country generally. People who have had the opportunity to use these exchanges and know their workings appreciate that without them the cost of handling of agricultural and other products which are dealt in on these exchanges would be greatly increased. The operations conducted on these exchanges are simple, but yet like a great many other things, those who spend some time and study find that a good deal can be done with them.

Main Purpose of Exchanges

The main purpose of these exchanges is to lessen the extreme swings from high to low prices, although when you listen to some people, you would think that these exchanges cause the extreme swings. I have had a good many years of experience with these exchanges and I am convinced that speculators can temporarily influence the market, but only temporarily and not for over a very long period. It goes without saying, if a lot of people get the idea quickly that wheat, cotton or hides, are going up and a wave of buying sets in prices will be influenced sharply upward, but the fact that these speculators go in and buy a lot of one commodity does not alter the supply or consumption of the commodity because once a speculator buys it, the sure thing is that he is going to have to sell it again and in the long run only what is actually produced and consumed affects the price.

A good deal of comparison has been made in the last year with the period subsequent to the ending of World War I. I was in this industry at that time when hides ran up to about 64¢ for Chicago packers and I remember quite well the firm with which I was associated buying dried Java cow hides over a dollar a pound. If my memory serves me right, we sold them at around 40¢. We marked off between $500,000 and $600,000 from our inventory that year. In that period there was no hide exchange. I know one hide dealer who at that time, foreseeing a drastic fall in hide prices, sold cotton futures short against his hide inventory and in that way he recouped a part of the loss he sustained. I also know a tanner who sold stocks of two large leather companies which were dealt in on the N. Y. Stock Exchange short and in that way he got back a substantial part of his inventory loss.

Perhaps some of you may not have gone through that period or been closely in touch with it, but the losses in the tanning industry and the hide business in the period subsequent to World War I continuing right up into the 30's, were tremendous. I am fairly sure my memory is right, that the company which is now known as U. S. Leather Co., and then known as the Central Leather Co., had a working capital at the close of World War I in excess of $50 million and this had gone down in some years by millions of dollars to a point where it was, at the beginning of the recent World War, in the neighborhood of $10 million. The tanning business was certainly a sick industry between the two wars. It now has enjoyed

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How to Avoid Deep Depressions

By ELMER C. BRATT

Professor of Economics, Lehigh University

Economist, in analyzing measures to sustain full employment, dismisses "compensatory government spending" as inadequate, and proposes as alternative to prevent deep and enduring business depressions: (1) a national housing program; (2) coordinated long-range government economic program; (3) dynamic price policy; (4) encouragement of small business; (5) national credit policy; (6) national wage policy; (7) international buffer-stock plan for raw materials; and (8) private planning in advance for long-term changes in consumer demand.

The widely heralded demand for implementing measures to sustain "full employment," as ordinarily conceived in America, involves two relatively distinct policies: (1) that of keeping unemployment down to the level of an irreducible "float" of two or three million persons at all times; (2) that of moderating business fluctuation, instead of expecting to eliminate it entirely.


Dr. Elmer C. Bratt

Prompt and unlimited government spending at the first hesitation in private expenditure is the only practicable means known for achieving the conditions required by the first of these policies. Because of the fear of inflation and of making the economy inflexible, the American people appear unlikely to accept such unlimited spending. It is therefore probable that full employment will be characterized by the second rather than the first policy. The purpose of the present article is to contrast methods of moderating business fluctuation.

Compensatory Spending

Need for moderating the variation in business activity has been recognized for a long time. The method now most frequently proposed is variation in government spending. When the private economy begins to falter government spending would be called on to make up the deficiency.

Various types of expenditure may be increased. The most famous is "public investment," a concept frequently used to include somewhat more than public works. However, it represents the well-known position that the government should defer its expenditures for durable improvements until a recession threatens and then implement a program of expenditure large enough to offset the threatened decline in private expenditure. The practical difficulties in the way of such an idea are so great and now so well-known that no extended discussion is required. Problems are likely to arise in finding a satisfactory volume of works, in saving up projects during prosperity in view of the political advantages to be gained by immediate development, because of the time required to get public-works projects under way, in deciding at what point in the recession full-scale expansion should be begun, in shifting workers from one region to another, and in shrinking the public-works programs as private activity increases.

The government could pay out funds directly to consumers rather than as compensation for work performed on public projects. Unemployment insurance is a type of direct payment now generally accepted. Unemployment insurance payments, however, never could provide enough certain support of consumer expenditures to establish an assured limit to the decline. Theoretically, supplementation might be provided by a uniform consumer subsidy, of such an amount as to maintain expenditure. However, the mailing of government checks of sufficient size is unlikely to attain a wide following in the near future.

Modification of the income tax rate according to the business cycle provides for a variation in the net rather than in the gross expenditure. Instead of increasing the total government expenditure in a period of business recession this plan is to reduce taxes so as to effect an increase in disposable income. This method has been strongly advocated by the Committee for Economic Development. Notable difficulties are involved nevertheless. Income tax rates would have to be made variable by an administrative agency, and the Congress is unlikely to grant such a power. Reduced income tax rates would add disposable income disproportionately in the upper income tax brackets because of the graduated nature of the tax. Considerable doubt exists as to the extent to which income recipients in these brackets will immediately increase their expenditures with a reduction in taxes. Even though the total receipts of the income tax now come to a very large figure, it might be necessary to authorize employers to add a "tax credit" instead of deducting for taxes as in the withholding procedure. This would come out to be the same as a direct consumer subsidy.

Various compensatory methods which directly force spending by consumers rather than supplement it by government spending have been advocated. These usually involve taxes to discourage saving. An important case is the proposal for a tax on bank deposits. This method has neither been proven workable or unworkable, but certainly would require substantial perfection beyond the mechanical methods so far proposed, so that an effective arrangement is not now available. It seems unlikely, once expenditure is declining, that a tax on deposits could keep it from continuing to decline. Also, the implications of forcing consumers to spend when there are no goods they desire to buy have not been fully developed. Taxing bank deposits might lead to a hoarding of commodities. If successful, it would force consumers to spend even larger amounts in recession than in prosperity because investment expenditure is sure to decline at such a time.

Alternatives to Compensatory Controls

Few advocates of compensatory controls by spending or other methods would deny the charges made in the above section. Their reply would be: what is the alternative? Many persons fear and disagree with full-employment controls while high prosperity lasts, but what will their attitude be when recession comes? In fact, not a great deal of exception can be taken to the position that when a recession is again in full swing almost any expedients will be accepted rather than see activity drift into a bottomless pit of depression. Convincing arguments in this respect are fear that the Great Depression may be duplicated, conviction that the system

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From Washington Ahead of the News

By CARLISLE BARGERON

The spectacle of three or four Republican Senators challenging the leadership of Bob Taft is just about one of the most comical episodes to occur in what is wittingly called the Nation's Capital in a long time. It is equalled in its mirth-provoking characteristics only by the high glee with which the New Deal columnists spread it as a serious division within the Republican ranks.


Carlisle Bargeron

Many objective observers see in it a natural clash of rival Presidential candidates. But aside from Baldwin of Connecticut, possibly, it is doubtful if this is the case. Baldwin looks upon himself as a dark-horse potentiality and it is not unlikely that he joined in the recent "rebuke" of the Ohio Senator to attract attention to himself, not having been in the Senate very long and thus not having had the opportunity to distinguish himself in that body, though I have no doubt that he will in due time.

The other three Senators taking part in the "rebuke"—Aiken and Flanders of Vermont, and Smith of New Jersey, hardly had any such joint motive as to embarrass Taft's Presidential candidacy. Aiken has long harbored left-of-center tendencies; there is unquestionably a wide gulf in their political philosophies and the political support they seek. Both Flanders and Smith are "business men" and not schooled in the mechanics of politics, but they, particularly Flanders, do present an arresting study in human nature. Flanders courted and got CIO support in his campaign for the Senate. Considering both him and Aiken you wonder what is happening in the so-called rock-ribbed Republican state of Vermont.

Smith apparently has been used to being consulted and having, perhaps, his own way, in business. A newcomer to the Senate, he is determined to be consulted there. He and Aiken, after "administering a rebuke" to Taft, then set out to put the National Chairman, Carroll Reece, in his place. At a social gathering a couple of nights ago, I heard Smith telling Reece he wanted to look over his speeches before he made them. That takes the cake. Reece has been in politics for a pretty long time and there is scarcely room for doubt that he has more influence in party councils than Smith is ever likely to attain.

Aiken's complaint and I believe Smith's, too, was that Reece's utterances contain too much "cleverness," instead of just the straight-out, dull Republican facts. This probably constitutes the first time on record that a Republican speaker was ever accused of being "clever."

But what Snuffy Smith would describe as a "scandal to the jaybirds," what is really one of the most rollicking pieces of comedy I have seen in a long time, is this group's challenge to Taft's leadership and their insistence that when he makes a speech he point out that he is speaking only for himself. I wish some of the New Deal columnists who tell of this with such mocked solemnity would describe just how such a challenge is evolved.

Bob Taft has no title as Republican Senate leader. That title is held by Wallace White of Maine. He is Chairman of the Republican Policy Committee but that mantle could be shed tomorrow and he would still be just what he is—regardless of any title, the Republican leader that he is. His leadership is not something that rests on the friendly votes of his colleagues, on any title they have bestowed upon him. Certainly it does not rest upon patronage he has to dispense to make men adhere to him, on any power to do them harm or good in their careers.

It rests solely upon his outstanding ability, upon a stature that completely dwarfs his fellow Senators. It rests upon a recognition of this by these Senators, by the Washington correspondents, by anyone who observes the Washington scene. His complete understanding of the subjects with which he deals, his inescapable logic, his almost uncanny ability to take the most difficult proposition to pieces, analyze them and put the whole back together again—this is his leadership. It is hard to see how any group of Senators or a majority of them can take this away from him by "rebukes," by votes or in any other way.

This writer has seen too much of politicians and statesmen to be a hero worshipper. I have never known one that close observation did not reveal clay feet. But my admiration for Bob Taft is high.

I find a rather general admiration for his ability and honesty and courage, in fact. But it is said he won't get the Presidential nomination because the Republicans can't win with him.

He has been up against that sort of stuff for a long time. Indeed, the Ohio Republican organization in 1938 wouldn't support him in the Senatorial primary because "they couldn't win with him." They supported a former

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Wage and Price Restraints to Combat Inflation

By HON. LEWIS B. SCHWELLENBACH*
Secretary of Labor

Labor Secretary, warning we are in second wave of inflation, cites increased living costs since mid-1947. Says neither farmers nor workers wage demands are responsible, and asserts prices have risen much faster and much farther than can be explained by increased wage costs. Holds price legislation is required to avoid another round of wage increases and advocates price fixing, but states restraints on wages must necessarily come by voluntary and cooperative action of labor and management, with constant and careful watching of wage picture, with authority to impose wage controls when necessary.

The United States economy is now in the midst of the second wave of inflation that began shortly after the end of the war. The first wave began in the first quarter of 1946, when controls were progressively relaxed, and proceeded with great vigor through the period of price decontrol in the summer and fall of 1946. In this wave prices rose very sharply. By the end of 1946 wholesale prices were 31% higher; and the prices of goods and services to consumers 18% higher than at the beginning of the year.


L. B. Schwellenbach

Though the increase in living costs worked many hardships, especially on people of low or fixed incomes, it was argued that this was the inevitable result of decontrol and that higher prices would provide an incentive to greater production which, in turn, would lower prices when supply overtook demand. Production did in fact increase very rapidly and is now higher than ever before in peacetime. At the same time national income rose steadily. The results have been unprecedented levels of demand and consumption by the American people who are now producing and consuming more than ever before.

For a time, in the early months of 1947, it appeared that increased production would soon catch up with demand, in most lines, at any rate, and that prices, if they did not come down, would at least become stabilized at the levels then prevailing. Even with domestic demand at unprecedented levels and exports higher than they had ever been, we seemed nearer to a stable economy during the spring of 1947 than at any time during the preceding year.

Stability Shattered in Mid-1947

The prospect of maintaining stability was shattered in mid-1947 by several events—which greatly influenced prices.

First, the extensive damage to the American corn crop, coinciding with crop failures in Europe and Asia, in the face of heavy demand, immediately touched off speculative price increases that affected not only corn but all other grains and cereals, livestock, and dairy products as well. These price increases, more than any other influence, have sent food prices to the record levels where they are now.

As a result of the fear engendered by these price raises, inventory stocks were largely increased which resulted in a slowing down of the normal flow of goods into the market.

In the industrial economy, the increases in the prices of coal and steel have been very influential in the general price rise. Following the wage increase in coal, which added (on the average) about 50 cents per ton to coal costs, coal prices increased more than $1 at wholesale, even before the increase in freight rates. At about the same time steel prices were raised, primarily because of the extreme shortage of scrap steel which sent scrap prices to extraordinary heights.

These events during the summer have touched off a new wave of price increases which have pushed the cost of living higher than at any time in our history and have brought the wholesale price level within about 5% of the all-time high of 1920. The increases in living costs have been particularly serious. Just since May 1947 the Consumers' Price Index of the Bureau of Labor Statistics has risen by 5%. Furthermore, the increases have been greatest in those very items of daily expenditure which affect all families: foods and rents. Food prices have risen by 8½%; and rents, after the relaxation of the rent controls in July, rose 4% in three months. The prices of meats, eggs, dairy products, and cereal products—the mainstays of the

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*Testimony of Mr. Schwellenbach before the House Committee on Banking and Currency, Dec. 2, 1947.

Public Utility Securities

Consolidated Edison Situation Improving

While Consolidated Edison has deferred the refunding of its preferred stock for several months (the next available redemption date is May 1) the company is proceeding with its plans to issue $57,382,600 convertible debentures, and the conversion feature was authorized by the stockholders at a special meeting Dec. 1. When issued, the debentures will be offered to common stockholders in a ratio of $5 principal amount for each share held, and will be convertible into common stock at a price to be set at an amount ranging from approximately the market price of the common stock at about the time of the offering of the debentures, to not more than 15% above such market price. Sale of the debentures is considered as an indirect means of raising equity capital.

Referring to the decline in share earnings for the 12 months ending Sept. 30, ($1.61 as contrasted with $2.25 in the previous period) President Tapscott pointed out at the meeting that:

(1) Rate reductions in the past decade amount to about $26,000,000, of which $15,500,000 reflected electric rate reductions in the past two years.

(2) In June, 1946, the New York Public Service Commission initiated a broad investigation of the company's electric rates. Two months later the company proposed a decrease of $9,300,000, together with a reduction in the number of service classifications from 14 to 4.

(3) Despite these adjustments, the investigation has continued for well over a year. New York State law permits the Commission to fix **temporary** rates providing for a return of only 5% on net original plant cost, but **final** rates must be "just and reasonable".

(4) In view of rising costs, President Tapscott stated that he does not feel that the Commission would be warranted in reducing materially the present level of our electric rates. On the other hand, he hopes that operating costs will not go up much further so as to require a material increase in electric rates.

(5) For the first 10 months of the year system gas operations were in the red by $1,400,000, in contrast to earnings of $2,500,000 for the same period of last year, thus accounting for a substantial part of the decline in share earnings. The company has now asked for a temporary increase of $8,200,000 in gas rates in New York City territory, and the Westchester subsidiary has also requested an increase. A $1,000,000 increase in steam rates has already been received.

(6) Of the $3,000,000 annual savings from the bond refunding program now completed, only a little over half was reflected in the September statement. Moreover, current depreciation accruals, based on an order of the Commission last spring, are now at an annual rate some $3,000,000 less than the figures shown in the last published statement. Current maintenance figures should begin to decline as new equipment comes into service.

As an indication of current improvement, net income in October was more than $750,000 above that of October, 1946. The management feels that the $1.60 dividend will be fully earned for the calendar year.

Cantor, Fitzgerald Adds Four to Staff

Cantor, Fitzgerald & Co., 61 Broadway, New York City, continues the steady expansion of its Retail Sales Department by the addition of three security salesmen of long experience: Arthur L. Williamson, Benjamin F. Harburger and A. E. Giguere. The firm also announces its appointment of Joseph R. Miller as manager of its Dealer Service Department.

Howard Elected Secretary

Leonard F. Howard has been elected Secretary of General American Investors Company, Inc. it was announced yesterday. Mr. Howard succeeds Oscar M. Miller who retains the office of Treasurer. The new Secretary was formerly manager of the Investment Research Department of Dreyfus & Co. and prior to June, 1946, was Associate Financial Editor of the "Journal of Commerce."

Dealer-Broker Investment Recommendations and Literature

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

Electrical Equipment — Review of the industry—Hirsch & Co., 25 Broad Street, New York 4, N. Y.

Natural Gas Industry—Study of its prospects and investment opportunities—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Natural Resources — Memorandum—C. D. Robbins & Co., 810 Broad Street, Newark 2, N. J.

Railroad Earnings—List of current earnings of common and preferred stocks—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

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

Special Situation—Analysis of 85-year-old New England company with large dividend accumulation—Raymond & Co., 148 State Street, Boston 9, Mass.

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.

* * *

Aspinook Corp.—Special Report —Ward & Co., 120 Broadway, New York 5, N. Y.

Also available is a special report on **Portsmouth Steel.**

Baltimore & Ohio Railroad Co. —Brochure discussing that unrecognized improvement in system provides interesting investment opportunities—Kidder, Peabody & Co., 17 Wall Street, New York 5, N. Y.

Dresser Industries—Analysis—Otto Fuerst & Co., 57 William Street, New York 5, N. Y.

Franklin County Coal Corp.—Late information — Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

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

Also available are analyses of **Foundation Co., Wellman Engineering, and Tennessee Products & Chemical,**

International Telephone & Telegraph—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

Long-Bell Lumber Company—Revised analysis for dealers only —Comstock & Co., 231 S. La Salle Street, Chicago 4, Ill.

Michigan Steel Casting Co.—Analysis—Adams & Co., 105 West Adams Street, Chicago 3, Ill.

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

Phillips Petroleum Co.—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

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

Also available is late information on **Black, Sivalls & Bryson** and **Beryllium Corp.**

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

Public Utility Common Stocks —Price earnings ratios and yields on 123 stocks—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available are a valuation and appraisal of **Railroad Equipment Certificates** and **City of Philadelphia Bonds.**

Thatcher Glass Manufacturing Co.—Analysis—Stanley Heller & Co., 30 Pine 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. 30-Dec. 5, 1947 (Hollywood Fla.)

Investment Bankers Association Annual Convention at the Hollywood Beach Hotel.

Dec. 5, 1947 (New York City)

Security Traders Association of New York Annual Meeting and Election of Officers to be followed by buffet supper at the Produce Exchange Luncheon Club.

Dec. 5, 1947 (San Francisco, Calif.)

San Francisco Bond Traders Association Christmas Party and installation of officers.

Dec. 15, 1947 (Cincinnati, Ohio)

Cincinnati Stock and Bond Club Annual Christmas Party at the Hotel Sinton.

Dec. 24, 1947 (Toronto, Ont., Can.)

Annual Buffet Luncheon Toronto Bond Traders Association at the King Edward Hotel.

Feb. 3, 1948 (Chicago,, Ill.)

Mid-Winter Dinner of the Bond Traders Club of Chicago at the La Salle Hotel.

March 5, 1948 (New York City)

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

March 12, 1948 (Toronto, Ont., Canada)

Annual Dinner of the Toronto Bond Traders Association at the King Edward Hotel.

Nov. 15-18, 1948 (Dallas, Tex.)

National Security Traders Association Convention.

Morgan Stanley Group Underwrites Union Bag Offer to Stockholders

An investment banking group headed by Morgan Stanley & Co. has underwritten an issue of 211,861 additional shares of Union Bag & Paper Corp. capital stock now being offered by the corporation to present stockholders at the rate of one share for each six shares held. The additional stock is being offered at $26 per share to stockholders of record Dec. 1, 1947. Rights to subscribe will expire at 3 p.m. (EST) on Dec. 16, 1947.

Proceeds from the sale of the additional shares will be placed in the general funds of the corporation and used for general corporate purposes. The company for a number of years has had under way a continuing program for the improvement and expansion of its existing facilities and for the acquisition of new facilities. It is estimated that it will cost approximately $10,000,000 to complete parts of the program already approved. Major items in the uncompleted part of the approved program call for the purchase and installation of additional power equipment at the corporation's Savannah, Georgia, plant, the acquisition of two additional box factories and the purchase of additional box factory equipment.

The corporation is engaged in the manufacture and sale of a wide variety of paper bags, container board and corrugated sheets and boxes made from southern kraft pulp of its own manufacture.

The corporation also manufactures bags made from purchased paper and film, such as cellophane and glassine and white paper. In addition it manufactures waterproof paper and some kraft paper and sells by-products from its pulp manufacturing operations, of which tall-oil (used in soap, paint and other products) is the most important. The corporation's principal plants are located at Savannah, Georgia, and Hudson Falls and Moreau, New York.

For the nine months ended Sept. 30, 1947, the corporation's net sales amounted to $46,052,058 and net income was $8,897,953, equal to $7 per share on the shares outstanding on that date.

Firemen's Ins. Co. Stock Placed on Market

An issue of 120,462 shares of stock (par $5) of Firemen's Insurance Co. of Newark is being offered for subscription by stockholders. The offering has been underwritten by Blyth & Co., Inc. The stockholders of record Dec. 3 are given the right to subscribe to the new stock in the ratio of two new shares for each 31 shares held. Rights expire at 3 p.m. (EST) on Dec. 16.

Expects Commercial Building Gain

National Association of Real Estate Boards' survey reports extensive construction of industrial and commercial structures is expected in 1948 by more than one-fourth of nation's cities. Sees no substantial increase in real estate sales.

Extensive construction of industrial and commercial structures is expected during 1948 in more than one-fourth of the nation's cities, the National Association of Real Estate Boards reported on Nov. 29 on the basis of reports from 372 cities in 46 states in its 47th semi-annual survey of the real estate market.

Of the reporting cities, 26% anticipate a sizable volume of industrial construction, and 29% look for the erection of a large number of commercial buildings. Only 13% expect no industrial construction at all, and only 7%, no commercial building.

A shortage of retail business space was noted by 90% of the cities, and not one listed an oversupply. Office space is short in 81% of the cities and in every one of the largest cities of 500,000 population or more.

The expected commercial construction will not be adverse to home building because of any drain it may make on materials, in the opinion of 81% of the cities. Moreover, it will not delay house building through its call on labor supply, 61% of the cities said. Some competition for materials is anticipated by 19%, and for labor, by 39%.

The most general hum of industrial expansion and riveting of new commercial structures are expected in cities of more than 100,000 population but under the half million size. Almost half of these cities feel assured of considerable volume of new factory and warehouse space, and not quite two-thirds (61%) expect a marked number of business buildings to go up within the coming year.

In the present trend to decentralize industry, some of the smaller cities are undergoing industrial expansion big enough to step up their housing need. In other cities industrial expansion is contingent on their ability to supply sufficient housing and labor.

Prices for commercial real estate are reflecting the post-war retail demand for consumer goods and years of little or no new construction in established business districts. They are still on last year's level in 49% of the reporting cities, but they are higher in 45% and down in only 6%.

Offerings, which have been few since the last year of the war, are getting scarcer. The volume of turnover is about the same as it was a year ago in 52% of the cities, but lack of listings has cut down volume of sales in 30% of the cities. Sales have accelerated in only 18% of the cities.

The largest cities have seen a general drop in market activity, with 86% reporting a lower volume of commercial property sales than last year, and not one, a higher volume.

People buying farms primarily for residences, expecting to keep a city job and to do part-time farming, are an important factor in the present farm land market, the survey showed. In the typical community reporting, part-time farmers now make up 21% of today's farm buyers.

Prices of farm land show stability with a slight edge upward. They are about the same as they were a year ago in 55% of the reporting communities, higher in 24%, and lower in 21%.

The volume of farm sales is lower than it was in the warboom period in 49% of the communities replying, but holds to last year's level in 40%. A higher volume than 1946 was listed by 11%.

In the typical farm community today, one-fourth of all farm sales are being made for cash. Half or more of all farm sales are for cash in 21% of the reporting communities.

In the average farm community, buyers whose object is to make a quick turnover have disappeared as a market factor. They comprise less than 5% of the purchasers in 83% of the communities. Buyers for long-term investment make up a median of about 31% of today's purchasers.

Tables showing expected industrial construction, the supply of retail business and office space, and the volume of turnover and prices of farm property follow:

TABLE I

Industrial Construction Expected Before the End of the Year 1948

Population of City—	Extensive Increase	Little Increase	No Increase
500,000 or over	42%	58%	----
100,000-499,999	48	48	4%
50,000- 99.999	33	61	6
10,000- 49,999	20	69	11
Under 10,000	14	54	32
National Total	26	61	13

TABLE II

Building Supply: Percentage of Cities Reporting Oversupply, Normal Supply, or Undersupply

	Retail Business Space			Office Space		
Size of Cities	Over	Normal	Short	Over	Normal	Short
Total for U. S.	--	10	90	1	18	81
500,000 or over	--	25	75	-	--	100
100,000 to 499,999	--	10	90	-	2	98
50,000 to 99,999	--	12	88	-	9	91
10.000 to 49,999	--	7	93	1	19	80
Under 10,000	--	15	85	2	37	61

TABLE III

Percentage of Cities Reporting Higher, Same, or Lower Market Activity and Higher, Same, or Lower Selling Prices for Farm Lands as Compared with One Year Ago

	Market Activity			Selling Prices		
Size of Cities	Higher	Same	Lower	Higher	Same	Lower
Toatl for U. S.	11	40	49	24	55	21
500.000 or over	--	14	86	29	42	29
100,000 to 499.999	8	54	38	19	64	17
50,000 to 99,999	14	40	46	32	44	24
10.000 to 49,999	14	39	47	22	58	20
Under 10,000	6	29	65	30	44	26

New Green, Ellis Branch

Green, Ellis & Anderson, members of the New York Stock Exchange, announce the opening of the firm's third Pennsylvania branch office. Located in the Traders Bank & Trust Building in Hazleton, the new office will be under the management of Robert L. Klotz, Jr.

Current Problems in Depreciation Accounting

By JAMES V. TONER*
President, Boston Edison Company

Utility executive and accounting expert reviews problem of determining depreciation charges under rising replacement costs. Points out misconceptions of depreciation reserves and confusion caused by varying methods of reporting reserves in financial statements. Disapproves change from dollar-unit or cost basis in depreciation accounting, but urges changes in depreciation rates be made when required by price changes. Advises retaining present policies until modification is proven to be necessity.

One of the basic reasons for confusion in regard to depreciation is a misunderstanding of the function of depreciation accounting. It is not the function of depreciation accounting to attempt to record the loss occurring from the use and/or ownership of depreciable assets as it would be not only a practical, but also a theoretical impossibility to determine with any degree of accuracy the periodic loss resulting from the use and/or ownership of such assets. No better summary of this point has come to my attention than the following quotation from the opinion of Mr. Justice Brandeis on the United R. & Electric Co. vs. West case.

James V. Toner

"There is no regularity in the development of depreciation. It does not proceed in accordance with any mathematical law. There is nothing in business experience, or in the training of experts, which enables men to say to what extent service life will be impaired by the operations of a single year or of a series of years less than the service life. . . . The main purpose of the charge is that irrespective of the date of depreciation there shall be produced, through annual contributions, by the end of the service life of the depreciable plant, an amount equal to the total net expense of its retirement. To that end it is necessary only that some reasonable plan of distribution be adopted."

It is not, therefore, the periodic loss in the depreciable assets themselves that the accountant is attempting to record, but rather he is allocating to each period's operations some portion of the total loss to be experienced when the depreciable assets reach the end of their service life and have to be replaced. The account to which this allocation of loss is charged each period should be called "Provision for Depreciation" or "Plant Cost Allocated to Operations," rather than to an account just called "Depreciation."

This seems a little like "hair splitting" but there is no question in my mind but that very much of the confusion now existing in relation to depreciation accounting is due to an accumulation of careless or non-descriptive terms used in relation thereto. We speak of rates of depreciation, when in reality we mean the method of determining the periodic allocation of the total loss. We speak of depreciation methods, when we really mean the method of distributing the total loss to the various periods, et cetera.

Before leaving the subject of the periodic charge for allocating the portion of the cost to the operations of the period, I desire to call to your attention, for later reference, the effect of this charge. Inasmuch as there is no actual disbursement of the amount of the periodic provision for depreciation, there is withheld in the form of some asset an amount equal to the provision for depreciation. The amount so withheld, unless there is a specific replacement fund set up on the books, becomes intermingled with the other assets of the business and loses its identity.

To record the accumulation of the periodic allocations of loss to operations, the account "Reserve for Depreciation" is used, and the balance of this account represents the net accumulation of the allocation of the cost of the use and/or ownership of depreciable assets up to date. It should, in other words, reflect the net assets withheld somewhere in the business as a recovery of the cost or original capital invested in the depreciable assets.

Misconceptions of Depreciation Reserve

There is no account in use in accounting, the functions and implications of which are so completely misunderstood as the account "Reserve for Depreciation." Only the other day I was asked these questions by a person who is supposed to be quite informed: "Why, if you have a Reserve for Depreciation account balance of $50,000,000 are you required now to borrow $15,000,000 to pay for capital additions? Why, to the extent of the Reserve for Depreciation, isn't the same capital being charged into operations twice? Why, if you have invested your entire assets resulting from the provision for depreciation in new plant, have you still a balance of $50,000,000?"

Much of the difficulty in the understanding of the function of this account "Reserve for Depreciation" comes from the use of the word "Reserve." This word is commonly associated with money in the "sock" and I am frank to admit that I know of no way to put across to the layman the real function of the account, with all its implications. A change in the name of the account to one which may more specifically indicate its function might cause even more confusion. But I do want to leave with you most emphatically, that the account "Reserve for Depreciation" does not mean to the layman what it means to accountants and comptrollers.

Balance Sheet Statement of Depreciable Assets

I do not want to leave this phase of my subject without commenting upon the showing of depreciable assets on the balance sheet. The first point I desire to stress is the desirability of showing the depreciable assets at cost, and the showing of the amount of the accumulated reserve up to date for these assets. There has been a growing tendency to net these two figures in recent years, and it is my opinion that by so doing two very significant facts, namely the total cost of the fixed assets used in the business, and the portion of that cost which has been recovered by allocations to operations, are lost sight of. Not only are these two facts very significant, but they are entirely different, and should therefore be shown separately.

That separate showing of these accounts leads quite naturally to the "old chestnut": Where on the balance sheet should the Reserve for Depreciation account be shown—on the liability and capital side of the balance sheet, or as a deduction from the so-called related assets on the asset side of the balance sheet? Twenty-five years ago I could have answered this question as categorically as anyone wished, but I must admit that today I have a considerable amount of the conservatism that comes with age, and I must answer this question by saying that it should be shown on the balance sheet in whatever way it most clearly reflects the facts. It is well within my recollection when the Reserve for Depreciation was always shown on the Reserve, Liability and Capital side of the balance sheet. And I remember very well the change to the present practice, now common in most types of business, to show it on the asset side of the balance sheet, as a deduction from the fixed assets.

Let us examine very briefly what we do when we show the reserve for depreciation as a deduction from the cost of fixed assets on the balance sheet. The cost of the fixed assets is a fact, and, as stated previously, a very important fact for one analyzing the statement. The reserve for depreciation is the net accumulations of the provisions for depreciation based, not upon the actual loss in value of the assets up to date, but on an arbitrary allocation of the total loss during the service life of the capital invested in the assets. The difference between these two accounts does not represent value in any sense of the word, but it merely represents the cost of the fixed assets not yet allocated to operations. This difference is often referred to as "book value," "carrying value," and so forth, and if those terms are synonymous with "cost not yet allocated to operations" then they are properly used, otherwise they carry a wrong impression.

Another thing that troubles me, when the reserve for depreciation is deducted from the fixed asset costs, and when there is no specific depreciation fund, is the accounting for the net assets that have been reclaimed and withheld in the business through the allo-

(Continued on page 39)

*A paper presented by Mr. Toner before the Controllers Institute of America, Boston, Mass., Nov. 18, 1947.

Pennsylvania Brevities

Alan Wood Steel Recapitalization

After discussions which have been in progress for over a year, John T. Whiting, President of Alan Wood Steel Co., has announced that representatives of holders of substantial amounts of the company's preferred and common stocks have tentatively agreed upon a plan of recapitalization which will eliminate the present issue of 7% preferred now carrying $55 per share in arrearages.

It is proposed that Alan Wood Steel be merged with its wholly-owned subsidiary, Rainey-Wood Coke Co. and that Wood 7% preferred be exchanged for one share of new 5% preferred and four shares common in the new company, plus $20 in cash. The present 200,000 shares of common would be exchanged for new common, share for share.

* * *

Sun Oil Co.

In an effort to provide itself with adequate supplies of crude oil, John G. Pew, Vice-President of Sun Oil Co., has announced that the company will increase by 50 cents per barrel the price paid for crude. Mr. Pew said the refineries would have to operate at capacity in order to meet the demands of customers and the armed forces.

Philco Extras

In addition to the regular quarterly dividend of 37½ cents payable Dec. 12, directors of Philco Corp. have declared a year-end extra of 50 cents and a stock dividend of one share of stock for each 20 held.

In commenting on the action, John Ballantyne, President, said that "in view of current operating results, which indicate that 1947 will be among the most profitable in the company's history, the board believed the common stockholders should receive a special dividend at this time. A stock dividend was included because of the unusually large capital expenditures made in recent years. An increased amount of working capital is used in handling the expanded volume of business. Sales are at almost three times the 1941 level."

* * *

Nazareth Cement Co.

Reflecting the rapid expansion in postwar building and construction, Nazareth Cement Co., with an annual capacity of 1,800,000 barrels, is operating at near capacity and the company expects peak production in 1948 limited only by the availability of freight cars.

The company reports earnings every three months on a 12-months basis. For the year ended Sept. 30, 1947, net earnings, after taxes were $225,967, equivalent, after preferred dividends, to $1.46 on the 154,749 shares of common. The company has no funded debt and only 8,191 shares of $100 par 7% preferred.

A year-end common dividend of 75 cents per share has been declared payable Dec. 15. The 1946 year-end disbursement was 50 cents and, in 1945, 10 cents.

The quality of cement rock owned by the company is regarded in the industry as being of the highest and reserves are estimated to be sufficient for 100 years of operations on the basis of present production.

Under a modernization program, begun in 1946, approximately $800,000 of earnings have been put back into the property. With the program near completion, it is believed that a larger proportion of net income could conservatively be distributed in common dividends. The stock is traded over-the-counter.

* * *

Pittsburgh Rwys. Hearings

Hearings on the Trustees' proposed amendments to the plan of reorganization for Pittsburgh Railways Co., and on the question of subordination of Philadelphia Company's claims against the debtor, were begun before the District Court in Pittsburgh last Monday. Because of the conflicting claims of many creditors, it is assumed that the proceedings will continue for quite some time.

Under attack will be the Trustees' arbitrary formula of basing his proposed allocations on the three equally-weighted factors of car-miles, track-miles and gross revenues as applied to each of the component underliers. It is understood that the Securities & Exchange Commission, which will take an active part in the proceedings, leans strongly to the theory that the production of net income is the predominant factor for consideration. Some analysts have pointed out that the factor of car-miles is, in their opinion, an irrelevant variable and should be discarded.

The over-all outlook is that an acceptable formula will be produced without great delay and that the ensuing allocations will prove fair and equitable to all.

Delaware River Bridge Net Income Up

The Delaware River Bridge Joint Commission this week reported for the year ended Oct. 31 net income over bond maturity and sinking fund reserve requirements of $1,172,768, an increase of $178,750 over the preceding year.

Joseph K. Costello, general manager, stated in his report that daily traffic over the bridge averaged 52,091 in October, a new record for the month. Last year, the count was 49,157, the increase being 5.97%.

During the first 10 months of 1947 total traffic was 15,199,871, compared with 14,166,356 during the corresponding period of 1946, a gain of 1,083,515, or 7.68%.

The preparation of a report on widening of the bridge roadway from six to eight lanes has been started under the direction of Modjeski and Masters, assisted by Harbeson, Hough, Livingston and Larson, architects, and Louis T. Klauder and Associates, electrical consultants.

* * *

Third Round Wage Spiral Starts in Philadelphia

The CIO Transport Workers Union, Local 234, the largest single labor union in Philadelphia, has served notice that a "substantial" wage increase will be demanded in its new 1948 contract. The union's membership consists of approximately 11,000 motormen, conductors, bus drivers and maintenance employees of Philadelphia Transportation Co. The announcement was made by Joseph B. Dougherty, President of the local.

From other sources, it was learned that the increase to be asked for would be 40 cents an hour, amounting to $16 advance for a 40-hour week. The present average pay is $1.20 an hour. In addition to the wage increase, the union will seek an improved pension plan, improvement in the extra-men guarantee and seven paid holidays.

Reasons advanced for the union demands carried a familiar tone. "We are asking for increases in wages," Mr. Dougherty said, "because, due to the high cost of living, many of our people are not taking home a pay with which they can carry on."

Charles E. Ebert, President of PTC, indicated that the company might be forced to ask for another fare increase, although there was no direct statement on this point. In a recent statement, Mr. Ebert estimated that 1947 earnings will do little more than cover preferred dividend requirements. Costs of power and materials have steadily advanced, he said, and, although maintenance charges have dropped slightly due to the high proportion of new equipment put into use, they may be expected to rise again as the equipment ages. The profit outlook for 1948, Ebert added, is no better than for the present year.

* * *

Property Law Voided

Last week the Supreme Court of Pennsylvania wiped the Commonwealth's recently-enacted community property law from the books, thus voiding the hopes of residents who anticipated saving an estimated $10,000,000 in Federal income taxes.

The opinion, written by Judge Horace Stern, describes the law as "vague, indefinite and uncertain" and "so incomplete, conflicting and inconsistent" that it is incapable of rational interpretation or judicial enforcement.

The law's principal purpose was to afford a husband and wife the right to consider all income, by whichever earned, as joint income, thus enabling them to divide the income tax liability. In order to accomplish this result, the law provided that all property acquired during marriage and after the law's effective date (with minor exceptions) was to be considered as common property in which each spouse held an undivided half interest. Under ideally harmonious marital relations the law would probably function well as written. But, in the opinion of the Court, the potential problems posed by estrangement, separation, desertion and divorce were far from adequately covered.

There is a strong movement, which is expected to find expression in Congress next year, to revise the Federal Income Tax law in a manner to permit married persons to divide income for tax purposes. This, it is thought, can be accomplished without involvement in the problems inherent in existing community property laws.

Earle Gatchell, Mgr. Of Hayden Stone Dept.

Hayden, Stone & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, announce that Earle Gatchell has joined the firm as manager of the dealer and correspondent department in the New York office.

Earle Catchell

Mr. Gatchell had been manager of the dealer department of F. S. Moseley & Co. for the last ten years, except for four years he served with the U. S. Army. He held the rank of Colonel at the time of his release. Prior to his association with F. S. Moseley, he was manager of the wholesale department of Cohu & Torrey.

Hecht & Co., NYSE Member Firm Opens

Announcement is made of the formation of a new New York Stock Exchange firm to be known as Hecht & Co. The firm will be composed of Alfred Hecht, who has been associated with Sartorius & Co. for the past 15 years and prior to that was with McGlinn & Co., G. Axel von Nolcken, floor partner, formerly with the Guaranty Trust Co. and Chaplin & Co., and Mrs. Edna Wolff, limited partner. The new firm will make its offices with the New York Stock Exchange firm of Delafield & Delafield at 14 Wall Street.

Formation of the new firm was previously reported in the "Financial Chronicle" of July 24.

With Link, Gorman & Co.

(Special to THE FINANCIAL CHRONICLE)

GREEN BAY, WIS. — William A. McCarthy and Andrew C. Olson have become associated with Link, Gorman & Company, Northern Building.

LETTER TO EDITOR:

Criticizes Definitions of Free Enterprise

Editor, Commercial and Financial Chronicle:

Correspondent sees error as well as "vague and loose statements" in defining conditions of free enterprise and planned economy. Says free competition means "a haggling of the market."

Your magazine carries articles setting forth a multitude of personal opinions. Those articles that are written by men who are regarded as endorsing a form of government planning are of little danger to your readers. Truth-seekers do not read them. The articles that are dangerous are written by men who are regarded as representing free enterprise but really do not themselves truly understand free enterprise. They cannot define their terms.

One such article was under the heading of "The Origin and Evolution of Our Free Enterprise System." ["Chronicle" of Nov. 6, page 2.] It was written by a professor who is regarded as a man who believes in the principles set forth in the Declaration of Independence. Yet listen to this vague and loose statement in trying to define free enterprise. I quote:

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

Now in the first place rules of fairness are never accepted by anybody but individuals. Society never accepts anything. And fairness is not determined by human beings. Fairness is determined by rules that no man made and no man can unmake; in other words by a higher law. If the writer pleads that he means that the majority accepts, then he is in a dilemma. The majority changes its ideas of rules of fairness and the actual rules of fairness never change with time or place. They are eternal.

Again he is loose in his qualifying phrase of endeavoring to foster competition. Who is to be the judge of whether or not a society is to foster competition?

Another error in his definition of fairness is leaving the impression that things would be fair if competitors had equal strength. There is no strength or force or coercion in any free transaction. Free competition means that no man expects to get more than another will perform the same service for; that no man will try to hinder another from buying for less. It means a haggling of the market.

Would the author of the article contend that a poor man buying from Sears, Roebuck, Montgomery Ward, or J. C. Penney isn't practicing fair competition because the merchants are stronger than the buyer? That idea that men have to be equal in strength in order to have free and fair competition leads to the belief that business is like war, that the gain of one is the loss of another; that wealth doesn't have to be distributed in order to benefit its owners; that the government must interfere to keep people more nearly having equal strength.

Yes, this is the kind of thing that confuses and confounds the average voter. The errors in articles like this should be pointed out editorially or by some person who actually understands and believes in free enterprise.

R. C. HOILES

Nov. 12, 1947
Santa Ana, Calif.

[Editor's Note: Mr. Hoiles is co-publisher of various newspapers.]

Opposes Forcing Banks to Hold Government Securities

National City Bank of N. Y. in its December "Bank Letter" says it is new and dangerous principle in financing government.

The December issue of the "Monthly Bank Letter" of the National City Bank of New York, in discussing the control of bank credit in the light of recent proposals, comes out forcibly against the proposition of Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System that banks be compelled to maintain a special reserve, proportioned to deposits, in U. S. Government securities.

"This is a new and dangerous principle to introduce into the financing of the government—of placing the citizens of the country under legal compulsion to buy its bonds," says "the Letter." Heretofore one of the greatest protections against unsound fiscal policies in any country has been the need for selling its obligations. Compulsion has been used only by the police states. Under compulsion the Treasury could sell its securities at any rate or on any terms it wishes."

Continuing the Bank letter states: "At the same time, the principle of compelling banks to hold government debt is diametrically opposite to the efforts made by the government, during and since the war, to shift as much of the debt as possible outside the banks. Securities held by the banks cannot command a market outside the banks if they are securities whose yields are not attractive to outside investors, or, more to the point, if banks are compelled to retain them.

"Moreover, the assumption is that the Federal Reserve Banks would themselves stand ready to take over government securities now held outside the banking system, including those held by other types of credit-granting institutions. Thus it is questionable whether Mr. Eccles really goes to the root source of the creation of money and credit. That root source is Federal Reserve credit."

Orvis Bros. Open Unlisted Trading Dept. Under A. B. Plunkett

Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce the opening of an unlisted trading department under the supervision of Alton B. Plunkett who has been associated with the firm for many years.

Income Taxes from Investor's Viewpoint

By L. SCUDDER MOTT*
Editor, "Investment Timing"

Though foreseeing no change in taxes affecting individuals for current year, writer says it is desirable to examine portfolios and transactions promptly to see what might be done to improve investors' tax status, because of likelihood of lower tax rates in coming year. Sees advantage in postponing taking profits because of 1948 tax reduction prospects.

It is now virtually certain that no change is to be made in individual income taxes during the special session of Congress—and even if the situation were otherwise, there was no expectation whatever that any changes would be made applicable to 1947 taxes. The two earlier attempts made by Congress to alleviate taxes for the current year failed, as we all know, to override the Presidential vetoes. Hence individual tax rates have remained the same as in 1946, which, to be sure, enjoyed a reduction of three percentage points in each surtax bracket and an overall reduction of normal and surtax of 5% as compared with 1945.

L. Scudder Mott
Editor,
"Investment Timing"

At this time last year there was widespread expectation of tax reduction for 1947. Though, or even because, this expectation was not realized, there is greater probability that reduction in individual taxes (through rate reductions, or including raising exemptions and extension of "community property" provisions) will come about for next year. This expectation has an important bearing on consideration by investors of action to be taken for tax purposes before the end of this year.

Effects of Possible Reduction

Basically the investors' tax interest is, of course, in the capital gains taxes, which will probably not be changed next year even though individual income taxes are. But because of the alternative methods of computing taxes on net long-term capital gain, a reduction in income taxes would reduce the rate payable on such gains. We reproduce below the table on effective tax rates given in "Investment Timing" Dec. 5, 1946, which is still applicable. It will be noted that the maximum effective rate (25%) on long-term profits is reached at the $18,000 bracket.

If, for example, a 20% cut should be made in income tax rates, the maximum 25% on long-term profits would not be reached until about the $38,000 bracket. Hence all those in between these two brackets ($18,000 and $38,000) would be better off to have deferred taking profits—other things being equal—until next year. Those below $18,000 would also have a lower rate.

Current Tax Provisions

Before passing to consideration of what investors could advantageously do tax-wise, it will be well to recapitulate briefly the pertinent tax provisions. Short-term gains or losses (i.e., on securities that have been held six months or less) are 100% taken into account for tax purposes. Long-term transactions (on securities held for more than six months) are taken into account only to the extent of 50%. Since the tax on net capital gains by the alternative method is 50%, and only 50% of long-term gains are taken into account, the effective rate here is 25%, representing a maximum.

All short-term capital gains and

(Continued on page 35)

*Reprinted from "Investment Timing," Nov. 26, 1947, published by the Economics & Investment Department, National Securities and Research Corporation, New York, N. Y.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

Fire and casualty insurance stocks, as measured by Standard & Poor's weekly indices, have moved in diametrically opposite directions over the past 12 months, as follows:

	Fire Index	Casualty Index
November 27, 1946	113.8	156.3
November 26, 1947	118.0	152.2
Change	+3.7%	—2.2%

Movements of individual stocks, however, have been extremely irregular in both groups, some going contrary to their respective indices, as will be noted in Table I and Table II which follow:

TABLE I

25 Fire Insurance Stocks

	Nov. 27, 1946	Nov. 26, 1947	Change
*Aetna Insurance	54½	45	—17.4%
Agricultural Insurance	75	65½	—12.7
American Equitable	17¼	16	— 7.2
Bankers & Shippers	66	72½	+ 9.8
Boston	64½	67¼	+ 4.3
*Continental Insurance	46¾	53¾	+15.0
*Fidelity-Phenix	53¼	56¼	+ 5.6
*Fire Association	54	50	— 7.4
Franklin Fire	22	20	— 9.1
Glens Falls	48½	40¾	—16.0
*Great American	27¾	28⅜	+ 2.3
Hanover Fire	26¾	26¾	n. c.
*Hartford Fire	98¾	111½	+12.9
*Home	27	24¾	— 8.3
*Insurance Company of N. A.	91½	95	+ 3.8
*National Fire	52½	47	—10.5
New Hampshire	51½	45¾	—11.2
New York Fire	13½	11¾	—13.0
*North River	22	24¾	+12.5
*Phoenix	87	85	— 2.3
Providence-Washington	34½	33	— 4.3
*St. Paul F. & M.	65	71½	+10.0
Security Insurance	31¾	25½	—19.7
*†Springfield F. & M.	45⅞	40¼	—12.3
*United States Fire	48	50	+ 4.2
Average			— 2.8%

*Stocks in Standard & Poor's Index.
†Adjusted for 2½ for 1 stock split, October 1947.

It will be observed that, although the index shows a modest appreciation of 3.7%, yet the average movement of the 25 stocks listed has been a decline of 2.8%. This discrepancy is accounted for by the difference in the composition of the two groups. Only 14 of the above 25 stocks are comprised in the index, as marked with asterisks, while the index includes, in addition, American Insurance, Fireman's Fund Insurance, Firemen's Insurance and National Liberty Insurance. Eleven of the above group of stocks are not represented in the index.

Dilution of equity through capital increases has doubtless caused such stocks as Aetna, Glens Falls and Springfield Fire & Marine to decline so much more than average. Aetna increased its capital in July by 33.3%, Glens Falls in October by 30% and Springfield Fire & Marine in October by 40%. On the other hand, Providence-Washington increased its capital by 33.3% in October, yet its stock is down only 4.3%.

Outstanding market gains are shown by Bankers & Shippers, Continental, Hartford Fire, North River and St. Paul Fire & Marine.

TABLE II

10 Casualty Insurance Stocks

	Nov. 27, 1946	Nov. 26, 1947	Change
*Aetna Casualty	85½	82	— 4.1%
*American Surety	61¼	57¾	— 5.7
*Continental Casualty	48½	49¾	+ 2.6
*Fidelity & Deposit	168	153	— 8.9
Maryland Casualty	11¼	14	+24.4
*†Massachusetts Bonding	35⅞	29⅝	—17.4
*New Amsterdam	27¼	29¼	+ 7.3
Seaboard Surety	50½	50½	n. c.
*U. S. Fidelity & Guaranty	45¼	47½	+ 5.0
U. S. Guarantee	84	66½	—20.8
Average			— 1.8%

*Stocks in Standard & Poor's Index.
†Adjusted for 2½ for 1 stock split, October 1947.

In Table II, the movements of 10 casualty insurance stocks are shown. In this case an average decline of 1.8% is indicated, which is fairly close to the 2.2% decline of the index. The seven stocks which are comprised in the index are marked with asterisks; the index includes, in addition, Hartford Steam Boiler and Preferred Accident, while this list includes Maryland Casualty, Seaboard Surety and U. S. Guarantee, which are not represented in the index.

As in the fire group, so in this group there has been some dilution of equity. For instance, Continental Casualty increased its capital by 20% in July, and Massachusetts Bonding by 25% in October. Continental's stock, however, has appreciated 2.6% but Massachusetts Bonding has declined 17.4%.

Fire insurance stocks are still dragging, and when measured against the Dow Jones Industrials, they have put in a poor performance for several years. However, during the past four months they have steadied somewhat, and have been performing slightly better than the Dow Jones Industrials.

J. Stewart Baker Hits Price Controls and High Taxes

In his report as Chairman of the Board at the 149th annual meeting of the stockholders of the Bank of the Manhattan Company, J. Stewart Baker, after reviewing the past year's operations of the bank, makes some pointed remarks regarding national economic policy and condemns "the legerdemain" of trying to stop inflation by elaborate controls.

J. Stewart Baker

"There is a disposition" said Mr. Baker, "in certain circles to believe that, by some form of legerdemain, inflation can be stopped by the application of elaborate controls, but history demonstrates all too clearly that there is no way to stem the tide of rising prices except by increasing the supply of goods and services available for purchase and by halting the expansion in the supply of money and credit.

"To this end every effort should be made by management and labor to increase production; and government should lose no opportunity of encouraging them in this important patriotic duty. In the battle against inflation we should not be satisfied with less than the maximum national output of goods and services. We cannot meet our own needs, not to mention those of the wartorn nations, without a decided increase in production and this can be obtained only if our whole economy is operated efficiently and new facilities are provided when they are needed or can be used to advantage. There is certainly no sound way to finance the acquisition of these facilities except by the investment of private capital. Therefore, it is imperative that every encouragement be given our people to increase their savings so that there may be more funds available to finance a substantial expansion in our industrial capacity.

"The required savings, however, will never be forthcoming until there is a decided change in policy regarding the income tax. From the period when government officials commonly assumed that the United States would in future have small demands for capital relative to savings, we have acquired a tax structure so steeply graded that individuals in the tax brackets where most of our savings originated in the past, have been forced to curtail severely their savings or actually to spend their capital. With lower income tax rates the capital needs of industry could be met by the sale of bonds, preferred stocks and common stocks to bona fide investors. Management may well prefer to curtail its plans for expansion if the only way they can be financed is by bank credit.

"While there seems to be a growing recognition that greater production is needed to combat inflation, relatively few people appear to understand that to stem the tide of rising prices, expansion in the supply of money and credit must be curtailed. In order to accomplish this the Federal Reserve Board should abandon all commitments—stated or implied—to hold yields on United States Government securities at specific levels. It would then be free to adjust its holdings of these securities in such a way that further expansion in the credit base would be prevented. This would be the minimum program, but it may be necessary to go still further since restrictive action has been delayed until the situation has assumed explosive possibilities.

Federal Reserve Powers

"Use by the Federal Reserve Board of its powers to support the prices of United States Government securities is directly inflationary. By subordinating other considerations, which should have heavy weight in determining credit policies, the Board has virtually abandoned effective control over the Nation's credit base and the initiative for its expansion rests outside the System. Under these conditions it is necessary for the Board to make a much more fundamental change in its policies than was involved in the measures recently taken to firm short-term interest rates. If the threat of inflation is to be eliminated, effective control over the quantity of money must be substituted for the present policy of holding interest rates low by an unlimited expansion of credit. Inflation is too high a price to pay for cheap money and we know that inflation is the inevitable result of artificially maintaining cheap money by the expansion of central bank credit.

"While control over prices of commodities was terminated with the passing of the OPA, control over the price of credit has continued in the Federal Reserve Board and has been exercised by it in a manner that has encouraged rather than checked inflation. It would seem that the Board's sole objective has been to maintain the price of government securities, feeling perhaps it has an obligation to do so because of having joined with the Treasury Department in managing the money market so that government securities could be floated originally at abnormally low interest rates. Except for a few recent timid steps, the Board has followed its policy of cheap money in utter disregard of the unfortunate effect it has had on millions of our citizens. Any saving in interest to the government must be small indeed compared to what this policy has cost savings depositors, pensioners, beneficiaries of trust funds, life insurance policyholders and those who must live on the income from investments. One wonders whether it is appropriate for a group of men, appointed by the government, to have the power of fixing interest rates or whether such rates, like other prices, should be left to the free forces of supply and demand.

"It might be helpful at this time for Congress to appoint a commission of experienced men to make a thorough study of the use the Federal Reserve Board has made of its powers and the policies it has been following. Like all individuals or bodies who exercise any measure of control over others, the Federal Reserve Board is now asking for more powers, even though it has not made full use of those Congress has already granted it. The Board has, at the present time, the ability to deal with the present situation by selling United States Government obligations held by the Federal Reserve Banks and by increasing the rediscount rate, and certainly should be given no more powers until it has used those it now possesses and they prove inadequate. To delegate to a small group of men complete control over such an important part of our country's economy is a matter of grave importance in a democracy which is dedicated to the free enterprise system.

Reporting on the operations of the Bank of the Manhattan Company, Mr. Baker said:

"The average yield on our government obligations has been 1.61% per annum against 1.53% last year. The average rate of return on all our earning assets for the first 11 months was approximately 2% as compared with 1.80% for the year 1946. Interest rates have firmed slightly and borrowers have shown a willingness to pay more for their credit requirements.

"Based on actual figures for the first nine months and estimated figures for the last three months, the net operating earnings for this year, not including net profits realized on the sale of securities and without deducting taxes on such profits, will amoung to slightly more than $4,000,000 compared with $5,111,000 last year. Provision for taxes deducted in arriving at net operating earnings reflects the tax effect of all transactions of the company, whether or not included or deducted in arriving at net operating earnings, except net profits on the sale of securities which are not included in net operating earnings. The net profits realized on the sale of securities have amounted to approximately $350,000 after deducting an appropriate amount for taxes. You will recall that for several years, in view of our large holdings of government securities, many of them purchased above par, it was our practice to add to the reserve for government obligations an amount equal to the net profits realized after taxes on the sale of these securities. As our portfolio of these securities has been substantially reduced and as the total premium is relatively small, the present reserve is considered ample and, therefore, this year the practice was discontinued. The same procedure has been followed with regard to our net profits on other securities.

"It is estimated that our gross operating income this year will be just about the same as it was in 1946 in spite of the fact that last year our funds available for loans and investments averaged $110,000,000 more, due to higher deposits and to the fact that the 20% reserve did not have to be carried against the large U. S. Treasury deposit. Because of the increased cost of doing business, some months ago a study was made of our schedule of service charges and many of our fees were revised upward. It has been gratifying that with few exceptions our customers have recognized the reasonableness of these increases and have accepted them willingly. Due to a larger volume of business, as well as to higher rates which were in effect for a part of the year, commissions and fees are expected to be some $300,000 greater than last year.

"Total expenses are estimated at $16,100,000, 6% more than last year, of which $2,300,000 will represent taxes which will be $950,000 less this year. Salaries will account for approximately half of the expenses and will show an increase of about 14% or $980,000. Other expenses are estimated at $5,700,000, an increase of $775,000 or 16% over last year. About $370,000 of this increase is due to the higher rates of interest being paid on special interest accounts. On January first of this year these rates were raised to bring them into line with those paid by our competitors. Higher prices for the materials and services we use account for most of the balance of the increase."

Britain's Dwindling Gold Reserve

By PAUL EINZIG

Dr. Einzig pictures gloom in England regarding prospect of depletion of the nation's gold reserve by middle of 1948. Says progress of export drive is not encouraging, though he sees a better labor situation, and greater willingness of workers to cooperate with the government. Says outcome depends on successful negotiations of Prime Minister with the Trades Union Council.

LONDON, ENG.—In spite of the fine weather that is quite unusual in Britain this time of the year, and in spite of the modest but noteworthy increases of output registered in some branches of production, the general sentiment in Britain is one of deepening gloom. The main cause of it is not, as one would expect, the gathering storm clouds on the international political horizon, but the prospects of grave hardships resulting from an exhaustion of the gold reserve. It is now all but generally assumed that Britain will have no more gold left by the middle of 1948, and that nothing short of a miracle or, what is considered to amount to almost the same thing, timely American assistance, could avert a reduction of food rations to a level at which it would be inadequate to maintain health and productivity.

Dr. Paul Einzig

Although the trade balance has improved somewhat, the deficit is still abnormally large. And the Treasury's loss of gold and dollars continues to exceed considerably the adverse visible balance of trade. It is feared that, unless some drastic change should occur, the gold reserve may come to an end long before the middle of 1948. Hopes for an early release of the frozen balance of the dollar loan have been practically given up by most people. Nor is there any optimism about Britain's prospects to obtain assistance under the Marshall Plan.

Nor is the progress of production and of the export drive very encouraging. It is true, for some weeks past the coal output has been improving slightly. Amidst prevailing conditions the British public has to be thankful for small mercies, and the modest increase of coal output is welcomed with an enthusiasm that is quite out of proportion to the actual extent of the progress. Steel figures are more satisfactory, but they remain far behind the greatly increased requirements. The government has allotted far more steel to claimants who enjoy a high priority, so that it has become necessary to revise the priority list. The output of textiles continues to leave much to be desired, owing to lack of manpower.

One of the few bright spots has been the new effort to accelerate the turnover of railroad cars. British opinion is being prepared for a grave crisis of transport during this winter, owing to the decline in the number of engines and trucks, and the slow pace at which the latter are cleared. So the government initiated a campaign in favor of clearing goods wagons during weekends. So far the result has been gratifying, as during the first weekend following on the initiation of the campaign over 50,000 cars were cleared. But a great deal more will have to be done in order to ensure that the transport system meets winter requirements to a reasonable degree. Even so, it is satisfactory to register the favorable response of the workers to the government's appeal. Possibly it indicates that the tide has turned, and that slowly but surely the effort of the British working classes to back up their government by means of deeds and not merely words and votes will now increase.

What seems less promising is the willingness of the working classes to agree to a wages policy. The government appears to have abandoned as hopeless the aim of fixing a ceiling to wages, and even the aim of making any further increases of wages conditional on higher output. The latest aim of the wages policy which the government is now trying to adopt is discriminatory increases of wages. Evidently, the government is not likely to make much use of its power to direct labor towards the key industries which are short of man power: coal mining, textiles, agriculture. The extent to which the Ministry of Labor has so far made use of its exceptional powers has been quite negligible. The next best thing is to attract labor by means of higher wages. It is of no use, however, to pay higher wages in the industries concerned if the rises granted lead to an all-round demand for corresponding rises. Once all the wages demands have been satisfied the higher wages paid in the key industries cease to attract additional labor.

The problem is, therefore, to induce the Trades Unions concerned to agree to discriminatory increases in favor of coal mining, textiles and agriculture. Britain's ability to balance her trade depends largely on the outcome of the negotiations that are in progress to that end between the Prime Minister and the Trades Unions Council. If it should be possible to divert manpower to coal mining and textiles the export drive will have a good chance of succeeding. If the manpower engaged in food growing can be reinforced it will be possible to reduce food imports. But there is very little time to lose, if the desired result is hoped to be achieved before the gold reserve is exhausted.

Fund Has New Director of Operations

Camille Gutt, Managing Director of the International Monetary Fund appoints M. H. Parsons to succeed J. F. Fisher as Director of Operations.

The appointment of M. H. Parsons, as Director of Operations of the International Monetary Fund, has been announced by Mr. Camille Gutt, Managing Director of the Fund.

Mr. Parsons, who has been the Alternate British Executive Director of the Fund for the past year, has for 19 years been connected with the Bank of England, during the years 1938 to 1943 as Private Secretary to Montagu Norman, the former Governor, and more recently as Assistant Chief Cashier.

As Director of Operations, Mr. Parsons will have charge of the Department handling all transactions for the Fund. Mr. Parsons replaces Mr. J. L. Fisher, who recently resigned for reasons of health.

Industry's Answer to the Police State

By EARL BUNTING*

President, O'Sullivan Rubber Corp. and President of NAM

Attacking use of averages in estimating prices and wages, Mr. Bunting points out inequities in present price and wage situation and sees more productivity as only remedy against price inflation. Poses problem as three-fold: (a) to reduce inflationary pressures; (b) to maintain high living standards and (c) to provide necessary amount of foreign aid. Analyzes NAM's 12-point program and denies tax reduction is inflationary. Sees need of encouraging capital formation and favors new long-term government bonds to redeem bank-held debt. Urges decontrol of interest rates to curb bank credit expansion and abandonment of all undistributed profits taxation. Cautions against further wage increases and outlines plan of foreign aid.

Industrial management must set an example by clearing its own thinking of illusions—the rankest of which is that there is any such thing in our land as the "average man or woman," or an "average business" or an "average wage," or an "average profit."

Statistically, the average is a useful tool. In many fields of endeavor the statistical average is a convenient and necessary short cut. **But don't let it color our thinking today!**

Earl Bunting

Don't let's get American individuals mixed up with it, even in our thoughts, or there will be bloody backs and slave labor from here to Moscow.

The average man, or the average job, simply doesn't exist in a free land. **On the contrary**, in those lands which have been leveled to collectivism, no one except this ghost, this "average" tool of the total state, is permitted to exist. His thoughts are average thoughts—or he is liquidated. His job is—to do as he is told. His average wage is the statistical average of what it takes to keep some, but not all people, from starving or freezing to death. His average profit is—nil!

We have heard today that America's economic system, with its individual freedom, is being eyed, from various quarters of the world, enviously, bitterly or skeptically. And there is some skepticism here at home.

There, in a nut shell, is our supreme challenge—to make our system work better not merely for the material benefits we shall gain at home but for the enlightened economic leadership we owe the rest of the world.

Why High Prices

Well, let's see exactly what is happening in our economy—not just on the average, because things don't happen that way in real life. Let's see how and why high prices are hitting flesh and blood people, and what can be done about it.

The straight from the shoulder reason why the cost of living has increased is that while more millions of people are now buying the good things of life, production has not kept pace with this tremendous increase in demand.

It is not a good thing that some or any of our people are being penalized by vast increases in the standard of living achieved by millions of Americans in recent years.

No one whose wage has gone up two or three times what it was before the war is suffering from prices even though they are up some 65% since 1939.

But this has put a squeeze on highly skilled craftsmen, much of the self-employed, and on many white collar workers. The percent of increase in their incomes is not nearly as great as the increase in millions of pre-war substandard incomes. Therefore such people are not impressed when we boast that there has been well over a hundred percent increase in manufacturing wages, contrasted with an increase in the cost of living only about half as great. All they know or care about is that they're not sharing in the prosperity we talk about.

There is one, and only one cure for this situation. That cure is to validate much greater demand with **much greater productivity.**

Any act—any combination of events however skillfully manipulated by the diehards of a Dead Deal — which interferes with achieving lower prices through greater output and lower unit costs is bound to bring certain defeat to this country and to all the people in it.

President Truman says in effect that the only way to defeat the "police state" abroad is to adopt "police state" methods at home. I do not believe this. I do not think for a moment that

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*An address by Mr. Sullivan at the 52nd Congress of American Industry, sponsored by National Association of Manufacturers, New York City, Dec. 3, 1947.

Economic Outlook and What to Do About It

By HENRY HAZLITT*
Associate, Newsweek Magazine

Stressing political above economic factors in business outlook, Mr. Hazlitt maintains we will not have a repetition of 1932 depression, but "maybe something worse." Says we may suffer like Europe from "repressed inflation," i. e., a government following inflationary policies on monetary side, and endeavoring at same time to curb its effects.

It has long been customary for most business forecasting to discuss only "endogenous" factors—that is, factors within the economic process itself—and to ignore what are called "extrogenous" factors—that is, disturbances to the economic system which come from the "outside."


Henry Hazlitt

Such forecasting either implies the existence of completely free markets in commodities and in labor, or it tacitly assumes that existing political interventions will remain substantially unchanged.

This traditional type of forecasting, which is usually conducted in terms of charts and curves showing past prices or production or inventories, or probable supply and demand, has always been liable to grave error precisely because it leaves out the political factor. In the last generation the political factor has grown in importance year by year until it has at last become dominant; any economic forecasting which leaves it out, or underestimates it, is likely to go very wrong.

In looking into the future, therefore, we will be well advised if we give our attention more to so-called political factors than to what are traditionally called purely economic factors. The world economic system today is subject to political interventions, to political dominance, to political whim, mood, and dictation. We have reached the point where we have to consider at least as much what politicians are going to decide as what individual employers or workers, or the body of producers or consumers, would decide if left free to decide for themselves.

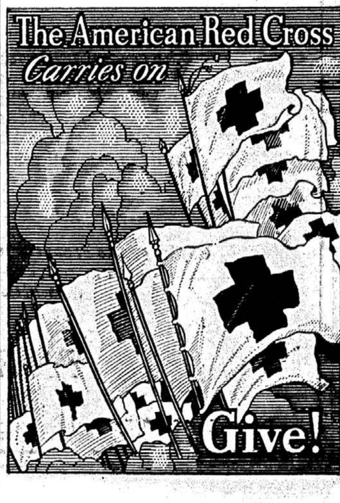
This basic change in the center of decision is forgotten today in most current discussions of whether or when we are going from boom to bust. A great many people, for example, still fear that we are in danger of sliding into another 1932 depression. It seems to me that a repetition of that particular pattern of depression is one of the last things we have to fear today. The present public temper will not permit it; and therefore politicians will not permit it. To some this may sound like a very cheering statement; but what they overlook is that the substitute for a 1932 depression may be something even worse.

If we want to see the most likely course we will follow today—assuming that the present world temper and ideology continue—we have merely to look at Europe. What Europe is mainly suffering from today is what has been called "repressed inflation." And this, if the economic ideals in fashion continue to prevail, is what we are most likely to suffer from tomorrow.

What is repressed inflation? It is a system under which the government follows basic inflationary policies on the monetary side, and then endeavors to prevent these from having their inevitable effects on prices and on distribution. On the one hand the government usually continues to keep its budget out of balance. Where, as in the United States, it finally succeeds, after 16 years of deficit, in bringing its budget for a year or two into balance, it nonetheless continues to follow cheap money and other policies that inevitably encourage an increase in the volume of money and bank credit — in other words an increase in the monetary purchasing power bidding for goods. On the other hand, the government tries to prevent the consequences of its own inflation by price controls, wage controls, exchange controls, rationing, allocations—in short, by government domination of the entire economy. This system, of course, leads to a steady loss of his traditional liberties by the individual. And it leads also to an interminable series of sudden crises, particularly to a series of sudden bottlenecks — food shortages, steel shortages, coal shortages — which disrupt or paralyze the whole economy. We might call these "crises according to plan" except that the planners who create them are always astonished when they occur, and invariably attribute them to the weather or reactionary wickedness or some other factor beyond their control. As Professor Jewkes of the University of Manchester remarked recently of the British situation: "We succeed merely in preventing the vicious upward spiral of prices at the cost of having a vicious downward spiral of prices at the cost of having a vicious downward spiral of productivity."

These are the consequences of repressed inflation. This is the prospect that we seem to be facing today.

*A statement by Mr. Hazlitt in a panel discussion at the NAM 52nd Annual Congress of American Industry, New York City, Dec. 3, 1947.



By ALAN TEMPLE*
Vice-President, National City Bank of New York

Mr. Temple does not foresee end of present boom through decline in consumer expenditures until there is preceding slump in employment and consumer income. Says, however, boom can come to an end through credit contraction forced by Federal Reserve and Treasury policy. Predicts continued high production for many months ahead.

The fundamental question before this Round Table is when the boom will end, and what will stop it. The productive facilities of the United States are being called on to satisfy the greatest demand for consumer goods ever known. At the same time they are asked to supply the materials, labor and equipment to modernize and expand industries and improve utilities and public services; to increase vastly the supply of housing; and to help feed Western Europe and assist in its economic reconstruction. This is a tremendous conjunction of demands. In the aggregate it is more than the country can satisfy, as rising prices show.


Alan H. Temple

I do not believe the boom will be ended by a slump in consumer expenditures until there is a preceding slump in employment and consumer income. Experience has shown that fluctuations in employment and consumer income are traceable more to variations in capital goods industries than to any other influence. Therefore I believe the boom will end: (a) When you, gentlemen of the NAM, and other heads of businesses, decide that the cost of construction and equipment is too high, in relation to your prospective markets and earnings; (b) when you decide that you have gone as far as is prudent in incurring debt in relation to the capital you have or can attract. You may reach this decision independently, or in consultation with your bankers.

The boom might also end through contraction of credit, enforced by Federal Reserve and Treasury policy, curtailing the ability of banks to make even the most productive loans. Finally, it might end through disappearance of the export surplus, with obvious effects on demand and prices in this country.

Some or all these things will eventually happen. I do not expect them to happen tomorrow—certainly not in a degree that would cut very heavily into our business activity. The situation in construction, in the railway, utility and farm equipment industries, in automobiles, seems to provide assurance of continued high production for a good many months ahead. Housing continues to be underwritten by a Federal financing program which Mr. Eccles has called "possibly the most inflationary factor in the present situation." The export surplus will be large, although not so large as last spring. Farm income is practically guaranteed by a demand for farm products that will continue into the 1948 crops.

I do not see how anyone can have a very firm opinion about the latter part of 1948 until it is seen whether the tightening in the supply of capital that is beginning to appear is supplemented by a tightening of credit also. By present signs, capital needs will be harder to finance in 1948. We do not know how much harder, and right now that is a $64 question.

Any forecast that employment will continue full implies that prices will continue firm. However, there are three factors which suggest that the inflation menace right now may be over-advertised. They are, first, that the government will take many billion dollars more away from people in the first half of 1948 than it will pay back to people. Second, prices now may be discounting the future to some extent. Third, pipe lines more and more are becoming filled. Nevertheless we cannot, in setting policy, safely disregard the inflationary forces.

*A statement by Mr. Temple in a panel discussion at the NAM 52nd Annual Congress of American Industry, New York City, Dec. 3, 1947.

Observations

(Continued from page 5)

mate the general investing public's subsequent prevalent opinion should or will be.

Style Sense versus Economic Analysis

Such predicting of changes in public psychology takes the form of *merchandise-styling* when applied to individual securities and categories of securities. To a considerable degree and for extended periods their prices follow popularity curves in lieu of economic or quantitative statistical factors, and this style motivation to a considerable degree governs the election of particular issues to admission in the exclusive "Blue Chip Club," as well as the size of their price-earnings ratios.

Nowhere, to this writer's knowledge, has this behavior been as aptly depicted as by Lord Keynes as follows:

"Professional investment may be likened to those newspaper competitions in which the competitors have to pick out the six prettiest faces from a hundred photographs, the prize being awarded to the competitor whose choice most nearly corresponds to the average preferences of the competitors as a whole so that each competitor has to pick, not those faces which he himself finds prettiest, but those which he thinks likeliest to catch the fancy of the other competitors, all of whom are looking at the problem from the same point of view. It is not a case of choosing those which, to the best of one's judgment, are really the prettiest, nor even those which average opinion genuinely thinks the prettiest. We have reached the third degree where we devote our intelligences to anticipating what average opinion expects the average opinion to be. And there are some, I believe, who practice the fourth, fifth, and higher degrees."—From General Theory of Employment, Interest, and Money, New York, 1936, p. 156.

Banking Policies Not Inflationary

Federal Advisory Council of Reserve Board challenges Board's characterization of "serious situation in bank credit" as evidenced by bank loans and investments, and deposits. States numerous policies of Government itself are inflationary. Opposes consumer credit control; and also special bank reserve scheme because it is impractical, imposes centralized direction, and Reserve System and Treasury already possess sufficient powers.

"The Board of Governors of the Federal Reserve System is very much concerned about the rapid expansion of bank credit. The Board, therefore, desires to have the views of its Federal Advisory Council as to the further steps that might be taken to correct this serious situation through monetary or fiscal means."

The above statement by the Board of Governors of the Federal Reserve System was refuted in the following Memorandum prepared by the Federal Advisory Council* as part of the agenda for a joint meeting on Nov. 18, 1947:

The Council has reviewed the question of the volume of bank credit both in the aggregate and as shown in the banks with which they are familiar.

We do not know what "serious situation" in bank credit the Board has in mind. For the past year the total volume of bank credit (i.e. the available amount of bank money) as measured by adjusted demand deposits has shown only a moderate increase. As bank loans have increased, the banks have decreased their investments.

We find nothing in bank loans themselves to suggest that growth of loans has been an active inflationary factor. It rather appears to have been a reflection of the very high level of business activity and high prices.

Result of Government Policies

To a large extent growth of loans is a direct result of government policies. For example, an increase of nearly $4 billion in the real estate loans by insured banks since the end of the war reflects directly the purchase of FHA and GI mortgages in the housing program.

The Reconstruction Finance Corporation is encouraging bank lending by guaranteeing risky loans.

Commercial loans are influenced by high prices and active movement of agricultural and manufactured products for the foreign aid program.

High wages and high costs of materials have meant that business needed more money to take care of its customers.

There is nothing in the figures or our experience to suggest that there exists any substantial lending for speculation or for unnecessary uses. Loans for carrying securities are much reduced.

In this period the government, through various agencies, has been making loans that the banks refrained from making because of their speculative nature. The Reserve System itself is asking for more power to guarantee loans on the presumption that bank lending is too cautious.

The causes of our present inflation are not in current banking policies but are found in the great war-time expansion of buying power together with unusual events and public policies since that time. Among recent inflationary causes may be listed the following:

The foreign aid program.

A cycle of wage increases in excess of increases in either the cost of living or productivity.

A shorter working week.

A short corn crop.

Veterans' bonuses and relief payments.

Agricultural price subsidies.

U. S. Government spending of $36 billion a year.

Housing subsidies.

In the face of these developments a substantial increase in bank loans was inevitable and the banks have shown restraint. The dangers in the present situation are understood by bankers and there is hardly a bank in the country which has not been warning its customers against over-expansion. The loans being made are mostly for direct production.

The first thing to do is to reconsider government policies which are inflationary and especially excessive government spending and subsidies.

Reserve System Should Use Powers

We recognize that even though the causes of inflation are largely outside the sphere of monetary policy, the Reserve System has a special responsibility for bank credit and in this situation should take all reasonable care to assure conservative credit policies.

In this special area we suggest that the System and the Treasury already have large powers, without new legislation, to place credit under broad restraints.

One of these powers is the discount rate which is a recognized instrument for serving notice on the public of the need for restraint in the use of credit.

Similarly by open market operations the System can control the reserves of the member banks and limit their lending power.

The Board also still has the power to raise reserve requirements in Central Reserve Cities and so tighten money.

The Treasury by the pricing of new issues and the handling of its balances has great influence on the rate and volume of money.

In the past year the System and Treasury have used these powers effectively.

The money markets and the policies of business men are today so sensitive to action of these sorts which the Reserve System and the Treasury take that present powers are ample to place all restraints on credit expansion which the System and the Treasury may consider necessary.

Inflation Fear Shared

The Council wishes it clearly understood that it shares the apprehension of the Board of Governors with respect to inflation dangers. It does, however, most strenuously object to the singling out of the increase in bank loans

(Continued on page 16)

*The Federal Advisory Council is a statutory body set up by the Federal Reserve Act to advise with the Board of Governors of the Federal Reserve System as to its policies.

The Council is made up of one representative from each Federal Reserve District appointed by the directors of the Federal Reserve Bank in that district, and its present membership comprises the following:

Edward E. Brown, Chairman, First National Bank, Chicago, Ill., President.

Charles E. Spencer, Jr., President, First National Bank, Boston, Mass., Vice-President.

W. Randolph Burgess, Vice-Chairman, National City Bank, New York, N. Y.

David E. Williams, President, Corn Exchange National Bank & Trust Co., Philadelphia, Pa.

John H. McCoy, President, City National Bank & Trust Co., Columbus, Ohio.

Robert V. Fleming, President and Chairman, Riggs National Bank, Washington, D. C.

J. T. Brown, President, Capital National Bank, Jackson, Miss.

James H. Penick, President, W. B. Worthen Co., Little Rock, Ark.

Henry E. Atwood, President, First National Bank, Minneapolis, Minn.

James M. Kemper, President and Chairman, Commerce Trust Co., Kansas City, Mo.

Ed. H. Winton, President, Continental National Bank, Fort Worth, Texas.

Reno Odlin, President, Puget Sound National Bank, Tacoma, Wash.

Secretary Snyder on Credit Controls

Supports President Truman's program for curbing consumer credit, but holds Eccles' proposal to have banks maintain special reserves in addition to regular reserve requirements will not accomplish anti-inflation objective. Says prime object at present is to maintain fiscal soundness of government.

Secretary of the Treasury John W. Snyder, in a statement made to the Joint Congressional Committee on the Economic Report on Nov. 28, just three days after he testified before the House Banking and Currency Committee on the Administration's anti-inflation program (see the "Chronicle," Nov. 27, 1947, page 2), again supported President Truman's proposals to curb credit expansion, but disagreed with the proposition laid down by Chairman Marriner S. Eccles of the Board of Governors of the Federal Reserve System that banks be required to set up additional cash reserves against deposits.

John W. Snyder

In his statement, Secretary Snyder said: "The President has suggested that consideration be given to the following monetary measures: one, that Consumer Credit Controls should be restored and some restraint should be placed on inflationary bank credit; two, Legislation should be provided to prevent excessive speculation on the Commodity Exchanges; three, intensified activity in the sale of savings bonds.

"The last item is the only one of those suggested which comes completely under the jurisdiction of the Treasury Department, and I shall devote my time principally to a discussion of that particular item. I shall touch but briefly upon the first two as they are primarily the concern of other Government departments and are being discussed by representatives of those departments as they appear and testify.

"As to item one, Restoration of Consumer Credit Controls and Restraint on Inflationary Bank Credit, these maters have been discussed by Federal Reserve officials. As to consumer credit controls, I am in favor of their restoration.

"The most effective types of credit control are those which strike at the individual forms of credit extension which are contributing to inflationary pressures. The most important single form of such credit extention at the present time is in consumer credit.

"Total consumer credit outstanding at the end of September reached an all-time peak of $11,400,000,000. At the end of 1945, it amounted to only $6,600,000,000. Prior to December, 1946, total consumer loans outstanding at any one time had never reached the $10,000,000,000 level.

"This increased used of consumer credit in the present period of inflationary pressures can only add to those pressures. As we all know, the curtailment of the production of consumer goods during the war period gave rise to a tremendous deferred demand for such goods. As we all know, despite the fact that industrial production during 1947 has reached the highest level ever attained during peacetime, we have not yet been able to produce enough goods to satisfy this deferred demand. There still exist many important shortages of goods. But with production near capacity levels, purchasing power made available by consumer loans can be used only to bid up prices of consumers' goods, not to purchase more goods. It is imperative, therefore, that efforts be made to restrain the demand for scarce goods until supply approaches demand.

"Money market interest rates form a small part of the total cost of consumer credit, and changes in such rates are almost powerless to limit its extension. It is necessary to cover specifically by regulation such matters as minimum down payments and the maximum periods over which payments may be spread on installment purchases of consumers' goods in order to restrain this type of inflationary credit.

"In reference to the second part of item I 'some restrictions should be placed on inflationary bank credit,' this is a matter under the jurisdiction of the Board of Governors of the Federal Reserve System which has the responsibility for overall bank credit control. Mr. Eccles has discussed this matter with you in considerable detail. He and I have discussed it together on a number of occasions and we are entirely in agreement that the objective is fundamental to the inflation control program. I do not believe, however, that the specific proposal that he has made will accomplish the objective in question.

"I would like to point out that I have a positive feeling that the major objective at this time is to maintain the fiscal soundness of the government and the continued confidence of the public in government obligations. I feel that the attack on the problem can best be handled by the application of a substantial budget surplus to the reduction of the public debt in the manner which will extinguish an equivalent amount of bank-held government securities. Since the end of the war, the Treasury has conducted its program of debt management in such a way as to reduce inflationary pressures whenever possible by paying off bank-held securities."

Buckley Bros. to Admit Loveland as Partner

LOS ANGELES, CALIF. — Alfred Loveland who has been associated with the Los Angeles office of Buckley Brothers, 530 West Sixth Street, will become a partner in the firm on Dec. 15. The firm, whose main office is in Philadelphia, holds membership in the New York, Philadelphia, and Los Angeles Stock Exchanges.

John H. Auerbach, Jr., formerly of E. F. Hutton & Co., and Charles H. Richards, previously with Hill Richards & Co., have joined Buckley Bros. Los Angeles staff.

Joins Reagan & Co. Staff

PASADENA, CALIF. — Tim McLaughlin is now with Reagan & Co., Inc., 575 East Green Street. He was previously with Dean Witter & Co., Cruttenden & Co. and First California Co.

Mutual Funds

By HENRY HUNT

Investors Income Minded

"As mutual fund dividends go, so go sales" seems to be the score among distributors of these shares today. Mutual fund investors are showing a definite preference for the "income type" fund over the "appreciation type" variety. Funds that have been able to pay sizable dividends out of security profits this year have been the best sellers, along with shares of funds with an above average yield and balanced funds which stress steady income among their investment objectives.

Despite the fact that much has been written about the difference between mutual fund dividends derived from investment income and those derived from security profits, we doubt if the average shareholder understands this difference or realizes that the latter represents return of capital. What he wants is bigger and better dividends! He is not interested in the whys or wherefores of his dividends so long as he gets them.

We also doubt if the average investor who buys a mutual fund issue just before it goes ex-dividend realizes that he is paying a "load" on the dividend and will pay an income tax on the return of his own capital when he receives it. He would be better off to make his investment the day after it goes "ex," rather than the day before.

In the case of industry group mutual funds, which by and large afford a below average income return, liquidations have exceeded sales in some cases during the past few months. It would appear that mutual fund investors are seeking a fox-hole lined with "dependable" or above average dividend checks to protect themselves against either a depression or the high cost of living.

A Legal Puzzler

Here's a good one to try on a lawyer friend. Ask him, "Is it legal in New York State for a man to marry his widow's sister?"

As a rule, the answer will be yes, despite the fact that no corpse has ever married again—to our knowledge!

Putnam Fund 10 Years Old

Last month marked the 10th anniversary of the **George Putnam Fund of Boston** which has grown steadily with present assets of more than $22,000,000 and shareholders numbering more than 9,000. To quote from a recent bulletin of theirs "But it is to the future that we should give most of our thoughts and attention today. Of one thing we are sure, that the aim of the **George Putnam Fund** remains unchanged—to serve the investor who seeks the prudent employment of his savings. This was our purpose 10 years ago; it is our purpose today; and it will be our purpose 10 years from today.

"We want the **George Putnam Fund** to make a real contribution to the financial security and well-being of its beneficiaries—in 'peace of mind' as well as in dollars and cents. The trusteeship of money is a great responsibility. It is also a great opportunity for service."

Notes:

Wellington Fund recently declared its 72nd consecutive quarterly dividend amounting to 40c a share making a total of $1 a share paid during 1947. Of this $1, 58c was derived from investment income alone.

Distributors Group in a recent bulletin states that the Department of Commerce and Bureau of Labor Statistics expect 1948 to witness an all time building peak with new construction estimated at $15,200,000,000 as compared with $12,663,000,000 for 1947.

Vance, Sanders Boston Fund reported net assets of $27,390,000 as of Oct. 31 divided as follows: cash and governments 15.5%; corporate bonds 14.2%; preferred stocks 10.3%; common stocks 60%.

Opportunity Still Knocking

Hare's Ltd. quotes from **Standard & Poor's** "Outlook" pointing out that "whereas all phases of our national economy are booming, with many of the indices of economic prosperity showing twofold or threefold increases as compared with the 1939 prewar period, stock prices, on average, are up only 34%.

Percentage Gain in National Indexes Over Prewar Period

	Increased by
Money in circulation	383.3%
Corporate profits	240.0%*
Farm commodity prices	189.2%
National income	174.0%*
Bank deposits	141.4%
Corporate dividends	75.0%*
Prices, excluding farm & food	71.6%
Industrial production	71.3%
Stock Prices	34.0%

*Estimated.

"In commenting on the above, **Standard & Poor's** article states that while the stock market has been backing and filling for more than a year, with prices fluctuating meaninglessly in a range 17% to 29% below the 1946 highs, corporate profits and dividends have been mounting steadily, with the result that price-earnings ratios are now among the most conservative on record and yields are unusually generous."

A Prediction

That "Jersey Joe" Walcott, born Arnold Raymond Cream, will be one "Whipped Cream" before the end of the fourth round tomorrow night.

Appalachian Electric Bonds Offered by Kuhn Loeb Group

Kuhn, Loeb & Co. and Union Securities Corp. on Dec. 2 received the award of $28,000,000 Appalachian Electric Power Co. first mortgage bonds, dated Dec. 1, 1947, and due Dec. 1, 1977, on their bid of 100.10 for a 3⅛% coupon. The bonds are reoffered today by the successful bidders at a price of 100½ and accrued interest, to yield 3.10% to maturity.

The interest cost to Appalachian Electric Power Company for these funds, based on the successful bid, was 3.12%.

Banking Policies Not Inflationary

(Continued from page 15)

as a principal contributing factor; and it has attempted to point out above, the vastly more important elements of inflation—of which bank loans are a barometer.

This is not to say that there have not been unwise bank loans in some cases. After all, banking is a form of human endeavor, operated by human beings. It would be amazing if there were not some errors in judgment. But we submit that, on the record, there is no evidence of bank credit expansion beyond that which could be expected under all the circumstances. There is every evidence that loans are today doing a wholesome and constructive work in their intended place in the economy.

Consumer Credit Control Opposed

The Council has studied the increase in consumer credit in relation to the termination of Regulation W. While consumer credit has increased substantially, much of this reflects the availability of automobiles and household appliances. There is so far too little experience on which to judge the effect of the termination of Regulation W. The American Bankers Association is undertaking with considerable success to insure maintenance by banks of sound lending standards. This effort toward voluntary cooperation seems to the Council the sensible and the democratic method of dealing with this problem, both with respect to the banks and other lenders. The Council is opposed to legislation giving the Board new regulatory powers in this matter.

Special Reserve Plan Unwise

Suggestions in the President's message to Congress with respect to credit control indicate the possibility that the Federal Reserve Board may present to Congress the proposal in its 1945 Annual Report for a required bank reserve of short-term government securities. The Council therefore wishes to state its views on this proposal.

The proposal as we understand it is that banks should be required by law to maintain, in addition to cash reserves, reserves of short-term government securities in a percentage relationship to deposits, to be fixed from time to time by the Federal Reserve Board.

The Council is unanimously opposed to this scheme for the following reasons:

(1) It is impractical. The operations of banks are so different, reflecting as they do adaptation to the varying needs of their communities and customers, that no percentage of short-term government security holdings can be applied fairly or practically to all banks. Any percentage high enough to offer any measure of restraint on a substantial number of banks will have disastrous effects on many other banks, compelling them to liquidate sound and necessary loans and thus actually check production. The very banks which have served the business in their communities most aggressively and helpfully would be hardest hit.

(2) Such a plan would substitute the edicts of a board in Washington for the judgments of the boards of directors of 15,000 banks throughout the country as to the employment of a substantial part of the funds of their banks. This is a step towards socialization of banking.

(3) As indicated earlier, the Federal Reserve System and the Treasury already possess large powers of credit control not now being fully used. Such new powers as those proposed are not necessary.

Expanded World Income Will Solve Present Economic Problems

By DR. OSWALDO ARANHA*
President, United Nations General Assembly

Brazilian statesman recounts efforts at international cooperation in solving world economic problems and stresses importance of promoting economic well-being on international rather than national basis. Holds income and wealth of each nation can be raised if sound economic and political policy is adopted and says world needs leadership of democratic United States.

There is hardly a subject upon which I may talk to you that can be unfamiliar to the members of an organization bearing the name of the "Economic Club of New York." The feature of our times is the interpedence of political and economic aspects, with a trend toward predominance of the former. It is characterized not only by the growing intervention of the State in private initiatives and activities through legislation and taxation, but also by the influence of international factors in the life of each people and even of each individual.

Oswaldo Aranha

The United Nations, with its tendency toward the super-State, is adopting, for instance, through the Economic and Social Council, resolutions which will take effect in the fields of economic development and stability, of fiscal problems and of transportation.

The aim of the recent meetings of the Preparatory Committee in Geneva and of the coming International Trade Conference in Havana is precisely that of restoring the flow of international trade and establishing a code of commercial relations which will have its repercussions in the entire economic life of the world. The same can be said, in another sector, of the International Maritime Conference which is to meet early in 1948.

The role of the United Nations in international economic life is not confined, however, to such intervention. Some other aspects of fundamental importance are the object of the attention of that organization and its specialized agencies. Among them I may mention relief and the reconstruction of devastated areas, monetary stabilization, restoration of the international flow of capital and goods, economic betterment and stability of under-developed areas, agricultural production and distribution, improvement of nutritional levels, health conditions and labor standards, regulation of air transport and telecommunications.

The so-called "Marshall Plan" is another example of international economic interdependence on one hand and, on the other, of a growing predominance of social and political factors over the economic life of the peoples, a new trend determined by several causes, some of which are political and others ideological. I do not wish to enter here into an examination of these problems. They are historical and involve old issues, the solution of which will require time and the exercise of all the wisdom of which the human mind is capable.

The Fear Complex of World

The present fear complex of the world, universal insecurity and unrest and the disturbance of national and international order arise from many causes. Among these causes there are four which I think, deserve special attention:

First—The need for the conception of a world order or a pattern for world-wide unity.

Second—Uncertainty as to how the "new majorities" will use their increasing political power.

Third—The belief that there are limits which the income and the trade of the world and of each nation cannot surpass.

Fourth—The assumption that we lack space for the world's ever increasing population and for the spread of our common civilization.

We submit, therefore, to experimentation, in the hope that a new era will eventually arise. If we can show that such an outcome is possible, if despite world unrest we succeed in laying the foundations for this better era, ours will have been a great achievement.

There is one aspect which overshadows all considerations of a material order. It deals with the moral order which must be created. This will depend not only on how the "new majorities" will adjust themselves to the task of government, but also on whether the leading nations will formulate a conception capable of guiding the destinies of mankind.

Apart from the slaughter of creatures and the destruction of material achievements, the war brought evidence of the emptiness and insecurity of the political conceptions until then presiding over the life of the peoples.

The norms in prevalence in the period between the two great wars were proved beyond doubt to be incapable of reconciling the contradictions and conflicts arising from progress itself, from the growing aspirations of mankind and from the demands created by the expansion of peoples.

Human intelligence appeared to have been deflected from the task of solving and overcoming its difficulties, to embark on the tragic experiment of our days.

Peace, which we labor so hard to insure, cannot be attained through a concert of material forces alone, but rather through their subordination to a moral order, to a conception of life which will correct and overcome these errors and contradictions inherent to the evolutional process of humanity.

Until this day, despite all the noble attempts which have been made, culminating in the structure of the United Nations, there still prevails the same old antagonism between the authoritarian and the liberal currents of political thought. There are, however, indications of an effort toward understanding and conciliation of the thoughts and of the spirit of mankind, so necessary to a cordial interchange between peoples in all fields of human endeavor.

Must Reach a New Formula For Peace

We must realize that international life will continue to be plagued with uncertainty, insecurity and danger, until we reach this new formula and until each nation finds within its borders the solu-

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*An address by His Excellency, Dr. Oswaldo Aranha, before the Economic Club of New York, Nov. 20, 1947.

The Legislative Outlook

By HON. JOSEPH W. MARTIN, JR.*
Speaker, House of Representatives
U. S. Congressman from Massachusetts

Speaker Martin likens our foreign aid to war reparations added to blood and treasure expended in fighting, and cautions heavy spending for such purpose is threatening nation's solvency. Calls upon President Truman to state how much U. S. money is to be spent abroad next year, and insists outlays must be kept within balanced budget. Recommends using private capital in rebuilding industries abroad. Denounces rationing and price controls, and advocates stringent government economy.

A grave situation has been brought about in this nation. We are asked to assume, because of no fault of our own, peacetime restrictions, controls and regimentations as stringent as wartime controls were. We are asked to continue on under a staggering burden of taxation in order to pay reparations, as it were, to allies and enemies alike, following a war we won. To be added to the immeasurable sacrifices we made in blood and treasure during the fighting, we are asked to add more money.

Hon. J. W. Martin, Jr.

Meantime, one of the arguments being made by those who propose these dangerous and staggering burdens is that there is too much money in the hands of the people. On the one hand, we see high wages. On the other, we see an effort to take those high-wage dollars out of the hands of the people who earn them by excessive taxation. On the one hand, we hear talk about preserving democracy here in America coming from the same lips which argue that we should, to some degree, abandon democracy in favor of stringent peacetime regimentation and controls. The same speakers who argue that prices are too high—and they are—contend that the only way to cure the trouble is to take away from the people *more* money in taxes so they will have less with which to meet living costs.

We must not allow economic freedom and self-reliance to be destroyed. If they are, the powers standing for liberty will be so weakened they will not be able to offer any effective resistance to the progressive extension of such destruction to contitutional government and the people's liberties generally.

If this resistance is gradually given up—the people might not even realize what is actually happening. Personal liberty, freedom of thought and speech, and the independence of business and of science, would be exposed to a very great danger. We could lose the whole essence of the civilization we have inherited from generations which fought hard to lay its foundations, and for which many men even gave their lives

Should Curtail Government Spending

It is proposed we increase government spending when we should be curtailing it. Reports are being allowed to go out of the governmental circles that the next year's budget will be forty billion dollars or more.

Wild government spending simply must be reduced, not increased. And the reductions which must be made, cannot be accomplished unless we have the wholehearted support of the people who want to save the nation from economic collapse.

One of the most acute problems given scant attention by the Administration is keeping this country solvent. We all like to spend money; every human appeal finds in us a responsive chord. But the cold facts are there is only so much money available.

The only money the government has to spend is money taken from the people in taxes.

The more the government spends, the more it is obliged to tax the people. This fact must be brought home to the people.

That is why it is imperative that President Truman at the earliest possible moment shall tell Congress how much money he wants to spend abroad next year. And, how much he wants for spending at home.

With the total demands known, Congress can determine the proper distribution of the tax money.

The more money we send abroad, the less we will have to spend at home. And if the spending demands are excessive, then, of course, we cannot reduce taxes. We must be fully aware as to what the alternatives are.

A Balanced Budget Essential

There is one thing we must do, and that is to keep the budget balanced. With a national debt of more than eight thousand dollars for every family in America, we cannot continue to go into debt.

American horse-sense demands that the government shall join with the Republican Congress in keeping this country solvent. It is high time the people demanded this brand of cooperation.

The great heart of America, as has been demonstrated in the last two years, will always respond to the call of the hungry. But we must guard ourselves against any who would fill their own pockets with American funds.

Feeding the world is an enormous task and it cannot be accomplished without the fullest cooperation of the people of every land. Waste and dishonesty must be reduced to the minimum.

American dollars alone cannot do this job. These dollars must be prudently spent. And we must have full cooperation from the nations which seek our aid. They must be ready and willing to go to work, to help themselves.

After all, American money is not inexhaustible. Our people will not go on indefinitely paying high taxes to help other peoples without evidence they are doing their best to help themselves. For the sake of those peoples themselves,

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*An address by Congressman Martin before the 52nd Annual Congress of American Industry, sponsored by National Association of Manufacturers, New York, Dec. 3, 1947.

Canadian Securities

By WILLIAM J. McKAY

In this unsettled world the desirability of a fixed price for gold is unquestioned. This is also true with regard to the objective of the establishment of the parities of the currencies of the world at fixed ratios in relation to gold. But gold should be the servant of international monetary policies and not the master. The necessary rigidity of a fixed standard must inevitably give rise to a high degree of artificiality but efforts should be made to introduce realism into an otherwise purely artificial situation.

The arbitrary maintenance of the price of gold and the value of international currencies was designed to create a stable foundation for the promotion of a freer state of world trade. But two of the greatest obstacles which bar the attainment of this objective are:

(1) A universal shortage of U. S. dollars.

(2) The existence of flourishing black markets in gold in the various "free" centers throughout the world.

Canada as a result of the dislocating impact on her economy of the world scarcity of U. S. dollars has now reluctantly taken the initiative in adopting a realistic attitude towards this problem, without infringing however the spirit of the international currency agreements. As far as Canada is concerned gold constitutes a currency standard in the international sense, but domestically it is a commodity of which the Dominion is a leading producer. Without delving into the merits of the case of the gold-mining industry whose product has been arbitrarily maintained at a fixed price while all other prices have risen substantially, the payment of a gold production bonus is fully justified as it represents a practical step towards the alleviation of the U. S. dollar shortage. As such it will help to solve Canada's particular problem in this respect and it also avoided the course of currency devaluation which would have aggravated rather than assisted the Canadian U. S. dollar situation.

Now that this first natural step has been taken perhaps more serious consideration can be given to means whereby the black markets in gold can be eliminated, likewise without jeopardizing the official price level. Hitherto the idealistic and impractical approach to the solution of this problem by self-imposed restrictions on free action by members of the International Monetary Fund has not only profited non-members of the Fund but it has also signally failed to discourage dealings in gold at premium prices. If on the other hand the gold producing members of the Fund were permitted to sell freely in the world's markets the following results would be achieved:

(1) Gold production generally would be naturally stimulated.

(2) The "free" price of gold would ultimately be brought in line with the official level and the pressure on existing currency parities would be relieved.

(3) The elimination of the premium over the official level would tend to force out for sale at the official price the extensive European holdings of hoarded gold.

Thus Canada, which has already made many valuable contributions towards a more practical approach to the solution of the world's commercial and financial problems, now has the opportunity to propose the introduction of greater realism in the consideration of the gold question in which she is so vitally interested.

During the week the external section of the bond market registered further declines and the internals were also weaker in sympathy with the widening of the discount on free funds. Stocks were again irregular with the golds still reflecting disappointment concerning the new subsidy. Discussions, however, are now taking place between the representatives of the industry and the Department of Finance for the study of further concessions. Pulp and paper issues on the other hand were buoyant in anticipation of an imminent price increase.

Thomas F. Welch With Schoellkopf, Hutton

Schoellkopf, Hutton & Pomeroy, Inc. announces that Thomas F. Welch, formerly with Lazard Freres & Co., has become associated with the firm in its New York office, 63 Wall Street. Prior to joining Lazard Freres & Co., in 1934, Mr. Welch had been associated with Bonbright & Company since 1925.

Donald Young Joins Clokey & Miller Staff

Clokey & Miller, 61 Broadway, New York City, announce that Donald Young, formerly of Donald Young & Company, is now a general partner of the firm.

Retire From Garvin, Bantel

William A. Hauhuth and Henry S. Allen, Jr., a member of the New York Stock Exchange, have retired from partnership in Garvin, Bantel & Co., New York City.

Understanding The Tax Laws

By VICTOR R. WOLDER*

Attorney and Counselor at Law, New York City

Mr. Wolder stresses value of knowledge of tax laws, and points out cases in which such knowledge has resulted in tax savings and refunds. Traces interpretation of laws relating to taxes on dividends, insurance proceeds to purchase partners' stock, annuities and deferred compensation, carry-back and carry-over credits, and the like. Holds on any transaction of sizable amount, that is not in regular ordinary course of business, understanding the law will often result in tax savings and refunds.

It is essential for every person in business, or who has an income, or who may qualify as a "Taxpayer," to know the tax law and have competent help and assistance. Invariably, this help and assistance is supplied by the accountant and the tax attorney who devote considerable time to these matters. It is regrettable, though, to see how short-sighted tax programs have led to inevitable cost and hardship to the taxpayer. This generally has been brought about by simple lack of knowledge of the law.

Victor R. Wolder

There is a general bugaboo that the Commissioner of Internal Revenue, and his large host of collectors and agents, seek to drain the taxpayer of his last tax dollar. From my experience, such seems to be farthest from the truth. We must remember that the Commissioner of Internal Revenue must depend upon large groups of men in one of the largest organized branches of the government. These agents, who work out of the office of the Internal Revenue agents and out of the Collector's office, are every-day, work-a-day fellows trying to do their job as best they know how in an honest and honorable way. Occasionally, here and there, one of them will go off half-cocked, but that is to be expected. The laws are so difficult and complex that it cannot be expected that the agents know it all, and then we must remember that the fellows who work in the field do not have unlimited authority and discretion. They are bound by the regulations issued by the Commissioner of Internal Revenue, and by the policy established within the Bureau itself. Often times you will find an agent who personally agrees with you, and yet must make a report adverse and detrimental, because of the regulations or Bureau policy. That, however, should not prevent the taxpayer from pursuing every right that he believes right and proper.

To demonstrate briefly how varied the laws are, there came to my attention just the other day a provision in the law which applies to "Operating Loss Carry Backs." It seems that there is a tremendous lack of knowledge and understanding on this subject, not so much on the part of the Bureau of Internal Revenue, but rather upon its application and the scope of it by the taxpayers and accountants and tax experts. From a study I made of the law, and from discussions I have had with numerous accountants, it appears that, repeatedly, they overlook certain rights of the clients with the result that large refunds, to which their clients are entitled, are not obtained, and yet I have seen instances where the full rights of the taxpayer were pursued, and the refunds were made promptly by the Collector of Internal Revenue.

I am going to outline a few items which demonstrate a few things that the taxpayer should keep in mind constantly. They touch upon such subjects as Dividends, Insurance Proceeds to Purchase Partners' Stock, Annuity and Deferred Compensation, Annuity and Estate Planning, Reorganizations, Black Market Dealings, and a few other items. These points will demonstrate how readily a definite tax liability results by handling the same transaction in one of two different ways, or seeing how the same transaction can result in either taxable, or nontaxable income, dependent upon the existence of other factors.

Dividends

Section 115 of the Code deals with the subject of dividends. It provides that, for dividends to be taxable as ordinary income, they must be out of earnings of the current year, or out of earnings as of the beginning of the current taxable year, accumulated since Feb. 28, 1913. There are several factors here to remember.

(a) The distribution by a corporation of property which has appreciated in value does not create income to the corporation to the extent of the increased value. (General Utilities and Operating Co. 296 U. S. 200.)

(b) In computing to what extent, if any, the taxpayer is deemed to have received a taxable income, the extent of the earnings of the corporation available for dividend purposes is to be computed without regard to the increased value of the property distributed. (Timkens Estate 141 F (2) 625.)

(c) In determining whether the corporation has earnings accumulated since 2-28-13, it is necessary to ascertain exactly what the actual earned surplus or deficit of the corporation was on 2-28-13. If there was a deficit as of that date, then such deficit is first used to wipe out or reduce the amount of earned surplus which accumulates thereafter. However, even though, as between 2-28-13 and the beginning of the taxable year, the corporation might have an actual deficit, yet when combined with a situation where the corporation had a high earned surplus prior to 2-28-13, the corporation might have an actual earned surplus since 2-28-13 for dividend purposes. Thus: Corporation "A" has operating deficit of $100,000 as of 2-28-13. From 2-28-13 to 12-31-30 it has accumulated earnings of $150,000, and from 12-31-30 to 12-31-46 it has a deficit of $50,000. Any distribution it makes cannot be taxed as an ordinary dividend out of accumulated earnings, even though from 2-28-13 to 12-31-46 it has accumulated earnings of $100,000. On the other hand, if the same corporation had a $100,000 earned surplus as of 2-28-13; lost $100,000 from 2-28-13 to 12-31-30 and had accumulated earnings of $50,000 from 12-31-30 to 12-31-46, it would be deemed to have actually $50,000 of accumulated earnings for dividend purposes. (See Canfield Estate Case and Estate of Bedford Case. Both decided by U. S. Supreme Court.)

Before reporting a substantial dividend as ordinary income, it is worthwhile to check the history of the corporation. Sometimes you find that what seems to be ordinary dividends are really return of capital for tax purposes to be used to reduce cost basis. Samuel Goldwyn did, as will appear from a recent tax court decision, and much to his benefit, taxwise.

Before leaving the subject of dividends, one further admonition. Be careful to make sure that earned surplus is not tied up in capital which had been created by a nontaxable stock dividend. In a recent case (Sheehanis Dana CCA 8th), the corporation in earlier years had capitalized earned surplus by distributing tax-free stock dividends totaling $300,000. In years later the corporation reduced the amount of its capital stock and liquidated part of its capital. The Circuit Court held that the payments to the stockholders in liquidation of their stock was really out of earned surplus and hence taxable. Beware, before you act.

Insurance Proceeds to Purchase Partner's Stock

Often, in closed corporations, two men own all the stock. They enter into agreements whereby each applies for and pays premiums on life insurance on the life of the other. The proceeds are used by the survivor to buy the stock of the one who dies first. Such existing contracts should be reviewed at this time. Many such contracts were prepared in reliance on the case of Herbert G. Riecher (T. C. Memo No. 2871), for under that case it was assumed that the proceeds were not taxable in the estate of the decedent. Recently, in an informal ruling, the Commissioner of Internal Revenue on a substantially similar state of facts took the position that under Sec. 81.25 of Regs. 105, the insurance carried on his life by his partner was taxable in the deceased partner's estate on the ground that he had "indirectly" paid the premiums. He relies on the doctrine of the reciprocal trust theory of the Lehman case (109 F (2) 99). Whether the Commissioner is right or wrong in his ruling is not for us to determine now. The courts will do that later. But taxpayers proceed on dangerous grounds if they ignore large tax liability. In many instances the problem can be worked out by having the corporation take out the insurance and pay the premiums. The corporation would not be taxed on receipt of the proceeds (Sec. 22 (b) (1)). Then have the corporation buy the stock from the decedent's estate. The same result is achieved by a different method and with less taxable risks. involved. Thoughts should be given to reviewing and revising agreements touching on this subject.

Annuity and Deferred Compensation

Employers paying large salaries to employees, let's say $80,000 or $100,000 a year, which the employees do not presently need in full and are concerned about them after they reach retirement age, might do well to consider some form of deferred compensation plan. Virtually every substantial employer is familiar with employee pension and profit-sharing plans which qualify under Section 165 of the Code. There are some other plans, though, excellent for individual cases which, while not qualifying under Section 165, nevertheless affect substantial tax relief.

Section 23 (p) of the Code provides that if a contribution is made by an employer under a stock bonus, pension, profit shar-

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*An address by Mr. Wolder before the Accountants Association of New York, Oct. 2, 1947.

Railroad Securities

There is considerable comment these days to the effect that the railroad industry is deteriorating rapidly, that railroad securities are unattractive, and that the railroads are not going to make any money. A year and a half to two years ago there was considerable comment to the effect that the railroad industry had entered a new era of prosperity, that railroad securities were attractive, and that the railroads were going to show phenomenal earnings. Generalities of this nature are just as misleading today as they were two years ago. Whenever there is a tendency on the part of the investing and speculating public to look upon the railroad industry as a single unit, with identical problems and prospects for every road, it is time to look at the record again.

It has never been possible, and never will be possible, to appraise the railroads as a group. It would be just as logical to try and assess the prospects of a retail sales organization without differentiating between one selling food and another selling expensive jewelry. The individual railroads are dependent upon different types of traffic. They vary in the importance of passenger business and l.c.l. freight. They differ as to the density of their traffic and the average length of haul. Operating problems differ with physical location. All of these factors have a varying influence on traffic volume, revenues, and expenses.

It is entirely possible, as has been amply demonstrated in the past, for some railroads to be enjoying a high degree of prosperity while others are just scraping by or are actually encountering financial difficulties. Moreover, with our general economy in a constant state of flux there are bound to be constant changes in the relative status of the individual railroads. Just because a road is in the top credit group today is no reason to be complacent. Conversely, dynamic territorial developments or internal changes within the individual property may eventually transform the ugly duckling of today into the glamor girl of tomorrow. For these reasons each individual railroad security must always be appraised on its own merits and the changing conditions that might materially alter the status of each individual road must be followed carefully.

A look at the transportation ratios of the individual roads i enough to convince any analyst o the fallacy of considering the railroad industry as a single investment problem. This is the most important expense item. In the first place, transportation costs account for more than 50% of al operating expenses. Secondly, transportation costs are not subject to the same short term manipulation as are the maintenance costs which make up most of the remaining operating expenses Transportation costs consist mainly of wages and fuel. As wage rates and fuel prices have increased it will be found generall that the spread between the most efficient and least efficient of the carriers has tended to widen. As there is no definite indication that the upward spiral of prices has as yet run its full course the factor of low transportation ratios is still of the utmost importance.

For the current year to date transportation costs for the industry as a whole have absorbed just short of 40% of gross. Among individual roads, however, the ratio has ranged all the way from a low of 23.7% for Virginian to 47.8% for Pennsylvania. Except for the large coal roads it is notable that a majority of the Eastern carriers have been running well above the industry average. Also to be found among the hig ratio railroads are a large proportion of the roads that have gone through, or are going through, reorganization. As a matter of fact it was the high cost factor that brought on bankruptcy in the first place in many instances. It is axiomatic that transportation costs can not be cut merely by the process of scaling down the capitalization.

The wide difference in individual performances this year is well demonstrated by a comparison of the results of New York Central with those of Southern Pacific. In the first nine months of 1946 both roads reported about the same income available for charges before Federal income taxes. For the first nine months of 1947 Southern Pacific's income available before Federal income taxes was more than double that of New York Central. However, had Central been able to realize the same transportation ratio as Southern Pacific (39.0%) instead of the 44.4% it did report, both roads would again have been able to show very close to the same available pre-tax income.

Jaffe and Klocker Now With Skall, Joseph Co.

CLEVELAND, OHIO—George E. Jaffe, member of the Cleveland Stock Exchange, and Paul H. Klocker, both formerly with W. P. Quinn & Co., have become associated with Skall, Joseph, Miller, & Co., Union Commerce Building, members of the New York and Cleveland Stock Exchanges. Mr. Jaffe started his career in the investment business with Harris, Forbes & Co. with which he was connected from 1924 to 1930, when he joined the Quinn Company, of which he has recently been Vice-President.

Geo. E. Jaffe

New York Municipal Forum To Hear J. S. Lawrence

The Municipal Forum of New York will have Joseph Stagg Lawrence, Vice-President of the Empire Trust Company of New York, as speaker at its luncheon meeting to be held at the Lawyers Club on Friday, Dec. 12. Mr. Lawrence's subject will be "Money Rates and the Bond Market."

With C. N. White & Co.

(Special to The Financial Chronicle)

OAKLAND, CALIF.—S. C. Bettencourt is now with C. N. White & Co., 1201 Central Bank Building.

Expanded Income Will Solve Economic Problems

(Continued from page 17)

tion for the difficulties which beset one and all.

Humanity is witnessing the end of an era in political history and the birth of a new one. Throughout the world the struggle goes on between the so-called Left and Right. The Leftist movement has gained ground, but the fact is indisputable that its promotion and the resistance against it are being carried out in an equally unwise manner.

The political phenomenon is similar to the socal one; a struggle between the old order which refuses to part with its idols, its ideas and its practices, and the new order which indulges in dangerous excesses at the very first sign of opposition to its overreaching innovations.

Political history shows us that in such periods, when formerly dominated masses or nations force their way up to the status of dominance, the process of evolution is disturbed and its rhythm broken violently, even tragically. This is exactly what is happening throughout the world today, in every nation and within each people.

The brilliance and even the justice of human achievements is dimmed by the full play given to instinct and passion whenever any opposition is encountered in the forward march. Nationalism, racial expansion, political ambitions, economic penetration, military predominance, international rivalries, revenge, envy, fear, hate and a multitude of other evil forces have perturbed all human activity and, in the prevailing confusion, dominated national and international action, creating an atmosphere of insecurity and unrest which has spread over the entire world.

Until each nation and each people find the solution of this problem, national and international order alike will continue to suffer the hardships which this struggle entails.

In a world of highly prosperous nations, each nation would gain advantage from the prosperity of the others; conversely, the poverty of so many nations affects today the welfare not only of the world at large but of each people and of each individual.

In my opinion, if we want to solve the problem of production and of the elevation of the general wealth level—and sooner or later we shall be compelled to do so—we must take immediate steps to increase not only the national income, but world income as well.

Up to the present, it cannot be said that this has been done. It is true, nevertheless, that if we secure an increase in the income of the world and, consequently, in that of nations and of the individual, the ensuing prosperity will favor peace—internal and worldwide.

In the period immediately preceding the first World War the total income of the world amounted to $125,000,000,000, and today it amounts to well over $200,000,000,000. These figures are but a fraction of the latent possibilities of the world. The income and the wealth of each nation can be raised if a sound economic and political policy is adopted. The subsequent expansion of the world's total income will inevitably further the solution of the economic problems which we face today.

When each nation and each person does the utmost to curtail the possibilities of other nations and of other individuals, — then, surely, all will be poor—all wi be troubled. On the other hand if every nation and every individual seek to promote the well-being of their neighbors, then all can prosper because of the inevitable increase in production and consumption and in confidence.

New vistas must be opened; the achievements of civilization and culture are available to all and their proper use can ensure the economic betterment of underdeveloped areas, thus dispelling the fallacy that the world lacks space for its growing population.

This is one of the functions of the United Nations. In my opinion it is also one of your problems. Your wealth and prosperity, great as they are, could not long endure in a poor and unhappy world. Your leaders know, and you know, that without the leadership of the United States the world cannot rise from its present state of chaos. A careful analysis of present-day conditions indicates that the world has never been in greater need of wisdom, of courage and unselfishness in the councils of governments, of peoples and of nations, that humanity may resume its onward march and civilization be safeguarded.

In short, you are not asked to save the world, but to save yourselves for the world, which needs the leadership of your great country and of its democratic people.

Belgium Gets Large Export-Import Credit

Export-Import Bank announces loan to be repaid over period of five years, and used for purchases of essential raw materials and equipment in U. S.

On Nov. 27, the Export-Import Bank in Washington reported that arrangements have been made for a grant of a credit to Belgium of $50 million, to be used for purchases by Belgium in the United States for the purchase of essential raw materials and equipment "which would permit the high level of industrial production in Belgium." The money, which will be available to the Belgium Government during the year 1948, is to be repaid in semi-annual instalments of $5 million each, over a period of five years. Final negotiations regarding the schedule of purchases and the rate of interest have not yet been concluded, but in his letter to Maurice Frere, Governor of the National Bank of Belgium, President William McC. Martin stated that these arrangements will be determined "in accordance with the policy of the Export-Import Bank not to compete with private capital."

Division of Family Income—A Tax Red Herring

(Continued from first page)

owner. If the married taxpayers of the country fall for this scheme they will be settling for far less than half a loaf.

Alleged Discriminations

The Treasury has been the main source of the turmoil and discussion over the alleged discriminations in the income tax. The most recent example of its efforts to incite trouble in this direction is to be found in a recent study by the tax research staff. The following passage is taken from that document:[1]

"Present law discriminates between families on the basis of residence by enabling couples in community-property states to divide their earned and investment income into separate tax returns thereby reducing their taxes through the double use of the lower rates of the progressive tax rate schedule. It discriminates also on the basis of the nature of income, by requiring earned income in non-community-property states to be taxed to the earner, but affording recipients of investment income numerous opportunities for splitting that income with members of their family. Finally, it discriminates between recipients of investment income by favoring families who avail themselves of opportunities to split income by gift and such devices as family trusts, corporations, and partnerships."

The first type of alleged discrimination mentioned in this excerpt will receive the chief attention in this discussion. Before proceeding with the main subject, however, the other two types should be dealt with briefly.

The bias of the foregoing citation from the Treasury's report is clear and its misleading character is demonstrated by the failure to tell the whole story. With respect to the alleged discrimination based on the nature of income, it is said that the recipient of earned income must pay tax on the whole amount, while the person who has the same amount of income from investments is able to split this income with members of his family. Among the devices available for such alleged tax-dodging are said to be gifts, family trusts, corporations, and partnerships. These same devices are mentioned as the methods by which some recipients of investment income are able to get away with lower income taxes than other investors who do not elect to use them.

There is a definite implication that any division of investment income among members of a family is a painless or costless procedure. The Federal gift tax is the second part of the story. It is casually mentioned but it is not allowed to interfere with the main impression sought to be conveyed, namely, that gifts or other partitions of income within the family are a profitable tax-dodging procedure. Furthermore, the impression is intended that the tax law fosters and encourages these tricks.

In this issue of misrepresentation there is no such discrimination as is implied. If any one who owns a substantial amount of property wishes to divide that property among the members of his family, either as direct gifts or as transfers in trust, he has always been, and should always be, entirely free to do so. Such disposition of property has a much longer history than does the Federal income tax. The tax law is not entirely clear at all points, but it can be said that the intent is to tax income to the legal owner thereof. In the case of trusts, the principal issue always is: Is the transfer such as would make the beneficiary the bona fide legal owner of the property given or transferred? If so, then as the new owner the beneficiary becomes liable for the tax on the income thereafter produced by the corpus of the trust and the former owner is no longer liable. This is as it should be. The present difficulties arise because of the deficiences of the statutory tests of divestment, and there have been numerous cases in which settlors of trusts have been caught in the fringe or twilight zone. Fundamentally, however, the intent of the law has clearly been that of taxing income to its legal owner. Donors and settlors have been caught because they have not always given evidence of a sufficiently clear-cut divestment to establish legal ownership of the income elsewhere.

Partitioning Income Not a Costless Device

There should be no confusion about whether resort to any of the devices for partitioning investments within the family is a costless operation. It is not, of course, for the gift tax will take a substantial slice out of any large gift or transfer in trust. There can be a net gain through income tax saving only after the gift tax has been amortized, and that will require a goodly number of years whenever the gift itself is large, as it must be in order to effect a material reduction of income tax. There are many good reasons for making gifts during life, but avoidance of income tax can hardly be regarded as an influential or controlling one.

It is sheer nonsense to say that there is tax discrimination between those families which distribute investments, at the cost of the gift tax, and those which do not. There are enough things wrong with the income tax, as it is, without dragging in such a purile contention as this one. The Bureau has ruled that a man cannot divide his income with his wife or children merely by making them partners. There must be definite evidence that these so-called partners have contributed either capital or active, valuable services of some sort in the management or operation of the enterprise. And if there has been such a contribution, either of capital or services, the allocation to them of a share of the earnings, on an appropriate and defensible basis, loses all taint of tax-dodging.

The same is true with respect to a distribution of corporation stock. If the wife or children cannot prove that they bought the stock, then its distribution to them constitutes a series of gifts and the donor is caught with the gift tax.

Case of Mandatory Joint Returns

The history of the Treasury's unsuccessful efforts to write into the tax law the rule of mandatory joint returns by married couples provides the clue to the allegations of discrimination where none really exists. These efforts have involved a very important principle of income taxation. It is the question whether income should be taxed, as the law now aims to provide, to the legal owner thereof, or whether two or more persons comprising a family unit should be required to pool their incomes for the determination of the tax upon the whole. In some families there are minor children who are the legal owners of income, either as earnings or as income from property held in trust for their benefit, and thus there would be possible, under mandatory joint returns, a compulsory pooling of the incomes of more than two persons in a family return.

The taxation of the income of the family as a whole, regardless of its ownership by the several members of the family, is a thoroughly indefensible proposition. Oddly enough, however, the scheme for introducing into the Federal law a provision to authorize all married couples to divide their combined incomes into two parts, each spouse to report one half of the total in a separate tax return, is a twin brother to the Treasury's scheme to require the inclusion of the total family income in one return. There is nothing that can be said, by way of argument, in support of dividing the family income into two parts that cannot also be said in support of compelling the whole family income to be reported in one return. In fact, the latter procedure is preferable, from an administrative standpoint, since it would reduce by one half the number of returns to be examined, handled, and stored.

The real difficulty is with the tax rates. Joint returns would increase the family tax burden, while division of income is currently so popular because it looks like a good way to beat the present excessive rates. The Treasury study referred to presents estimates, based on an assumed national income of $166 billion, which show a revenue increase under mandatory joint returns of $542 million, as against a revenue decrease under income splitting of $744 million.

A Revision of Rates More Essential

But the division of family income is not the best or the wisest way to get the desired tax relief. The correct procedure, and the only one that will provide decent treatment for all taxpayers, is to revise the tax rates themselves.[2] If this is done properly, the real or alleged discriminations will become of less importance. The great danger is that by accepting the division of family income as a major element in tax revision, the existing rates will be retained or only slightly modified for the middle and upper incomes. The privilege of dividing the family income into two parts is then likely to be all the tax reduction that persons whose incomes fall in the middle and upper income brackets will ever get. They face the even more serious danger that, having once acquiesced in a departure from the basic income tax principle of taxation according to legal ownership, they may later be forced into compulsory joint returns. However this may turn out, it is clear that single persons and unmarried heads of families can benefit only through rate revision, and the revenue cost of income splitting will diminish their prospects in this direction.

The propaganda, mainly originated by the Treasury, relative to the supposed large advantages that are enjoyed by citizens of the community property states has been the principal reason for the developing pressure to divide family income. It has also been responsible for the enactment of the community property principle in several states. The whole matter has been badly handled, mainly because of acceptance without thorough consideration of the community property rule as a way to beat the Federal income tax. There is no reason why any state should not switch from the common law rules to the community property rules of property ownership. The change is fundamental and involves both legal and administrative difficulties which will be projected far into the future. It should not be made except after the most careful and thorough examination of both the advantages and the disadvantages. To rush into a community property system merely in order to beat the Federal income tax is the height of legislative folly.[3]

The principal issue involved is the extent to which the propaganda line is sound. That line is well expressed by the passage quoted above from the Treasury study, to the effect that there is a discrimination between taxpayers on the basis of residence. Married couples in community property states are said to have an advantage, through the division of community income for income tax purposes, which married couples in the other states do not have. There is no doubt about the separate reporting of half of the community income. The real question is whether or not this is, in fact, a discrimination.

The answer to this question will depend upon the respondent's conception of the basic purpose of the income tax, that is, whether the purpose should be to tax each person with respect to the income of which he is the legal owner, or to tax the income of the family group. As pointed out above, under the latter view there is no difference in principle between pooling the family income in one return and splitting it between two returns in a manner that disregards individual ownership. In either case there is a departure from the rule of taxing income to its legal owner.

No Discrimination Where Community Property Still Exists

The present writer takes the position that there is no real discrimination involved in the community property rule since it does apply the principle of taxing income to the legal owner thereof. The community in question is the marital community of husband and wife, in which each spouse has a presently vested ownership and title in the property of the community, by halves. Regardless of which spouse is responsible for producing the income or assets belonging to the community, the other spouse is immediately and automatically a co-owner, having legal title to his or her half.

The significance of the "present, vested interest" is shown by the case of California. This state has always had a community property doctrine. It had apparently served well enough for purposes of local law, but the Supreme Court found that the wife's interest in the community property was an "expectancy" or future interest and not a present, vested interest. The necessary statutory changes were made in 1927.

It is often inferred that every married couple in a community property state is free to report the entire family income, by halves, in separate tax returns. This mistake was made by Dr. George Gallup, whose question on the subject in recent polls was phrased in part as follows:

"For purposes of income taxes, in 13 states a man and wife can divide their income equally between themselves to reduce their income tax."

This belief neglects the fact that there may be separate property as well as community property, with complete recognition of the title of either spouse to such separate property as he or she may possess. The income from separate property cannot be divided in separate returns in all community property states. This fact emphasizes the position taken here, namely, that in the community property states there is taxation of income according to legal ownership. Each spouse must report the income from any separate property owned. Since each owns half of the community income from the moment it is realized, it is entirely proper that each should report one-half in a tax return.

The various community property states have introduced differences in the details of the property relationships of husband and wife. In general, the income derived during marriage from the labor, talents, or other productive faculties of either spouse is community income, while that derived from property owned at the time of marriage or later acquired through gift or bequest is separate income. In three of the original community property states (Idaho, Louisiana, and Texas), and in four which have recently enacted the community property system (Nebraska, Oklahoma, Oregon, and Pennsylvania), the income from separate property is community income. This does not mean that the separate property, as assets, loses its identity as part of the estate of the owning spouse.

Community Property by Contract

A further characteristic of the community property system is that the status of property may be altered by contract. Parties to a marriage may enter into an antenuptial contract as to how their property rights are to be governed after marriage. It is possible by such a contract to forego community property. It is also possible, after marriage, to change the status of property by means of agreement or contract between the spouses.

The extent to which married couples have modified the application of the general principle through ante- or post-nuptial contracts is unknown. The existence of the opportunity no doubt means that advantage has been taken by some, perhaps by a considerable number. These agreements are valid provided they are not against public policy, do not change the order of descent under local law, are not entered into through fraud, duress, undue influence, or to defraud creditors. Data regarding such contracts would be valuable evidence of the drawbacks which some have perceived in the system.

That there are drawbacks is obvious, and they have no doubt become more serious with the economic and social transition from the primitive conditions under which the principle developed in the Latin countries of Europe to the complex integrated society of the present day. With respect to personal earnings, the law and the fact of domicile apply, but with respect to assets, notably real property, the law of the jurisdiction of situs ordinarily prevails. Thus, money earned in a community property state by a resident of a non-community property state does not become community property. The income from land in a non-community property state does not always become community property when received by a resident of a community property state. The many variations of the theme of domicile and situs involve complications of accounting and administration, both for income tax purposes and for the ultimate purposes of determining the estates of the respective spouses.

Limitation of System in Devising Property

The most serious drawback of all, probably, is the limitation which the community property system imposes upon the producer of community income with respect to final disposition by gift or testament. Normally, the husband earns the bulk of the community income, and the bulk of any estate that may be accumulated out of savings would therefore be from his earnings. But the estate that is accumulated out of the savings from community income is also community property, and half of it belongs to the wife. She is entirely free to dispose of her half of the estate by gift or will. Should the wife predecease the husband, leaving her estate to him, he must pay death taxes to inherit, although the wife's entire estate may have been created out of savings from the husband's income. Conversely, the

1 *The Tax Treatment of Family Income*, Division of Tax Research, Treasury Department, June, 1947 (Mimeographed).

2 *Cf.* H. L. Lutz, "The Right Kind of Tax Reduction," in *The Commercial and Financial Chronicle*, October 30, 1947.

3 *Cf.* Frank L. Seidman, "The Community Property Gold Brick," in *The Tax Magazine*, November, 1947, pp. 973-980.

wife as survivor and inheritor of the husband's estate, pays tax only on his half. These statements do not take account of the notorious amendments to the Revenue Act of 1942, under which the husband as survivor is taxable on at least half of the total estate (the wife's share) but the wife as survivor is taxable on all of the estate except that which can be proved to have originated out of her own earnings or income.

If husband and wife have separate income, careful accounting must be maintained to show the extent to which the separate income has entered into the accumulation of assets in order to determine the rights of each spouse in the total family possessions.

Those who are familiar with the details of the law of community property would be able to add enormously to the list of difficulties and complexities which surround the ownership and disposition of property. The fact that many who are now pressing for a general Federal income tax rule for the division of family income want the privilege of income division and nothing more indicates that they are not prepared to secure this privilege through acceptance of a state community property law. The Special Tax Study Committee appointed to report to the Ways and Means Committee is very frank on this point. It does not want marital partnership agreements for the division of income or any other part of community property, yet the Committee rests the case for its recommendation on the difference of Federal income tax that would be paid on a given income by residents of the two groups of states, and it then says:

"The fact that the legal rights of the wife under the state law may differ in the two cases does not seem to justify the significant differences in Federal income taxes payable."[4]

If this matter of the legal rights of either spouse is to be brushed aside as of no consequence, it may be asked why general state adoption of community property was not advocated. In this way there would be assured to all married couples a privilege of dividing such income as the state law might determine to constitute community income in a manner that would put them beyond the risk that at some later time the income division rule might be taken out of the Federal law.

The reason is quite obvious. There are too many drawbacks and disadvantages in the community property system, all stemming from the basic fact that under this system the wife is the legal owner of half of the community income.

Minor Children Income

The Treasury study of the taxation of family income, mentioned above, outlines some of the problems which will arise if and when active consideration of this subject begins. One of these is the matter of minor children. It is pointed out that the goal of putting equal-income families on an equal income tax basis will not be achieved, if minor children have income, unless that income is also taken into account. At the same time it is conceded that much will depend upon the extent to which the income of minor children is drawn upon as part of the family support rather than being used, as in the case of separate trusts, for the present or future benefit of the child. The discussion leads eventually to consideration of the possibility of splitting the family income in as many ways as there are parents and children together. This would reduce the total family tax liability even more than a mere division of the total between husband and wife. The joker in the suggestion is that it would cause so great a revenue loss as to require an increase of tax rates. The same joker may be found in the income division between husband and wife, for some indirect and quite unofficial hints have already appeared to that effect.

This would be the ultimate disaster. It would finally demonstrate the folly of even offering to settle for a gadget like income splitting instead of going all out for a drastic and thorough revision of the tax rates. It would crucify the unmarried taxpayers.

Conclusion

To conclude: There is no discrimination in the present situation if we accept the basic principle of taxing income to the legal owner thereof. If the family basis of income taxation be accepted, then compulsory joint returns become as defensible as the splitting of income, as well as simpler and easier to handle from the administrative standpoint. The drawbacks and difficulties of a community property system are serious and important. In fact, they are such as to indicate that the citizens who live under it are more to be pitied than envied, despite any alleged advantage they may have in paying income tax. The complete recasting of the individual income tax rate scale is the most important tax revision problem before the people. Nothing should be permitted to interfere with the prompt performance of this task, yet there is grave danger that too eager acceptance of income division may result in failure to do the more important thing. In such event, income division, with continued imposition of the present, or even higher rates, will be all that the middle and upper income taxpayers will get.

To show just how much less than half a loaf the income splitting gadget can be there is presented, in the following table, a comparison of the tax burden under present rates with that resulting from income splitting and also from a sample of the kind of tax rate revision that is possible at this time, namely a first bracket rate of 12% or less, rising to a maximum rate (normal tax and surtax combined) of 50% on all taxable income above $100,000.

Income division obviously provides no tax reduction for single persons. In 1944 there were 14,696,697 tax returns by single persons, on which there was paid $4,119,121,000 of tax, or 25.4% of the total individual tax. It will be noted further that the advantage to married couples is nonexistent, or at best slight, through the second taxable income bracket, that is, the $2,000-$4,000 bracket. Even with a net income of $5,000, the married man with two children would gain very little. In 1947 it is estimated, by the Treasury, that there will be 18,977,500 income recipients with net incomes in the net income classes $2,000 to $4,000. About two-thirds of these will be married taxpayers.

The immensely greater tax reduction that can be made for all taxpayers, regardless of income, residence, or marital status, from a sensible revision of the tax rate scale down to a range of 12% to 50%, over that which would be afforded to a few from income splitting needs no emphasis beyond what the figures themselves show. There is time yet to get this kind of tax reduction if enough people would prefer a whole loaf to somewhat less than half a loaf.

4 *Report of the Special Tax Study Committee to the Committee on Ways and Means*, November 5, 1947, p. 12.

A Comparison of Tax Burden under Present Rates, Income Splitting at Present Rates, and a New Rate Scale, 12% to 50%.

Net Income After Deductions but Before Personal Exemptions	Single, No Dependents* 1945 Rates	Income Split	12-50% Rates	Married, Two Dependents** 1945 Rates	Income Split	12-50% Rates
$1,000	$95	$95	$60	---	---	---
2,000	285	285	180	---	---	---
3,000	485	485	310	$190	$190	$120
4,000	694	694	450	380	380	240
5,000	922	922	600	589	570	380
10,000	2,347	2,347	1,500	1,862	1,596	1,200
25,000	9,362	9,362	5,690	8,522	6,099	5,180
50,000	25,137	25,137	15,350	24,111	18,164	14,720
100,000	63,541	63,541	38,715	62,301	49,590	37,980

*Single persons would get no benefit from income division.

**Assumes that only one spouse has income. The tax savings from income division diminish in proportion as the second spouse has income, and disappear entirely, at any income level, when both spouses have equal incomes.

Mack Trucks Common Priced at $51.25 Sh.

Hayden, Stone & Co. and Adamex Securities Corp. headed a nationwide underwriting group which on Dec. 3 made a public offering of 150,000 shares of Mack Trucks, Inc. no par value common stock at $51.25 per share. The company, through its subsidiaries, has been a pioneer in the manufacture of motor trucks and an important truck producer since 1911. Present production includes also buses, fire apparatus and marine diesel engines, all marketed under "Mack" name.

The new financing has been made necessary largely because of expanding business and higher costs. Proceeds from the sale of the stock will be applied, to the extent required, to the payment of $4,000,000 of bank loans of Mack Manufacturing Corp., principal subsidiary of Mack Trucks, Inc. The balance will be added to the funds of the company, or to the funds of its subsidiaries. During the 21 month period ended Sept. 30, 1947 capital expenditures of the company and its subsidiaries amounted to $3,148,385.

After completion of the present financing outstanding capitalization of the company will consist of 747,335 shares of common stock. The company has no funded debt. The company has paid a dividend on its common stock in every year since 1922.

D. B. Barnett, Jr. Is With Stern & Co.

Announcement is made by Stern & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, that D. B. Barnett, Jr., has become associated with them in charge of their Investment Research Department. Mr. Barnett was associated with the American Foreign Investing Corp. as secretary for more than 10 years.

Uruguay Bonds Drawn For Redemption

Uruguay 5% external gold bonds of 1919 in the principal amount of £9,180 have been drawn by lot for redemption and payment at par on Jan. 1, 1948, at Chemical Bank & Trust Company, N. Y.; at the banking house of Glyn, Mills & Co., London, or at the Direccion de Credito Publicto, Montevideo.

3 With Capital Securities

(Special to The Financial Chronicle)

OAKLAND, CALIF. — H. M. Fisher, Oxen O. Heyenfeldt, and James M. Miller have been added to the staff of Capital Securities Co., 2038 Broadway.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The government market has turned inactive on very light volume with prices virtually unchanged for the past several days. . . . Quotations are just slightly above the lows of the year, as investors and traders try to figure out what is likely to happen next. . . . The big question seems to be "Is the down-trend over, and will pegged prices hold at current levels?" . . . It is believed that the longest Victory loan 2½s are pegged as are the bank 2s due 1952/54. . . . The longest bank eligible is the doubtful one, since some further liquidation is likely in this issue. . . . However, there will probably be support on the way down, if needed, so as to cushion the decline and keep the market for this bond more orderly than in the recent past. . . . A period of minor price movements would be looked upon as a favorable development in some quarters, since this might indicate the nervous selling has been about completed. . . . With the authorities taking a hand in stabilizing quotations, it is believed there will be a tendency for the market attitude to improve, if offering should dry up at these levels. . . .

SNYDER AND ECCLES

Secretary of the Treasury Snyder and Chairman Eccles of the Federal Reserve Board appear to be in agreement on:

(a) That higher interest rates are not desirable and short-term rates have advanced about enough for the time being. . . . The 2½% rate on long-term debt will be maintained. . . . This must be done so as not to increase the already heavy debt burden. . . .

(b) Economy in government expenditures to enlarge the surplus, which would be used to step up the redemption of bank-held debt. . . .

(c) Intensification of the sales of savings bonds, the proceeds of which would be employed to retire bank-owned securities. . . .

(d) Consumer credit controls. . . .

The point of disagreement between the two money managers is concerning "Special Reserves," which Mr. Eccles sponsors and Mr. Snyder opposes. . . . If past history means anything, Mr. Snyder will win out on this one, because the Treasury has been the victor in cases where there has been conflict with the Board over matters of policy. . . .

FOR THE RECORD

Testimony before the Congress of Mr. Snyder and Mr. Eccles on credit control and more specifically the money markets, indicates that higher interest rates would not halt the inflationary trend of loans, because money rates are only a small part of the whole, and would not be an effective way of fighting the credit expansion. . . . Higher interest rates would also bring about chaotic conditions in the money markets which would greatly impede the refunding operation. . . . Also an upping of reserve requirements in New York and Chicago would accomplish little because proportionately loans and deposits have shown a smaller increase in these centers than in other areas. . . . Excess reserves in these cities have been rather limited. . . . **Mr. Eccles opposes such action. . . . Likewise, he is against the raising of the discount rate by itself because this would not accomplish very much and might be harmful to the government bond market. . . .**

Although the request by Mr. Eccles for "Special Reserves" of 25% against demand deposits and 10% against time deposits which would apply to all banks and not just to members of the Federal Reserve System is very undesirable and will most likely not be granted, there may be food for thought in this suggestion, because the various classifications now in use are not given consideration in the new recommendation. . . . Many cities and areas have so completely changed in recent years that new classifications could be in the making. . . . There are some good-sized banks in cities that have grown considerably which still enjoy country bank classifications, when it comes to reserve requirements. . . .

The statement by the monetary authorities that short-term yields have gone up about enough seems to indicate that 1⅛% for certificates will be maintained for some time to come. . . . A fluctuating short-term rate would be very adverse to the refunding program. . . . The 2½% rate will be maintained and the action of the Federal Reserve Banks in buying more than $163,000,000 of government bonds, due in five years or longer, in the past two weeks, including $120,000,000 last week, indicates there is no fooling about this matter and support will be there to make sure that the 100 level is not violated by the longest tap issues. . . . There is no doubt about the ability of the powers that be to do this. . . . They took prices down and they will stabilize them at levels they consider desirable for the government market. . . . Despite the uncertainty that still prevails, there will eventually be a breaking of the "bearish psychology" which the money managers have created. . . . Where the stopping point for the longest tap issues will be is a matter of conjecture because of year-end adjustments and tax selling. . . .

However, if the 101 area is what the authorities consider to be the best support range, then the longest ineligibles will be held at that level. . . . Many believe that it will be easier to stop the down trend in prices at the 101 level than at somewhat lower quotations. . . .

BANK ELIGIBLES

As for the bank eligibles, there could be further downward adjustments, but there should be stabilization in these issues, as the market realizes the importance of a stepped-up program for redemption of bank-owned obligations. . . . While the deposit institutions will no doubt be pinched by the credit restrictive measures, they will be losing high coupon obligations in the intensified debt retirement program in the coming year. . . . This will create a problem for banks that are losing the 2s and 2¾s next March, especially those that own them at 100, and are not getting a demand for loans. . . .

It is believed in some quarters that there may be important changes in the ownership of government obligations in 1948 if the demand for loans and purchases of non-goverments by insurance companies and savings banks continues as in the past. . . . There would be a moving out of Treasury obligations by these non-bank investors in order to get funds that would be used to finance the needs of business. Holdings of Treasuries would shift from private to public ownership.

Program of Limited Price and Wage Controls

(Continued from page 2)

trols, through the active cooperation of the railroads with the Office of Defense Transportation. This program has increased the average load per car, reduced car detention, and accomplished the distribution of available freight cars in a manner so as to spread equitably among shippers the burdens resulting from the deficiency in freight car equipment.

But, while this program has alleviated the freight car shortage, it has not effected a solution. If the present voluntary program for the construction of new freight cars for use in this country has shown substantial results, it has also not fully met our hopes. Clearly, transportation occupies a central place in both our international program, and in the stimulation of the domestic output of goods and their distribution.

I shall now turn to areas of immediate and primary concern to the Department, and discuss first the export control program—what the Department has done and is now doing, and how this authority and the administration thereof should be strengthened.

Export Controls

Before going into the details of this problem, I want to call attention again to our previously mentioned quarterly report under the Second Decontrol Act. This report explains our organization and our method of operating export controls, the criteria for approving export licenses, and the nature of our more important export programs, such as steel, coal, petroleum, chemicals and drugs, and lumber. A copy of the report is included in the material on export control which has been prepared for this hearing, and is in your hands.

The Second Decontrol Act, as you know, gave to the Secretary of Commerce certain broad export control powers which enable us to specify what commodities may be exported and in what amounts, to what countries and for what purposes, and to grant or deny licenses to exporters accordingly. These powers had been exercised throughout the war in conjunction with the various war powers, such as allocations and priorities, rationing and price control. The latter powers, however, except as to a very few items, were terminated before that time by the First and Second Decontrol Acts, and by enactment of a limited Price Control Act.

In this connection, I call to your attention particularly the provisions of Public Law 475, 79th Congress, approved June 29, 1946, to the effect that, except as permitted by the Price Control Act as then limited, no other Federal law shall be construed to authorize the establishment of maximum prices for any commodity. I call to your attention also the stated policies of this Congress in passing the Second Decontrol Act and which were made specifically applicable to our administration of export controls.

Generally speaking, we were directed to eliminate all but the most essential commodities from export licensing controls, and as to those that remained, we were authorized to control their export from this country for two main purposes: in the first place, to limit the quantity exported in relation to our own supplies; and secondly, to direct their flow to the countries where need is greatest and where our foreign policy interest would be served best. It was, however, no longer permissible to regulate prices on export sales.

I should also mention at this point that the Senate had originally voted to extend these controls, as we then requested, until June 30, 1948, but the House approved their renewal only until the end of January. Deliberations of the conferees extended beyond the expiration date of the original law so that it had to be renewed by joint resolution for 15 days. Finally, on July 15, agreement was reached to extend the controls only until the end of February. Meanwhile, we were required to reduce our export control staffs as a result of reductions in our appropriation requests.

Under these circumstances, we necessarily curtailed the extent and nature of our controls. Nevertheless, export controls have indirectly assisted in the control of inflation. By spreading foreign purchasing power over many kinds of goods and preventing a concentration of foreign buying on those goods which are scarcest here, export controls have helped to protect the U. S. domestic economy against the danger of runaway inflation as well as extreme scarcity in the most critical items which, while scarce here, are much more scarce and much higher priced abroad.

We have submitted to you detailed information as to the supply, demand, and production situation in the major categories of commodities now under individual licensing control. You will note that among the goods still subject to export restrictions are essential foods, including meat products, fats and oils, butter, wheat, and other essential grains and preparations; fodders and feeds; seeds and fertilizers; soap; lumber and lumber products; coal; petroleum; many of the more important chemicals; steel-mill products and iron and steel manufactures; copper, brass, lead, zinc, tin and tin manufactures; building materials and plumbing supplies; and certain types of machinery still in short supply. These are items which are in short supply in this country, and for which, at the same time, there is an even greater foreign demand than at home. Although most countries of the world are very short of dollars, and have accordingly established import and exchange controls, such controls generally are not applicable to the foregoing types of commodities. In other words, in the absence of our export controls, the exports of these commodities would not otherwise be impeded and would surely be greater than at present.

There has also been included in the material furnished you a table showing the total production and exports of leading non-agricultural commodities, and such exports as a percent of total production for the years 1929, 1939, 1946, and first-half 1947, and there is also another table showing apparent per capita consumption of foods.

Generally speaking, you will find that the percentages exported have been running at more than pre-war, although less so, I might add, than in 1920, the comparable year after World War I. Domestic production and consumption in the aggregate have risen far more than the volume of exports. Our economy, because of its tremendous increases in production, is supporting the current rate of export with relatively few areas of strain, but in these areas the effect is substantial.

There are certain commodities which we are not now controlling because they are not in critically short supply, but for which the demand is heavy throughout the world. The prices of these commodities have been rising steadily despite the efforts of producers to limit the amounts of these commodities they allocate for export. The use of export controls further to reduce the quantity of such commodities now being exported would have the result of increasing the domestic supply and to that extent ease the pressure on prices.

Furthermore there is a tendency for inflated world prices of commodities to infiltrate into the domestic economy. Foreign purchasers are often willing to pay prices substantially above the domestic price of scarce materials. Exporters are therefore in position to sell them at excessive prices and hence to pay excessive prices for their supplies, thus bidding the available supplies away.

The world needs goods from the United States. If our goods are sold at inflated prices, the result is a more rapid depletion of dollar exchange reserves of receiving countries. We have a direct interest in providing necessary goods to foreign buyers at fair prices. This is to our long-term foreign trade advantage.

I also want to point out, in connection with our foreign policy objectives and, in particular, the accomplishment of any program of world recovery, the extent to which we have been exercising our power to channel those exports which we license. There is a chart included in the material furnished you which shows that, in July 1947, for example, more than ⅔ of the exports which were controlled moved to Europe, as compared to shipments to Europe of a little more than ¼ of the exports of non-controlled commodities.

The adoption of a European recovery program would, of course, emphasize the need for directing exports in that manner. The requirements of such a program on the United States can thereby be fitted to the quantity of any commodity which the economy of the United States can spare, and this quantity can be directed most effectively to accomplish the objectives of the recovery program with the least harm to the economies of other countries which are dependent upon United States supplies. In order to make sure that countries participating in a recovery program make the most effective use of their dollar resources, consideration would also be given to a broad extension of export controls over the principal items which are now purchased in the United States by those countries, whether in short supply or not. On this subject, the President's Committee on Foreign Aid said:

"Control over the issuance of export licenses to participating countries may be of the greatest importance . . . Where a participating country proposes to use substantial portions of its funds to get from the United States goods not relatively important in the achievement of its promised production and monetary goals, it seems clear that the Government should have power to prevent this, thereby supplementing the import controls established by the participating country."

To sum up—there are two main ways in which we could strengthen our exercise of export control. In the first place, with increased funds, we could undertake a broader program of export control along the lines previously mentioned. In this connection I would like to point out that on VJ-Day there were about 800 employees engaged in this work, as compared to less than 200 now. In the second place, with increased statutory authority, we could strengthen the drive against profiteering in exports, and at the same time assist in making our foreign aid program more effective.

Priorities, Limitations on Use And Inventory Controls

In the seventh point in his message, the President recommended legislative authority for "allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production."

It is planned that any specific control powers which may be authorized over any commodity will be delegated to the Department normally having jurisdiction over the particular commodity or product. Under such an arrangement, the Department of Agriculture would handle foods, the Department of the Interior would handle fuels, and the Department of Commerce other materials and products. My testimony is limited to this latter area.

It is not contemplated that anything approaching a comprehensive system of controls over materials, products and productive facilities, such as we had during the war, will be necessary to achieve the objectives indicated by the President. Adequate authority to carry out restricted priority, limitation on use, and inventory controls is necessary. Priority controls would permit the direction of materials for use in meeting the most urgent and critical needs of our domestic economy, in order to combat inflation and also to carry out our foreign policy. Inventory controls and authority to limit and curtail the consumption of short supply materials in less essential uses would conserve such materials for the most essential uses. Before any further discussion of the necessity for new controls and the extension of existing ones, I want to briefly refer to these general types of controls now being administered by my Department.

Priority, Limitation and Inventory Controls Under The Second Decontrol Act

Government controls are now exercised over a few materials. Tin and tin products, antimony, cinchona bark and quinidine, nitrogenous fertilizer materials, rice and rice products, and fats and oils, have remained under various kinds of emergency controls by authority of the Second Decontrol Act of 1947 (Public Law 188, 80th Congress). This Act expires Feb. 29, 1948. Government controls over rubber are also exercised under Public Law 24, 80th Congress, which is now under consideration by the Armed Services Committee of the House.

For example, full emergency controls are now authorized over tin, which continues in very short supply, and these powers are exercised to a very considerable extent. Primary pig tin is fully allocated, rigorous specifications are imposed on the use of tin in many of its uses, and the use of tin for many purposes is prohibited entirely. Since the outlook for increased supply of tin to meet our full needs is not promising, these controls should be extended.

I want to emphasize, however, that I do not anticipate that under existing conditions the very broad controls exercised over tin will be necessary for other scarce commodities.

Authority also exists for the granting of priorities for export for two purposes; exports that are designed to increase the production abroad of materials critically needed in this country; and exports where the Secretary of State certifies that the prompt export of material and equipment is essential to the success of the U. S. foreign policy. My report on the Second Decontrol Act contains recommendations for the extension of controls on tin and other limited controls now in effect. As these recommendations are a matter of record, I shall not review or repeat them here.

Proposal for Limited New Control Powers

Before describing the ways in which these powers would be used, and the benefits which might be expected from their use, I would like to state my firm conviction that these controls should be imposed only after careful consideration by the government as to the urgency or need and their effect on business and only after consultation with the industry, consumers and labor groups affected. In the Department of Commerce we have been making use of our own established committees of businessmen and some of the Industry Advisory Committees set up during the war. These committees, composed of representatives of all segments of the industry in question, large and small, and representative in other respects, have been of great value to us in bringing to us the experience and knowledge of the industry.

Priority powers are required chiefly in order to have the legal right to direct materials to certain end uses which are determined to be critical; for meeting our own urgent needs through increasing industrial production in critical industries; to prevent breakdowns in domestic production of short supply materials and products; and to combat inflation, as well as to carry out our foreign policy.

The Second Decontrol Act authorizes the use of priorities powers for exports to which I have previously referred. The power to require the shipment of materials abroad has been used very sparingly, principally for tin plate (earmarked exclusively for food preservation abroad), for nitrogenous fertilizer materials, and for a few items of equipment needed abroad to expand the production of critical materials. There is no present authority to use priorities powers for similar purposes in the domestic field.

The most important place in which this power can be exercised is over steel. By the use of limited priority powers over steel, I believe we could direct a small proportion of steel to the most essential programs. The increased production of freight cars, so greatly needed by our domestic economy, is a case in point. Another example is that steel may be made available for increased production of farm equipment so essential to maintain our own food production on high levels and to increase food supplies in other countries. Other examples might be nails, oil pipe and other materials for oil production and distribution.

It is equally important to increase the production of steel itself. Although the industry has a program for expansion of basic steel output and additional finishing capacity, those proposed new facilities are not expected to overcome the immediate short supply situation. An immediate objective is to obtain the highest possible output from existing capacity. Shortages of scrap and suitable coking coal are limiting factors in obtaining the highest possible production.

Limitations on Use of Materials In Short Supply

If materials in short supply are to be used to the best advantage, authority is needed to conserve the supply by reducing the quantities for less essential uses. This can be done by restricting the production of less essential items or by requiring the substitution of less critical materials. It can also be done by specification and simplification controls. For example, we now limit the thickness of the tin plate used in cans to the minimum required for the particular product which will be put in the can. It is also possible to reduce the variety of sizes and shapes of an item, thereby increasing the rate of production by standardizing the product and reducing the number of items which must be kept in stock. The kinds of control which should be used for any particular material would, of course, depend on the materials and the trade practices of the manufacturers, distributors, and users of the materials.

Any program to conserve critical materials in short supply could be undertaken only after a very careful survey and consultation with affected industries.

At the present time we do not have authority or personnel to make the kinds of investigations which would be necessary to determine whether controls should be exercised over particular materials, and if so what kind of controls would be most effective. We do, however, have sufficient information about steel to feel certain that substantial benefits would result from use of priorities and set-asides to channel steel to the most essential uses, and to limit its use in less essential purposes. There are a number of other materials which we believe should be studied further, to determine whether controls are appropriate.

Inventory Controls

I also believe that authority to control inventories of scarce materials that basically affect industrial production or the cost of living would be of considerable value in the anti-inflation program. Such controls would have two effects. They would help to prevent speculative hoarding by people waiting for further price rises and would thereby tend to get more goods on the market now. They would also help to increase overall production, by preventing situations where one manufacturer has to reduce or stop his operations because his supply of materials is too low, while another manufacturer has an unnecessarily large supply of the same materials.

Rationing and Price Controls

I have stated my reasons for urging the use of consumer credit controls, the allocation of railroad equipment and facilities, export controls, and the priority and allocation powers, in order to assist in the anti-inflation program. I do not want to give you the impression that these controls can be exercised without any inconvenience to any one. In spite of the inconvenience, which can be reduced greatly by enlisting the cooperation of the consumer and by voluntary cooperation of industry and labor, assisted and encouraged by the government. I am firmly convinced that these controls can make a substantial contribution to the anti-inflation program.

It would be reckless, however, if we failed to take into account the possibility that these measures alone may prove to be inadequate. Further action must be considered which would authorize consumer rationing on products in short supply which basically affect the cost of living, the imposition of maximum prices on products in short supply which basically affect the cost of living or industrial production, and the establishment of such wage ceilings as are essential to maintain the necessary price ceilings.

In stating my opinion that this authority should be granted now, I do not wish to give the impression that I would recommend starting a program of overall government controls of prices similar to that carried out during the war. I think that it is clear that no such program is necessary at the present time, and that it is equally clear that no such program would work. In the first place I believe that it is possible now to proceed on a selective basis, and to limit controls to those items which the average family needs to live, such as food, fuel, clothing and shelter, and to those key areas in industrial production where a price rise would have ramified effects on the general level of prices. In the second place, I believe that the emphasis should be placed on cooperative action.

I believe that the appropriate agencies of the government should analyze at once the existing price structure of those vital commodities in short supply which basically affect the cost of living or industrial production and determine those areas in which increases in prices, both those that have already been put into effect and those which seem imminent, appear clearly to endanger the stability of the economy, and undertake, by appeals to industry and to consumers, to correct or prevent these increases. Any such voluntary program, however, can be undermined by a thoughtless or selfish minority. I feel, therefore, that the power to impose limited direct control of prices and wages and to institute consumer rationing on a few items should be granted now, if we are to make every effort to keep the price of vital cost of living commodities within the reach of the average purse and to prevent an inflationary spiral which will hurt all groups in our economy.

In recommending that authority be granted now to impose controls in limited areas, I feel that it will greatly increase the chances of success of a voluntary program. Moreover, it is essential to have this power now in the event that the voluntary program should fail and it is necessary to impose direct controls promptly. If we should wait too long, the Congress may well be faced with the hard choice between disastrous delay and a hasty, ill-considered law.

Furthermore, the administration of any program of controls is a difficult task. We cannot fail to take into account the organizational problems that are involved. These difficulties are compelling reasons for going slowly, but at the same time are compelling reasons for action now. You may recall that a staff of considerable size was working in the price control field for 20 months before the Emergency Price Control Act of 1942 was enacted and that it was nevertheless some months before it was possible to make extensive use of the controls authorized.

Adequate advance preparation makes for fairness. I believe that it is advisable to start developing a program now rather than to risk the need of hasty action later when the only feasible course might be to put on the brakes by some type of general freeze of prices and wages and then to proceed to correct the individual inequities as rapidly as possible.

It may well be that a program of stabilizing the cost of living will have to include the equitable distribution of the available supply of certain essential items for personal consumption by a program of consumer rationing. This authority should also be granted now so that adequate preparations can be started so that if the program should become necessary it could be put into effect with the least possible delay.

The authority to set ceiling prices in fields of critical importance must include authority to limit wage increases in those industries which would require increases in ceiling prices. When any wage ceiling is contemplated, the government should take into account substantial rises in the cost of living as well as serious inequities in the wage structure in determining whether to limit a wage increase which would require a change in the price ceiling.

I hope that it will not be necessary to use such a power to limit wages. I am confident that, as the President said, if the cost of living can be brought and held in reasonable relationship to the incomes of the people, wage adjustments through collective bargaining will be consistent with productivity and will avoid an inflationary round of wage increases.

In making these recommendations now, I am frank to say that I do not like rationing, price and wage control and I know that the great majority of the Congress and of the people share this feeling. I am sure, however, that the vast majority recognize that in an emergency they would want to share those things which are in short supply in a democratic fashion. The form of rationing of the necessities of life that results from price increases gives a disproportionate share to those with higher incomes at the expense of those with lower incomes. Rationing of the necessities which are in short supply on an equitable basis and at a fair price taken under authority granted by the representatives of the people in Congress, is the democratic way of dealing with an emergency. If it turns out that the other measures which have been discussed, together with the program of voluntary cooperation, are effective in stopping inflation, the cost of having been prepared will be forgotten. If, on the other hand, we fail to prepare and disaster results from our unpreparedness, we will, as the President has stated, have gambled with our national safety —and lost. Such a gamble would not merely jeopardize the economic health of this country; its repercussions would gravely threaten the security and peace of the peoples of the world.

Wm. A. Titus, Jr. Now With Wertheim & Co.

Wertheim & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that William A. Titus, Jr., has become associated with the firm. Mr. Titus was formerly Vice-President of F. J. Young & Co.

Wm. A. Titus, Jr.

Halsey, Stuart Group Offers Seaboard Equip.

Halsey, Stuart & Co. Inc., and associates submitted the better of two bids received by Seaboard Air Line RR. Co. Dec. 1 for $7,500,000 of equipment trust certificates, maturing Dec. 15, 1948-62. They offered a price of 99.262 for a 2⅝% coupon, a net interest cost of about 2.728%.

Halsey, Stuart & Co. Inc., and associates reoffered the certificates to the public, subject to Interstate Commerce Commission approval. They were priced to yield from 1.40% for those maturing Dec. 15, 1948, to 2.95% for those maturing Dec. 15, 1962.

Proceeds will be applied toward a $10,000,000 equipment program under which Seaboard will purchase 25 diesel engines and 1,300 freight cars.

Four Join Herrick, Waddell

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB.—John Lemly, Dan K. Newmeyer, Opal M. Piersol and Arthur H. Schmale have become connected with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City.

Securities Salesman's Corner

By JOHN DUTTON

Will They Muff It Again?

In another few months the Congress will once again take up the matter of taxation. Hearings will be held and an opportunity presented for the leading associations in the securities industry to present their case for sensible tax revision. During the past decade there have been times when representatives of the New York Stock Exchange and Curb Exchange have appeared before these Congressional hearings and have stated the case for tax reduction as it applies to the stockholder and investor. But I cannot remember when the National Association of Securities Dealers ever made one single effort to better the lot of the investor class, or the securities dealers of this country, by having their Executive Director attend one of these special hearings and plead the case for a sensible revision of the income tax laws. I can remember many instances when this moribund organization attempted to squeeze the profit margins of the securities dealers of this country . . . in fact they are still at it. That job they are always ready to do.

Today, all over this land, the security dealers, investment bankers and brokers are finding it more and more difficult to interest the people in investments. Trading volume on the exchanges has fallen so low it is becoming necessary to dispense with the services of highly trained personnel because operating losses can no longer be sustained. At a time when business, especially smaller business, is in dire need of equity capital, security dealers cannot sell new issues except in those rare instances when institutional buying presents itself.

Inflation has caught up with the man who makes $10,000 a year. After he pays his $2,500 in taxes, higher costs, and looks over his dwindling nest egg of government bonds, he not only has no desire to risk his limited savings in speculative securities, but he doesn't have the where-with-all to do it. The investor in the higher brackets is just as much at a loss to find the extra money that he can save for investment purposes with his taxes running 40, 50 and even as high as 90% of his income. AND ON TOP OF IT ALL IF DIVIDENDS ARE PAID THEY ARE SUBJECT TO THIS SAME RATE OF TAXATION, EVEN THOUGH TAXES HAVE BEEN PAID AT THEIR SOURCE ONCE BEFORE BY THE CORPORATION MAKING THE DISBURSEMENT.

Well, everybody in the securities business knows these things. We all know that there is going to be another session of Congress that will take up this matter of double taxation of stock dividends and that hearings will be held on the subject. We all know something else, that once again the same men who have been running the NASD all these years will send out their annual report and in it they will tell us what wonderful things they have accomplished for the securities industry during the year just passed. They will mention again the great public confidence which now resides in the over-the-counter dealers of this country which they will claim, is due primarily to their efforts in behalf of the industry. They will also post their salaries in the same place again (not too conspicuously of course) and they will remind everybody that dues are now payable for the coming year. AND DESPITE ALL THIS, THE SECURITIES BUSINESS NEVER WAS AT A MORE DEPRESSED LEVEL THAN EXISTS TODAY. THE ELIMINATION OF DOUBLE TAXATION ON CORPORATION DIVIDENDS WOULD BE A STIMULANT TO THE FORMATION OF PRIVATE CAPITAL INVESTMENT AND TO THE SECURITIES INDUSTRY IN GENERAL, AND WOULD ADD IMMEASURABLY TO THE WELFARE OF THE ENTIRE NATION. WILL THE NASD BE THERE . . . . WANNA BET?

Laird, Bissell Wire to Kitchen & Murphy, Chicago

Laird, Bissell & Meeds, 120 Broadway, New York City, members of the New York Stock Exchange, and Kitchen & Murphy, 135 South La Salle Street, Chicago, announce the installation of a direct private wire connecting their offices.

Braham in Butte, Mont.

BUTTE, MONT. — Harold A. Braham is engaging in a securities business from 106 West Ganite Street.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED
CAPITALIZATIONS

N. Baxter Jackson, Chairman of the **Chemical Bank & Trust Company of New York** announced on Nov. 26 the appointment of James M. Clark, Joseph F. Emmerich and W. Brewster Winton as Assistant Trust Officers in the Personal Trust Department of the Bank.

* * *

Following a meeting of the Board of Trustees of **The New York Trust Company of New York** held on Nov. 25, John E. Bierwirth announced the promotions of the following members of the clerical staff to be officers of the company: E. Marvin Camp, Walter P. Moran, and Byron B. Porter were appointed Assistant Treasurers, and William G. Fullard and Edwin D. Roll were appointed Assistant Secretaries.

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John T. Madden, President of the **Emigrant Industrial Savings Bank of New York** announced on Nov. 24 that Raymond H. Reiss has been elected to the Board of Trustees. Mr. Reiss is Vice-President of the Reiss Manufacturing Corp. He is also director of several business and charitable organizations.

* * *

The **Bankers Trust Company of New York** announced on Dec. 1 that its office at 57th Street and Madison Avenue would move on that day to Park Avenue and 57th Street. The bank states that the Park Avenue office, with air-conditioning, the latest equipment, and ample floor space, provides efficient, convenient banking service in comfortable surroundings with complete banking and trust facilities.

* * *

Announcement has been made that the 19-story office building at 291-295 Broadway, New York, at the northwest corner of Reade Street, is under contract of sale by the **East River Savings Bank of New York** to the International Committee of Young Men's Christian Association. It is understood the Association intends to use the building as its headquarters. The East River Savings Bank will continue to occupy its banking quarters under the terms of a lease entered into simultaneously with the sale of the office building. Its branch at this location, known as the Broadway Office, was established in 1911 when the building was erected and was the main office of the bank until 1935 when the executive offices were moved to its new building at 26 Cortlandt.

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The **First National Bank of Farmingdale, N. Y.**, increased its capital on Nov. 4 from $100,000 to $200,000 by a stock dividend of $100,000.

* * *

Election of Robert E. Strawbridge and Wilfred D. Gillen to the Board of Directors of **The Philadelphia National Bank of Philadelphia, Pa.** has been announced by Frederic A. Potts, President. Mr. Strawbridge, Chairman of the Board of Strawbridge & Clothier, takes the place on the bank's board of the late Morris L. Clothier, who died Sept. 8. Mr. Gillen is Vice-President in charge of operations of the Bell Telephone Company of Pennsylvania and Diamond State Telephone Company, and a member of the Boards of Directors and Executive Committes of both companies.

* * *

The Philadelphia "Evening Bulletin" of Nov. 24 reported that 9 personnel promotions at the **Girard Trust Company of Philadelphia, Pa.** were announced on that day by James E. Gowan, President. The appointments are effective on Dec. 12 said the paper indicated, which added:

"Robert E. MacDougall, Trust officer, has been advanced to Assistant Vice-President, while Robert H. Wilson, John W. Woerner and William F. Blackman have been named Trust Officers. G. Odell Fletcher, formerly Assistant Trust Investment Officer, becomes Trust Investments Officer, and Herbert R. Williams, Assistant Corporate Trust Officer, is named Assistant Secretary. Other promotions anounced are: Raymond J. Euler, from Credit Manager to Assistant Treasurer, and Otto S. Bauer and Ralph B. Pennock, who have been named Assistant Treasurers."

* * *

The Washington National Bank of Burgettstown, Pa.; capital $50,000 was placed in voluntary liquidation effective Nov. 3 having been absorbed by the **Citizens National Bank of Washington, Pa.** it is learned from the Nov. 10 Bulletin of the Comptroller of the Currency.

* * *

Through a stock dividend of $80,000, the **City National Bank of Centralia, Ill.** increased its capital on Nov. 3 from $120,000 to $200,000 it was noted in the Nov. 10 Bulletin of the Office of Comptroller of the Currency.

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Otto G. Wismer, President of the **Bankers Trust Co. of Detroit, Mich.** has announced five promotions viz. Nelson F. Adams was named a Vice-President and Trust Officer; Harry A. Millard has become a Trust Officer; James Leenhouts and John J. Korney were promoted to Assistant Trust Officers, and Herbert J. Goodall, Jr., was named to the post of Assistant Treasurer, according to the Detroit "Free Press" of Nov. 27.

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An increase in the capital of the **First National Bank in Grand Forks, Neb.** from $225,000 to $300,000, through a stock dividend of $75,000 was made known recently by the office of the Comptroller of the Currency. The increase became effective Oct. 31.

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In the election of directors of the **Federal Reserve Bank of St. Louis**, which ended on Nov. 18, Tom K. Smith, Chairman of the Board of **Boatmen's National Bank, St. Louis, Mo.**, was reelected by member banks in Group 1 as a class A director, and Louis Ruthenburg, President and General Manager, Servel, Inc., Evansville, Ind., was re-elected by member banks in Group 3 as a class B director, according to announcement of Russell L. Dearmont, Chairman of the Board. Each was chosen for a term of three years beginning Jan. 1, 1948.

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The board of directors of the **Mercantile-Commerce Bank and Trust Co. of St. Louis** on Nov. 6 appointed George F. Torrey as Trust Officer of the bank. Mr. Torrey was formerly Associate Trust Officer.

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Joe Denham, Vice-President of the **First National Bank of Memphis, Tenn.**, has been placed in charge of that institution's Correspondent Bank Department, Norfleet Turner, the First National President, has announced. He succeeds Cliff Wood, who is resigning as Vice-President to accept a similar position with a Dallas bank and who will leave Memphis around the first of the year to assume his new duties. Joe H. Davis, also a Vice-President, and former manager of the bank's Bond Department, has been promoted to the post formerly held by Mr. Denham and will represent the bank in its correspondent territory. An outstanding executive in the securities field, Mr. Davis is equally qualified in commercial banking, having devoted more than half of his 20 years with the First National to transit and general banking operations. Mr. Denham, himself a former manager of the Bond Department, came to the bank in 1932. He is a native of Hattiesburg, Miss., and a son of the late J. K. Denham, who for 20 years was associated with the **First National Bank of Hattiesburg.** He has been connected with the Correspondent Bank Department since June, 1944. Mr. Davis became associated with the bank in 1928. He was made acting manager of the Bond Department when Mr. Denham entered the armed forces in 1942 and became manager at the time of the latter's transfer to the Correspondent Bank Department.

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A special meeting of shareholders of the **Republic National Bank of Dallas, Texas** has been called for Dec. 8, to vote on a proposal to increase the capital and surplus of the bank to $25,000,000, Fred F. Florence, President, announced on Nov. 25. Mr. Florence's announcement was made following a special meeting of the directors. Unanimous approval was given by the board to the resolution calling the meeting of the stockholders and approval by the stockholders is expected. "The proposal," Mr. Florence pointed out, "will increase the capital stock of the bank from $10,000,000 to $12,000,000 and the surplus from $10,000,000 to $12,000,000." An additional $1,000,000 will be transferred from undivided profits account to surplus, making total surplus $13,000,000. Mr. Florence explained that 100,000 additional shares of stock will be issued and offered ratably to the present shareholders at $40 a share, thereby providing $4,000,000. Of that amount, $2,000,000 will be allocated to new capital stock, and $2,000,000 will be allocated to surplus. "This, he said "will provide the bank with a paid up capital and surplus of $25,000,000 as compared with its present $20,000,000." The Republic presently has outstanding 500,000 shares of common stock with a par value of $20 each. The new plan would give the bank a total of 600,000 shares of $20 par value, with book value in excess of $45 per share.

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R. H. Collier has been named a Vice-President and a director of the **Texas Bank & Trust Company of Dallas, Texas**, P. B. Garrett, President, has announced. According to the Dallas "News," the appointment of Mr. Collier, who has been in Dallas 25 years as Chief National Bank Examiner of the Eleventh Federal Reserve District, was effective on Nov. 15, Mr. Garrett said.

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Opening of a branch in Tokyo, Japan, by the **Bank of America of San Francisco** is announced by L. M. Giannini, President. Y. J. Johnson, a veteran of Far Eastern banking, is manager of the new branch. He is assisted by Assistant Cashier Leonard Link, formerly of San Francisco. Winthrop E. Davis, American Teller, has been transferred from the bank's Manila branch, and 10 Japanese clerks and tellers will complete the staff for the first few months. The branch is located in the Yaesu Building but, for the time being, mail communications are to be addressed as follows: Tokyo Office, Bank of America, A. P. O. 500, c/o Postmaster, San Francisco, Calif.

The appointment of Gordon R. Ball as general manager of the **Bank of Montreal, at Montreal, Canada**, succeeding B. C. Gardner, who becomes Executive Vice-President, was announced by George W. Spinney, President of the bank, following its 130th annual meeting on Dec. 1. R. Ewart Stavert, President of the Consolidated Mining and Smelting Company of Canada, Ltd., was elected a director of the bank following the annual meeting. Mr. Ball has been head of the institution's New York agency for the past three years; just past his fiftieth year, the new General Manager of Canada's senior bank began his career 33 years ago as a junior at Perth, Ont. Mr. Gardner, now Executive Vice-President of the bank, has just completed a two-year term as President of the Canadian Bankers' Association. Like Mr. Ball, he was once first agent at the bank's New York office. From New York he came to Montreal as an Assistant General Manager at the head office, a position he held until 1942, when he became general manager. Two years later his responsibilities were enlarged when he was made a director of the bank, with the title of Vice-President and General Manager. To the newly-created post of Executive Vice-President, Mr. Gardner brings outstanding experience in the various fields of the bank's operations.

The 77th annual statement of **The Dominion Bank, Toronto, Canada**, just issued to shareholders, showing results of the bank's operations for the year ended Oct. 31, 1947, indicates a strong cash position, substantially higher deposits, a marked increase in commercial loans with a consequent reduction in the bank's investment portfolio. Profits for the year were $2,441,201, compared with $2,225,045 for the previous 12 months' period. Dominion and provincial government taxes absorbed $1,254,757; depreciation on bank premises, $214,766; dividends at the rate of 10% absorbed $700,000. A total $271,678 was carried forward to profit and loss account increasing it to $1,632,413, from which $1,000,000 was transferred to the bank's reserve fund which now stands at $10,000,000, over a paid-up capital of $7,000,000. Total deposits of $323,277,000 increased over $17,106,000. Commercial loans and discounts in Canada aggregating $127,584,000, a record total for the bank, represent an increase of over $38,000,000 for the year while dominion and provincial Government securities have decreased over $30,000,000. Cash assets $64,331,000 represent over 19% of public liabilities and immediately available assets of $211,621 are approximately 64% of total liabilities to the public. Total assets now exceed $360,000,000, the highest ever published in the history of the bank. The annual meeting will be held in Toronto on Dec 10.

The Inflationary Bond Standard

(Continued from first page)

was that exports at the monthly rate of some $1\frac{1}{2}$ billion could not be maintained. Moreover, domestic consumer resistance was supposed to develop because the purchasing power would "run out" pretty soon. Production was to "catch up" with and to overtake the demand. And anyhow, the boom must bust—because it is "unsound." If prices depended on the vagaries of "psychology" rather than on the tangible forces of supply and demand, the United States would be in the throes of a serious recession, instead of reaching new highs of business activity this fall.

At stake is an unprecedented boom, its duration and prospects. Were the bearish forecasts maltimed only? Is America heading automatically for a "May, 1920," if only a delayed one, with a sudden break in propped up prices and an upsurge of unemployment? Or will the boom peter out, with or without a mild recession (whatever that means), giving way to the famous "high plateau" of prosperity at stabilized prices? The conviction is still prevalent that we are in the first half of a typical boom-and-bust cycle, even though the date of the second phase is being postponed to '48 or '49—with the wholesale index then to settle at 140 or so.

Obsessed With Anti-Deflation Complex

What makes people think in such boom-and-bust terms is, for one thing, the fact that many of them are still "obsessed with an anti-deflation complex—a hangover from the thirties," as the London "Time and Tide" puts it, with reference to Britain. (Keynesian economists, and such dilettantes as Walter Lippmann and Leon Henderson, consider depression as the natural state of capitalism, best suited for their own political propensities.) And most people do not comprehend the nature of the monetary set-up under which their country labors. It is a unique set-up, with no precedent in practical experience or in the books.

The textbooks of economics know of two kinds of inflation only. One is **fiat money**, "printed" by the note-press or created by banks, to cover a national deficit. Evidently, there could be no fiat money inflation when the national budget is balanced; in the United States, it even yields a surplus at present. (For how long, is another question.) Inflation of a self-inflaming or run-away type never occurred before except under fiat money which is out of the question at present, leaving us with the only other alternative of the textbook: the **hard money**—gold—standard, or some variety of it. Under the rule of gold, the credit system has to adjust itself to the gold reserve. Credit expansion must come to an end when the credit volume has outgrown, or grown close to, the limit set by a legal mimimum ratio of gold to central bank liabilities. Sooner or later, the expanded volume of money must contract, and the price inflation must break. This is, in a nutshell, the famous self-adjusting automatism of the gold standard, that is supposed to operate as it did in the past. If it did, the expectation of an automatic reversal of the boom would be fully justified.

Our Monetary System

But it does not operate any longer. The United States is not back to gold, except for certain limited purposes. A new kind of standard has emerged. Its base is gold in part only; credit can and must expand far beyond any proportion to the metallic base that has ceased to function as the ultimate regulator of money supply. Of course, if gold flows in—it does so at the annual rate of almost $2 billion—it enlarges the monetary foundation on which the house of bank deposits rests. But the point is that a gold outflow need not reduce the base, as the Chairman of the Federal Reserve Board made clear to a Congressional Committee, and certainly does not bring down the house of paper. Decline of the actual gold reserve ratio near to or below the legal limit does not affect any longer the central bank's credit potential; the gold reserve requirement is simply being reduced, as it was reduced last year (to 25%). A substantial gold loss, if it should occur, would merely compel the commercial banks to hand over an equivalent amount of bonds to the Reserve banks. The American credit system does not depend any longer on gold movements, not by a long shot. The "automatism" of gold affects the system in one direction only—in the inflationary direction.

Presently, the monetary system is different from anything we have known in the past. It takes in gold, and enough of it comes in to sustain a man-sized credit expansion. On top of that, a new and far more dangerous inflation-potential has been created, one that is not self-corrective. This new set-up deserves a name of its own. Let us call it the bond (or debt) standard. Its essential feature is **the automatic monetization of the national debt.** Federal bonds in bank portfolios can be sold, and are being sold gradually to the Federal Reserve System against legal tender or its equivalent. Bonds held by the public may be sold to the banks or redeemed; in either case, they would be monetized, too, since the Federal Reserve System would hold the money-bag. In addition, billions of cash "in circulation" which do not circulate as yet; demand deposits not used so far; savings deposits still dormant — largely products of previous debt-monetizations — they all may be brought into active use and increase the inflationary pressure on prices.

We have financed the war by building up a $200-odd billion liquidity-reservoir. Now, the monetary chickens are coming home to roost. The liquidity-potential turns into actual inflation. And this is not a matter of accident that may or may not happen. Debt-monetization is as "automatic"—i.e., rationally predictable—as is the monetization of gold. On the one hand, it is to the interest of the banks to utilize their bond portfolios, and of the public to use its liquid holdings. On the other hand, the Reserve Banks must make good on the debt certificates; their refusal to do so would depreciate the bonds and cause a financial catastrophe. Thus, while the holders of bonds, especially the banks, are under the most potent pressure of private interest to take advantage of the market-support by the central bank (i.e., by the printing press), the latter is under an equally potent pressure of public interest to maintain the par value of the government paper on which the entire financial structure of the nation rests. That is the curse of an over-expanded national debt, as the Chairman of the Reserve Board has learned by this time, after the heydays of the "one - pocket - owes - it - to - the - other" - theory in which he indulged himself. Of course, one pocket owes it to the other, but the two pockets are not owned by the identical people, a "little" fact of vast consequences.

It may not be difficult to "manage" a national debt, large as it may be in the sense of replacing maturities, and to carry the interest burden. The trouble is that once the debt approaches astronomical dimensions, much of it can only be placed with banks and other liquidity-minded holders who would not keep it if it were not for the liquidation possibility guaranteed at par. In other words, the market for the bonds is in the Central Bank; without its support — at par — the market would break, bringing about a general liquidation. Once the financial institutions are loaded with low interest yielding government paper, its value must be maintained at par, while the low interest rates on that paper reduce the banks' earnings to such an extent as to stimulate, if not compel, them to search for outlets at a higher return — to monetize the debt.

There is nothing in the nature or structure of this self-perpetuating system that would curb its vicious progress. Its automatism works one way only — upward — with no self-correcting adjustment downward. The question is not whether the process will continue (unless the bond standard itself is abandoned, as we shall see presently), but how fast will it proceed and how far will it go? Needless to say, the banks do not extend credit recklessly. How much they extend and how fast, depends on the availability of assets on which they can loan. As prices rise, more eligible collateral becomes available, and the value of the old rises, too. Therefore, the inflationary process tends to accelerate itself: the more prices rise, the more the banks are able and inclined to give fresh credits, using a proportionate fraction of their short-term government portfolios to replenish their legal reserves. Left to itself, this self-inflaming process of bond monetization would lead into a run-away inflation.

The Self-Inflaming Inflation

True, debt-monetization could not go on endlessly, as fiat money creation can. Long before the $70-odd billion bonds held by commercial banks are liquidated, the banks may have to put on the brakes so as maintain their "secondary liquidity" position. But given the average 20% or a similar legal reserve requirement for demand deposits, monetization to the tune of another $10 or $20 billion would suffice to over-inflate the credit volume and send prices sky-high.

Under such conditions, no shortage of purchasing power can occur to reduce the demand for goods. Individual incomes as a whole cannot "lag" behind prices, since they are two aspects of the same thing. Demand being sustained by more and more money, inflation tends to run its fatal course in a cumulative fashion. Demand may shift or may be held back for a while, of course, causing temporary set-backs, as happened in April, '47, and is likely to happen again. But such setbacks do not affect the general trend. At best, they can delay it. Less demand for one product, or by one group of buyers, is compensated by more purchasers elsewhere. Moreover, inflation feeds on its own momentum: rising costs and prices call for expansion of plants and substitution of machines for labor, which in turn create more demand for labor and materials (and for credit), raising prices and costs further, etc.

Under the Law of Diminishing Returns

Once under way, the inflation of wages, profits and farm incomes provides the incentive to extend production to the limits of plant capacity—to the point of creating "shortages." **Bottlenecks** arise when the supply of one or several basic elements cannot be increased further, or only at the cost of raising their prices disproportionately. A Full Employment Economy operates under the Law of Diminishing Returns, which means rising costs per unit of output.

Labor, at least skilled labor, constitutes the fundamental bottleneck. Higher wages cannot attract more workers than are available. Once Full Employment is reached, additional workers can only be engaged by one producer at the detriment of another. Wages must increase, but no increase can greatly enhance either the number of hours labor puts in or the efficiency of its work. Indeed, higher wages go hand in hand with reduced hours and partly even with reduced per-man-hour labor efforts. True, demand may fall off at some point, but labor set free at one end, if and when that occurs, is absorbed at another, or simply bides its time. So does the entrepreneur, and even the farmer, if the price of their products is not consonant with their costs. The idea to "out-produce" inflation is a mirage. In reality, an excess of production brings about reduction of output—even on the farm—and the price is restored pretty soon to the inflated level, as happened last summer along numerous "soft" goods lines.

The labor bottleneck, combined with domestic shortages in steel-scrap, freight cars, specialized equipment, and construction facilities, plus international shortage of and pent-up demand for almost all basic commodities — open up more bottlenecks. One shortage enhances the other; as one is healed, another breaks out. Inflation, if left alone, progresses as long as the fundamental bottleneck persists. But the (skilled) labor bottleneck, for one, must grow worse as the inflation progresses. The remarkable thing is not that prices rise; the remarkable thing is that they are not rising faster than they do.

In final analysis, the price boom rests on the consumer's willingness to spend. But American consumers do not hoard more cash or similar liquidity than actually needed, except during war or in a depression, as shown by the current decline in fresh liquid holdings of the public to record low levels in comparison to paid-out incomes. By and large, we use the bulk of our purchasing power for consumers' goods, or lend it to producers. We may concentrate our spending on semi-durables one year, on automobiles the next. We may then spend on new homes, on new furniture, on grand pianos, or on trips aboard — by which time we may have to buy new shirts again. Human demand is insatiable if it is bolstered by the wherewithal. But the income of the average consumer must rise as more bank loans bring more money in circulation; as less of the income is put away for liquid holding; and as more of the previously accumulated liquidity goes begging for goods. And as production increases (if it does), new credit flows into the pocketbooks, or (what is the same) the circulation velocity of the available money volume accelerates, offsetting on the demand side any improvement of the supply situation.

Deflation?

There is only one way to stop a self-inflaming monetary process: by an **effective deflation** that extinguishes the fire. In practice, this means one of five lines of policy, or their piecemeal combination: (a) eliminating the inflammable substance, i.e., raising taxes "sky-high," and using the proceeds to reduce the national debt at a rapid rate, such as by $10 to $20 billion annually; (b) stopping further debt - monetization by freezing the bonds in bank (and other) portfolios, or by drastically restricting the expansion of bank credit; (c) "neutralizing" the gold reserve, at least the new accruals to it; (d) compressing to a minimum the export of essential commodities in short supply, at the risk of an international panic; (e) withdrawing the Federal Reserve support to the bond market and letting interest rates rise by refusing to buy bonds with fresh money, at the risk of a domestic panic. In any case, it will take a painful deflation to stop the inflationary trend and to reverse it.

Presently, the virtually continuous rise of prices, and the threat of fresh wage hikes, have aroused sufficient inflation-fear to call for action. But the actions contemplated by the Administration so far are either of the kind that does not deserve consideration in earnest, such as clamping down on "speculators" through higher margin requirements, and reinstating war-time price controls and material allocations, which would at best canalize the excessive purchasing power, without reducing it. Or they would be "drops in the bucket," even if big drops, such as restoring the mild consumer credit regulations in force before Nov. 1. Nor can the problem be solved by raising the reserve requirements for the big New York and Chicago banks from 20 to 26% of their "adjusted" demand deposits, which is as far as the Reserve System's power reaches at present, and by freezing an amount of short-term bonds equal to 50% of all demand deposits in commercial banks, as is being discussed at present. Such measures would reduce the lending power of the banks, of course, but not sufficiently to cause more than a temporary disturbance. There would be enough bonds left over in the banks to continue the debt-monetization; also, gold imports and the back-flow of currency from circulation might keep refilling the reserves of the money market. All that might, and probably would happen, is a stiffening of the interest rate on commercial loans—not enough to stifle the demand for credit. Given the vast liquidity reservoir, even black or gray markets in loans might develop.

The Crucial Problem

American economic policy is beset by a fundamental dilemma, the consequence of having created an astronomical national debt. If we permit its continued monetization even at a slowed-down rate, the price structure will be inflated to the point at which the expectation of further rising prices will bring about all around "hedging," a rush into commodities and other "substance" values. In other words, continued inflation leads into run-away inflation. But if we stop the process effectively, then the present level of employment or anything approximating it cannot be maintained. Full employment results from inflation and causes in turn more inflation. Stopping inflation reduces the employment volume, throwing millions on the street. That is the crucial problem we are facing, the choice between keeping the machine blazing at full-employment pace and with costs and prices rising, or putting on the brakes at the risk of conjuring up a depression. Sooner or later we must pay that price; it will be the higher the longer we postpone it. Needless to say that at this juncture the mood of the American people would not permit the abandonment of the inflationary Full Employment.

The time to stabilize the American cost and price structure was in the second half of 1945—before the new gold influx and the debt-monetization got under way. But that was the time when the fear of depression was still at its pathological best. The longer the naive belief persists that the dollar's purchasing power can be straightened out by restricting and policing the markets (thus reducing the flow of supplies and raising prices) or by straining our productive forces beyond their true capacity (thus inviting new money-creation and also raising costs), the more drastic measures will be needed to bring the money flow into balance with the flow of goods and services. In the meantime, a serious price-inflation will keep upsetting the balance of American economy, and will threaten the whole western world's equilibrium. The international economic system cannot function if its very center, the financial structure of the United States, is stricken with inflationary convulsions.

With G. Brashears & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Waldo E. Finnoff has been added to the staff of G. Brashears & Company, 510 South Spring Street, members of the Los Angeles Stock Exchange.

Joins J. A. Hogle Co. Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Reginald A. Powell has become affiliated with J. A. Hogle & Co., 507 West Sixth Street.

Ruckdeschel, Monroe With Boenning & Co.

John K. Ruckdeschel

PHILADELPHIA, PA.—Boenning & Co., 1606 Walnut Street, members of the Philadelphia Stock Exchange, announce that John K. Ruckdeschel is now associated with their trading department, and John J. Monroe with the retail department. Mr. Ruckdeschel was formerly with Stroud & Co., Inc. for many years.

Barnes & Lofland Merges With Jenks, Kirkland

PHILADELPHIA, PA.—A new chapter in the history of the old securities auction house of Barnes & Lofland was started last month with the announcement that the firm would henceforth conduct its business as the Barnes & Lofland Division of Jenks, Kirkland & Co., members of the New York and Philadelphia Stock Exchanges and of the New York Curb Exchange.

In 1892, John H. Barnes and John Lofland organized the firm which bears their name. A son, Walter K. Barnes, until recently the active head of the business, joined the firm in 1910. Another son of the founder, T. Ellis Barnes, became a partner in 1925.

The firm's unique success extending over many years was due largely to the efforts of Walter K. Barnes. Prior to his association with the firm, no records were kept of the unsuccessful bids made for securities sold at auction. He set himself to the task of compiling such records, thus developing an ever-increasing list of potential security buyers.

Since last February, when Walter Barnes retired because of ill health, the business has been managed by his daughter, Ann M. Barnes, who "dropped in one day" shortly after her graduation from Rosemont College in 1933. She inherited her father's and her grandfather's zest for the business, even to the extent of conducting the periodic auctions.

Now With Milwaukee Co.

(Special to THE FINANCIAL CHRONICLE)

WAUKESHA, WIS.—James A. Boggis is now with The Milwaukee Company of 207 East Michigan Street. He was previously with Loewi & Co.

With Coburn & Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Warwick P. Henderson has joined the staff of William H. Coburn & Co., 68 Devonshire Street.

J. H. Goddard Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS. — Chas. W. Jacoby is now connected with J. H. Goddard & Co., 85 Devonshire Street.

Two With Kean, Taylor

Kean, Taylor & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, announce that Robert W. Kean, Jr. and Charles J. Waldmann, Jr. have become associated with the firm as registered representatives.

As We See It

(Continued from first page)

evident enough that there are a good many other materials "in short supply" which, according to Washington authorities, must be dealt with in a similar manner.

Of course no one has taken the pains, or perhaps we should say no one has had the hardihood, to explain which are to be regarded as the most "essential" or "important" uses for these things. There have been intimations so strong as to be almost assertions that certain household articles, and in one degree or another new automobiles, are not on the official list of "essential" uses. No one need doubt for a moment that once a system of allocation is restored many other nonessential uses will be discovered, with the result that drastic alterations in the flow of materials into the economy and through the economy to the consumer will be undertaken. All this, of course, is part and parcel of the managed economy idea which as always rests upon the implicit assumption that some small group of politicians somewhere knows what is best for the people far better than the people themselves know.

What Arrogance!

But by what right do they arrogate such knowledge or wisdom to themselves? In a free economy the people themselves directly express their judgment about such matters in the market place. Are they to be regarded as children to be corrected by fatherly politicians who seek their favor?

Another very common assumption—or should we say assertion—is to the effect that prices as such have a very limited function to perform in the economy, that they have practically no function to perform at the present time, and that, accordingly, all of us would be better off if the economic managers in Washington took over control or direction of the economy. How often do we hear it said, not only in Washington but in many other places, that production in most lines is now at a practical maximum, that higher prices could not in the nature of the case raise the volume of output, and hence such higher prices could perform no useful function. But what nonsense is this? It is quite possible, even probable, that higher prices could not bring greater production in a number of lines immediately. It is even possible that in some branches no greater production would result even in the longer run of time. It may be that in a number of instances no greater production is warranted on the basis of present and prospective demand.

But what of it? Nearly every one appears to have forgotten that prices have other functions in a normal free economy. Rarely do we longer see evidence of any broad realization of the fact that prices in a free marketplace limit demand in a natural way, and quite often divert it from one direction to another, thus promoting that equilibrium or "balance" about which so much is heard in official circles. Is there, for example, any law of the Medes and Persians which entitles all comers to fuel oil at current prices? Or gasoline? Or heating oils? If so, it must also assume responsibility for vastly increased supplies within the coming years. Demand for these things today is in very large part a result of consumers turning from other equipment to devices requiring such fuels. If price relationships now existing continue indefinitely it would appear little less than certain that demand for the oils will more or less permanently exceed supply. It would appear to us that, considered broadly, the prices of oil products are in general not too high, but too low, in relation to coal. Let that maladjustment be corrected, and we should have an end to this eternal shortage of oil products. And we are not very likely to be permanently rid of it until some such development relieves us.

The Role of Prices

In fine, through the century and half during which we have grown to greatness, prices, particularly the relation of one price to another, have been the most effective, indeed for most time the only, rationing device. We wonder if, except perhaps in the most extreme emergencies and then only so long as the emergency continues, they are not the best of all rationing devices. And we are not ready to concede that any such emergency exists at the present time.

We naturally are well aware of the popular reply to such suggestions as this. It is that such rationing makes it possible for the well-to-do to have what they want and denies the poor man his due. While it is obvious to us that this "poor man's due" idea is vastly overworked, almost criminally overworked in current discussions, there can be no question that this type of rationing enables the higher income groups to enjoy things that are out of reach of the lower income elements in the population.

Natural Enough

But is this too horrible to contemplate? Of course not. Whether we like it or not it is the very basis of the economic system which has made us the envy of the world. If the poor man is "entitled" to as much at least of the so-called necessaries (a term which nowadays includes a great deal) as the more successful man, and if the more successful man is obligated to deny himself in order that his less well situated neighbor may have what is his "due" (according to many current standards), then why should anyone exert himself to the uttermost to "get ahead" in the world? And if a substantial minority do not exhibit this ambition and energy, may we not expect a sharp slowing down in the rate of economic progress? Should we not be in danger, as a matter of fact, if the process is carried far enough, of causing all progress to cease altogether?

We are far from certain in our own minds that we are not even today feeling some of the effects of this sort of thing—what with taxes what they are and with the labor load all enterprising individuals in business for themselves must now carry. At any rate, such a point has obviously long ago been reached in a number or foreign countries, notably in Europe. Most observers readily agree that one of the major impediments to progress is the fact that almost no incentive is left for more than average exertion or the exercise of really constructive ability in many of these economies.

These are some of the false assumptions upon which domestic policies of the day appear to rest. The rank and file would do well to give them very careful thought.

How to Avoid Deep Depressions

(Continued from page 6)

of *laissez-faire* has broken down, the trend toward increased governmental functions, the effectiveness of pressure groups in attaining special interests. Of even greater importance is the danger that deep depression would bring another world war.

Certainly it would be better to plan ahead with perspective for action in a recession than to wait until one is upon us and then be stampeded into poorly developed expedients. Compensatory action is better than no plan for action. The "full-employment" advocates hold this truth to be so much more important than the need for flexibility that, by comparison, they feel the latter can be ignored. And yet, as indicated above, analysts generally recognize that there is little likelihood that all recession will be avoided by the measures which can gain approval in America. This being true, we are, after all, committed to enough variation to permit flexible readjustment.

The single aim of compensatory adjustment is to offset declines in private expenditure. Maladjustments are disregarded. If, for instance, prices should get out of line in prosperity, compensatory action would tend to impede readjustment, for action would be taken to maintain activity insofar as possible without regard to its effect on prices.

Compensatory Action vs. Prevention of Deep Depressions

The lessons of compensatory spending may not be lightly disregarded. Private and government spending in prosperity which tends to make prices rise is pointed to with disfavor. And similarly, other things being equal, action which adds expenditure in depression is favorable. Government stockpiling and the building of public works, for instance, would much better occur in depressed periods to the extent that arrangements can readily be effected.

The issue is best drawn between policy which judges every decision by the extent to which it produces compensatory action and policy which is directly pointed to the prevention of deep depressions. The disadvantages of attempting constant variation in tax rates and the alternate expansion and contraction of public works are great.

The action which would be required to point directly at the elimination of deep depressions instead of depending on compensatory action may not be immediately apparent. The fundamental problem is to differentiate between the influences which operate in cyclical recession and those which operate in deep depression. Fortunately for our purposes the business-cycle movement is now widely distinguished from longer cyclical movement. The occurrence of no more than the business cycle itself need not be particularly disturbing. Even the full-employment advocates sadly recognize that a variation about equivalent to what we are differentiating as the business cycle is almost certain to occur. An extended deep depression is necessarily part of a longer cycle.

A world war will not be bred by a business recession which is universally recognized as temporary. Such a recession will generate pessimism but will not convince the enterpriser that he must sight indefinitely at a distressingly low market level, which the Committee for Economic Development has shown to be so pernicious.

The Secondary Trend

Substantial uncertainty exists as to the nature of longer cyclical movement. Most of the work on this problem so far has been directed along the lines of statistical analysis. Since the method typically employed to measure the business cycle is to obtain the residual with the secular trend and seasonal variation eliminated, the measurement of longer cyclical movement in the complex of cyclical change is particularly difficult. The present tendency in fact is to assume more than one longer cyclical movement in the hope that periodic cycles may be developed.

Since we know that deep depressions are necessarily connected with long cycles, a plausible approach is to try to keep the long cycle from occurring. As a working arrangement until adequate statistical measurements are obtained, it is highly desirable to analyze logically the problems faced in avoiding this longer cyclical movement.

We can best conceive of the longer cyclical movement as a secondary trend intermediate between the business cycle and secular trend. Since we are proposing to prevent or at least greatly moderate the secondary trend, our major concern is with the way it influences and is influenced by entrepreneurial decisions. These influences represent the principal reasons for thinking of the movement as a trend rather than as a long cycle. To the businessman a decline that must be projected beyond a temporary business-cycle recession is indistinguishable from the fundamental movement. By necessity the secondary trend establishes the benchmark to which the businessman must gear his operations. The low levels of deep depression are projected indefinitely into the future. There is no way to know how long the low levels may last. The enterpriser cannot afford to build his plant and equipment up to the level which would be necessary if the country's resources were employed effectively, because of the great uncertainty regarding the movement of the secondary trend. The general change in the rate of activity required to make effective use of resources may be designated the primary or secular trend. The secondary trend drifts indefinitely away from the primary trend. It is visionary to plan future business needs in accordance with the primary trend when the secondary trend is drifting away from it.

It is possible that agreement could be reached on the general forces which are responsible for the secondary-trend drift away from secular levels. The following factors are suggested:

(1) The long construction cycle.

(2) Cultural lag, representing the failure to adjust social institutional and individual habits to conform to changing economic, political and social patterns, including the failure of agencies like the government to recognize their expanded responsibility with respect to economic change.

(3) Social, political and economic revolution, involving profound environmental change in the business community.

(4) Derived effects of temporary expedients implemented to sustain prosperity or lighten the burden of a business-cycle downswing.

(5) Extended decline initiated by a business-cycle recession which may have a paralyzing effect on market relationships and on the mobility and ease of adjustment of economic resources.

(6) A shift in confidence and perspective, leading to a revised appraisal of potential markets, and growing out of the successive movement of the secondary trend itself in the sense that the relatively low (or relatively high) average sales of the recent past are projected into the future.

The existence of the long construction cycle is well recognized, and the lows to which construction falls in deep depression are unquestionably related to this long cycle. The piling up of needed adjustments in depression, because of cultural lag such as occurred in the case of labor-management problems up to the time of the Great Depression, produces a stagnating influence. As the business cycle recession moves along, temporary expedients which freeze market relationships will lower the level of the secondary trend. When the cyclical downswing reaches a phase where further declines are more paralyzing than adjusting, the secondary trend is more influential than business cycle recession. Probably the most pernicious influence of all is the shift which occurs in the enterpriser's perspective when the secondary trend declines; this is the problem which arises from the fact that the businessman comes to lay his plans for a market in accordance with secondary-trend levels.

The method involved in presenting this list is frankly reflection in the light of available knowledge. No effort is made to set up a list of mutually exclusive forces, but rather to emphasize inclusiveness, so that all important facets of the problem will be covered. As indicated later, it is of first importance to include all forces which may be seriously considered to be important. Interested readers could contribute to the cause of stabilization by submitting any ideas they may have on the need for extending this list of factors.

A Program for Eliminating the Secondary Trend

A program can be developed to prevent the operation of the factors which appear to be responsible for the secondary trend. This program does not stand or fall with the particular set of measures tentatively suggested below. If we can agree on the forces which lead to secondary depression, it is plausible to expect that we can also agree on essential prophylactics. Agreement is important because, with conviction that high-level markets will continue, the stage will be set to permit uninterrupted readjustments while business plans safely anticipate a relatively complete exploitation of resources. The following program is suggested to bring concreteness to the proposals made in this article and as a starting point for discussion:

(1) A national housing program.
(2) A coordinated, long-range government program from the point of view of its effect on the aggregate level of economic activity.
(3) Dynamic price policy.
(4) Encouragement of small business.
(5) A national credit policy.
(6) A national wage policy.
(7) An international buffer-stock plan for raw materials.
(8) Private planning of long-term changes in demand.

A national housing program is admirably suited as a method of combating a major portion of the long construction cycle. Unlike industrial construction, housing satisfies immediate consumer needs, and therefore its construction is less idle when there is danger that total demand may decline. In the deepest depression the housing vacancy rate never attains levels comparable to idleness of industrial equipment. A program which will permit little decline below secular-trend levels for residential housing may be justified in view of the indicated obstinacy of the construction cycle. For this purpose resort to depression methods of compensatory action might be necessary in housing. The writer proposes as the most conservative procedure subsidized reduction of interest rates on housing loans in depression. Since interest cost represents so large a proportion of what the consumer pays in buying a house, such a measure might be sufficient to keep the level of housing construction from falling below secular levels. A concentration of the government activity on slum clearance in depression would, of course, in any case be desirable. More stringent measures, if necessary, should be worked out by those intimate with the problems of implementing a housing program. Since no assumptions are made as to the cause of the construction cycle or the interrelation between it and other forces upon which the secondary trend depends, it is possible that other parts of the program may make the difficulties of housing stabilization far less than they would be if it were taken alone.

The most important problem in developing an integrated long-range government program involves a reorientation in attitude toward reforms—the development of a long-range as opposed to a short-range point of view. The need is to avoid the accumulation of cultural lags to a point where measures taken must be so violent that desirable business enterprise is impeded. Such a proposal may not be so visionary as it is likely to appear at first if a carefully developed program lends assurance that a long-range point of view will generally be taken. For, if all parties are sufficiently reassured in this respect, it is plausible to expect a moderation of the demand for striking "while the iron is hot." Rules of the game may be revised more deliberately even if a substantial cultural lag has been permitted to occur. A program for dealing with such problems continuously will lend reassurance.

The government must be prepared to consider the influence on economic conditions of the activity it initiates. The result is certain to be harmful if government expenditure is permitted to rise in prosperity even more rapidly than private expenditure.

Businessmen have become conscious of the need for positive action to produce stabilization. The part they can play may be identified with dynamic price policy. Instead of setting prices in accordance with historical costs they can aid substantially in preserving market adjustment by continuous efforts to anticipate their potential markets.

The encouragement of small business aids in keeping the economy competitive. Reassurance is needed that entry will be kept as free and open as our institutions permit. Not only should small business be encouraged to foster competition, but care should be taken to avoid placing impediments in the way of medium-sized business becoming big. Competition probably is most needed at the top levels. Small business does not promote competition at these levels, but medium-sized business can be encouraged to do so.

A major function of a national credit policy should be to prevent cyclical variation in credit. Credit is generally believed to promote development in a progressing economy, but credit expansion which depends upon rising cyclical conditions is obviously too unstabilizing to be desirable. Some of the consumer credit now being extended, for instance, appears to be cyclical. This consumer credit depends upon the current extraordinary requirements for durable goods. It has lent significant support to the expansion, but if prosperity should level off much of this credit might be repaid. A reduction in the aggregate amount outstanding would become restrictive.

A national wage policy pointed at preventing extended declines in the secondary trend differs substantially from a policy which depends on compensatory spending to produce stabilization. In a compensatory-spending approach the temptation is to force out as large a wage payment as possible at all times so as to limit the burden of government spending. When attention is directed to avoiding secondary-trend variation, concentration need not be fixed on the immediate adequacy of purchasing power, but rather on factors which will keep average purchasing power satisfactory over a period of two or three years. Therefore it becomes less important to press for immediate readjustments of wage rates in proportion to changed productivity. It is of first importance that adjustment be made with reasonable promptness for changing productivity in either wage rates or price or better in a combination of the two. Such a revised policy leaves the enterpriser greater opportunity to price his goods dynamically, and thus adjustments in prices to market changes become more readily possible. In any case, however, a national wage policy can scarcely be expected to produce downward flexibility in wage rates.

In the absence of downward flexibility of wage rates, it is imperative that the readjustment in raw material costs not be permitted to become so disproportionately great that raw-material markets reach a paralyzed state. A buffer-stock policy for raw materials would avoid this. Buffer stocks would envisage a government program for buying nonperishable raw materials when the predetermined average price of as wide a group of them as possible should reach a level below a reasonable decline to be expected in business-cycle recession. This method would be far superior to individual support prices or agreed cartel prices, for each raw material would be left to seek its own level on the market as long as the prices of other raw materials did not decline to deep depression levels. Any stock pile accumulated—and we would have to be prepared for any necessary amount — would provide a force favorable for preventing an undue rise in the secondary trend. The procedure employed might be to set a predetermined average price above normally prosperous levels, at which point the appropriate arrangement would be established for the government to sell. Because raw materials are produced at increasing costs as the amount demanded rises substantially, a familiar maladjustment now reached in high prosperity emanates from extreme rises in raw material prices. The buffer stock policy should be established internationally because a substantial proportion of many raw materials is imported.

The limited stability provided by the wage and buffer-stock policies would greatly reduce the possible variation in costs, and thereby materially narrow the variation in finished goods prices. In making plans the enterpriser is as much reassured by the stability of price as by the stability of volume. If the enterpriser is sufficiently impressed by the integrated program to believe that deep depressions will be avoided, he will find highly profitable an investment program founded on secular needs. Instead of adding to his investment most rapidly when the market for his product is rising to peak levels, when costs are disproportionately high, he could be prepared to take advantage of lower costs in business-cycle recessions. Such action would, in turn, contribute very significantly to the avoidance of deep depressions because investment has been the most unstabilizing of all types of economic activity.

The outline for stabilization suggested here will not work unless its efficacy is accepted quite universally. As noted in the above paragraph, business men must believe in the program or they are likely to reduce investment unduly in business-cycle recessions. The program does not depend upon ruthless dictates of the market, and therefore if a substantial number of decision makers remain unimpressed the controls are likely to fade away. If, for instance, the stockpiling of raw materials should be withdrawn just as the purchase of raw materials got well under way, the measure would have done more harm than good. No program, such as is suggested here, can be satisfactory until it has faced the fire of public opinion.

There is no single panacea for preventing deep depressions. An integrated program is required. The proposals tentatively made must be considered as a unit or, if a part of the program is omitted, other measures must be substituted which contribute a similar type of stability. As very briefly summarized in the above paragraphs, these measures are calculated to counteract the forces which make for a decline in the secondary trend.

A Continuous Policy Approach

The approach outlined above may be designated continuous policy as distinguished from compensatory spending. Accepted policies carry along at an even tenor, unvarying from prosperity to depression. Where variation is essential, it is well established by benchmarks set up long beforehand, so that current decisions are not subject to hasty reversals made under conditions of emotional stress.

Decision makers are relieved of the constant uncertainties to which the government must subject them under a compensatory approach. The government decisions under the compensatory approach are derived from the aggregate level of activity. Assume compensation is attempted by varying the tax rate. As the government measure of aggregate activity rises, presumably the tax rate would be increased. This means that decisions made where market risks have been amply allowed for may yet become inexpedient because the government finds adjusting tax rates to be necessary. An additional risk is added, while indeterminate risks are already the most important difficulty in developing prompt market adjustments.

Under the continuous policy approach necessary revisions in economic procedures are established at the outset instead of being forced on the economy as the result of compensatory action. It is hardly likely that the revisions required under compensatory spending will be any less drastic than those agreed to at the outset to be necessary to avoid deep depressions. A government spending policy is to be expected to extend greatly the area of government operation. If government support is necessary, there must be some reason or reasons responsible. If the government support is provided without any effort to correct the basic difficulties, changes in the operation of the economy are likely to have been effected in the process.

Interference with market adjustment can be reduced to a minimum under continuous policy. No attempt need be made to prevent business-cycle recessions. If market readjustments, such as price adjustment and the shifting of resources, are contributed by business-cycle recession the advantages will not be lost. If market adjustment is made more effectively when there is enough variation in activity that market offers may be declined, the continuous policy approach has distinct advantages. While the compensatory approach in practice is likely to involve as great variation in total activity as continuous policy, ignoring the need for readjustment may provide support in economic areas where the market is far out of adjustment.

In contrast, continuous policy faces the decided tactical disadvantage of requiring initial establishment of policies required to prevent development of the secondary trend. It is far simpler to spend our way out of depression and let the chips fall where they may. Advocacy of such spending makes little contribution, however, for it is the method we are almost certain to follow if no satisfactory alternative is developed. During the War, when forecast of an immediate postwar depression was common, planners often held the position that stabilization would be difficult until prosperous levels could be attained, when, they felt, adequate government spending could perpetuate prosperity. This position has now shifted in the postwar prosperity to the contention that stabilization measures will have to await a depression when people realize that compensatory action will be required to avoid the danger of interminable depression. Must we wait for the fire?

We Could Do Without Them!

"If the ERP is passed this will mean, in the first place, a mighty moral defeat for the Kremlin, a blow to its authority and a blazing illustration of the fallacy of its policies.

"If the plan is not accepted, the activities of the Kremlin can succeed. Complete power can be seized by the Communists. The prestige of America and the democracies will fall everywhere in the world and by the same token the authority of the Kremlin will rise and be spurred to new adventures in Europe and Asia. . . .

"Should inflation grow and lead to a crisis in America it would drag down into the abyss all the countries participating in the Marshall Plan. This would bring about economic and political chaos in the world, and furnish the Kremlin with fertile ground for success because there would be then no one to stand in the way."—Victor Kravchenko, former Soviet official, now an anti-Kremlin propagandist.

It appears to be our misfortune to have always in our midst aliens quite without understanding of us and our ways, but quite ready to give us of their Old-World wisdom.

It is our still greater misfortune that we—or so many of us at least—are somehow so likely to suppose that they know more about almost anything than do we.

We could do very well without the Kravchenkos.

Transitions in Securities Business

(Continued from page 4)

Where the statistical departments of our member firms 15 years ago used to consist of a relatively few individuals, today they have become important divisions, including in many instances experienced research organizations—all to the end that the public may be provided with the basic facts—not tips—in respect to securities and their values.

Corporate organizations have also changed their point of view. Instead of maintaining certain degrees of secrecy, they now provide factual information concerning their affairs from which conclusions can be drawn. These facts are being made public by these companies—they are available to all—and brokers and investment bankers are making them available to the investing public. Corporate officials, therefore, have become more and more conscious of maintaining cordial, factual relations with stockholders and potential stockholders.

NYSE Public Relations

After failing for many years to appreciate the importance of a well-rounded public relations program, the New York Stock Exchange and its members and member firms, are now collectively and individually telling the story of our business to the public so that the public can know and understand the part that the Exchange plays in our national economy. This program was not undertaken haphazardly but only after careful consideration and painstaking analysis. The story is being told in several ways—principally by means of the advertising program of the Exchange, and, incidentally, these advertisements of the Exchange are today the best read financial advertisements; it is being told through the motion picture, "Money at Work," which already has been seen this year by more than half a million people; and it is also being told by individual members of our business, who, through the media of speakers' bureaus located all over the United States, are talking before local groups.

All of this has resulted in a tremendously improved public understanding of the New York Stock Exchange and the industry of which it is the focal point, and I believe that it can be said that the public position of both is stronger today than ever before.

Shift to Prudent Investment

The second of these major transitions concerns the change in the fundamental characteristic of our business which has occurred in the past 15 years. It has shifted from one which was essentially that of unintelligent speculation to one of prudent investment primarily but also of intelligent and informed speculation.

This has not been without encouragement from our own industry. The theme of the advertising program of the Exchange and certain member firms, our research and statistical departments, our better understanding of our obligations to the public—all of this has contributed to this development. In my opinion it is a sound development—one that is constructive and in the public interest.

It seems to me the extent of this transition may very well be measured by the following:

On Jan. 1, 1929, 753 companies had 757,000,000 shares listed upon the New York Stock Exchange. By 1940 these listings had increased to 854 companies and 1,435,000,000 shares, and on Jan. 1, 1947, there were 962 companies with 1,771,000,000 shares. In the course of 18 years, therefore, the number of shares listed upon the Exchange has more than doubled and has increased since 1940 alone approximately 23%.

In regard to the number of stockholders who own these shares, we can only rely upon estimates. Based upon the more conservative of these, it appears that there are at least, perhaps many more, 12 million such stockholders—and that excludes those who might have an indirect interest in such securities.

Similarly, while a composite record of the number of clients of member firms is not maintained, all indications are that our member firms today have the greatest number of investors as clients than at any previous time. And the investors who have purchased securities in the amounts of $1,000, $2,000, $3,000 or $4,000 are legion. In this respect the Association of Stock Exchange Firms recently completed a study which disclosed that the average amount of money involved in a transaction was about $2,000, and that 41% of the transactions handled involved amounts of less than 100 shares. This study was based upon reports submitted by firms accounting for 42% of the business done on the Exchange.

Reduced Borrowing and Turnover by Clients

Further, borrowings by clients of member firms are at approximately the lowest level since records in respect to them have been maintained. These borrowings declined from $1,540,000,000 on Nov. 30, 1931, the date of the first compilation of such records by the Exchange to $906,000,000 on Jan. 1, 1940. On Oct. 31, of this year, such borrowings amounted to $527,000,000 (excluding $78,000,000 borrowed on government securities), and these borrowings are the equivalent of 6/10 of 1% of the value of the securities listed upon the Exchange, excluding government securities and world bank bonds as of the same date.

The trend in the same period in the reported volume of sales upon the New York Stock Exchange is of particular importance in this discussion.

For the year 1929, the volume reported by the Exchange amounted to 1,125,000,000 shares, and this was the equivalent of 119% of the average number of shares listed in that year. In 1940, an inactive year upon the Exchange, the volume amounted to 14% of the shares listed; and in 1946, one of the most active years in the past 10, the trading amounted to 363,000,000 shares, or 22% of the total listed. If we use the volume of the first 10 months of the current year as a base, it can be estimated that approximately 250,000,000 shares will be the volume for this year, and such would amount to 13.8% of the total listed shares.

While I have just used these volume figures to emphasize the investment characteristic of our market, I ask that you keep them clearly in mind when in a moment we examine the effect of other major developments which have a direct influence upon our business.

To recapitulate for a moment. So far we find our personnel and our facilities improved. We find a shift from a speculative to an investment type of market—and a shift from a business using considerable credit to one using very little. We also find a sound development in our sales methods and sales phychology—and a healthy increase in public respect. All of this is to the good and recognized as such.

Given these factors under normal conditions, our industry should properly fulfill its economic functions and return a satisfactory profit to its management and employees.

However, there has been a dangerous trend which could in the future result in the almost complete futility of the securities industry in fulfilling its economic functions and the paralysis of our system of free enterprise.

Federal Regulation and Taxation

This brings me to the third and final category of transitions affecting our business, and it involves the change in the Federal tax structure and the development of certain governmental regulations and restrictions pertaining to our business operations and the conduct of our markets.

I know that men more qualified than I am have already addressed you in regard to taxation and some aspects of governmental regulations. While, therefore, I will confine my remarks to the credit restrictions of the Federal Reserve Board concerning listed securities, I trust that you will permit me to make one observation in regard to taxes.

Our present tax structure is drying up venture capital, which is the lifeblood of American progress. If you will examine statistics pertaining to capital formations in this country during the past 25 years, I daresay that you will be shocked by what you learn. Without a sufficient and free flow of venture capital—and I say this reservedly—our economy and our industrial expansion cannot continue. Unless our tax structure is changed—unless there is a reduction in personal income taxes, a revision in the method of levying double taxes upon corporate earnings, and a realization that the taking of risks is the essence of progress and should not therefore, be penalized by unjust and discretionary taxes—unless such changes occur, then our system of free enterprise will stagnate and deteriorate to such an extent that it no longer will be able to function.

Taxation is today one of the most important problems affecting the welfare of our national economy. The effects upon the free flow of venture capital and therefore upon our business, of the discriminatory and unjust credit restrictions of the Federal Reserve Board in regard to listed securities, are serious indeed.

Margin Requirements

The mandate which Congress gave to the Reserve Board applies only to listed securities and specifies that margin requirements shall be imposed for the purpose of preventing the excessive use of credit in such stock market operations. I believe that you—at least those of you who have studied the act—will agree that it is a fair, concise statement of the power conferred upon the Board. But, gentlemen, that statement is not mine, and I did not compose it—it is word for word part of a statement made by Mariner Eccles on Jan. 18 of this year.

I refer to it particularly because I am anxious that you understand—difficult as it is—Mr. Eccles, unique method of determining what constitutes excessive use of credit in stock market operations.

In July, 1945, when margin requirements were raised from 50% to 75%, credit extended by members of the New York Stock Exchange to their customers on listed securities other than governments amounted to approximately $1 billion. It would seem logical to believe that when margins were increased from 75% to 100%, this figure of $1 billion had increased, and that such action was taken to prevent further use of such credit. This was not the case at all, for on the contrary, just prior to the establishment of 100% margin, this $1 billion figure had declined to approximately $900 million. By the end of 1946 it had declined to $470 million—and we still had 100% margins. As of Oct. 31, this year, it amounted to $527 million, the equivalent, as I have said, of 6/10ths of 1% of the value of the securities listed upon the Exchange—and is only 47% of the amount of such credit extended by member firms to their clients when margins were last at 50%. And yet we still have 75% margins.

If we also examine the credit extended by reporting banks to member firms, for carrying listed securities, other than governments, we find that it was and is a negligible fraction of total outstanding credit and that the same trend, as in the prior example, prevails.

Again in July, 1945, just prior to the increase in margins from 50% to 75%, these loans accounted for only 5% of the reporting banks' total loans. Shortly before the establishment of 100% margins, these loans had declined to 3 and 7/10% of all loans, and as of the end of 1946 were 1 and 2/10% of total loans. On Oct. 31, of this year, they actually amounted to $222 million or 99/100 of 1% of total loans. And yet we still have 75% margins.

The only sensible conclusion that can be drawn from these statistics is that excessive credit has not been employed at any time in recent years for purchasing or carrying listed securities. Furthermore, there can be no logical reason for prohibiting substitutions in under-margined accounts when such substitutions have no effect whatsoever upon the amount of credit utilized except in many instances to reduce it. That restriction, which also prohibits a customer from substituting a security which may be of greater merit than the one held in his account, can only be characterized as arbitrary and pernicious.

None of us want to see the return of unrestricted speculation in securities. None of us desire credit extended on listed securities to rise to an excessive amount which would be detrimental to the welfare of our national economy. But, likewise, none of us want to see the imposition and maintenance of unjustified regulations which affect the free and proper flow of venture capital and the conduct of our free and open security markets.

Where Do We Go From Here?

Now where do we find ourselves today, and where do we go from here? On one hand we find that in the past 15 years we have made great strides in improving the facilities and operations of our business and the service that we render the public. These improvements will redound to our benefit. On the other hand, we find that the proper and free flow of venture capital and the conduct of our markets have been so hampered by taxation and certain governmental restrictions that while in the year 1947 America is enjoying its greatest prosperity, our business is in a depression.

Obviously we cannot afford to be complacent. We must move forward. We must continue to improve our operations, our sales technique, and our public standing. We must strive with all the vigor we possess to correct whatever factors are detrimental to the welfare of our business. I am confident that we have the ability, the energy, and the desire to do this.

I sincerely hope that what I have said to you today may stimulate further and more detailed objective thinking by you in regard to these developments and problems, for you and other young men like you in various parts of this country are the future leaders of this great securities industry.

Speculation Not Cause Of Rising Prices

(Continued from page 6)

for several years past very profitable business and fortunately they have means of insuring themselves against incurring such tremendous losses again by the use of the hide exchange.

I think the word "insurance" is a good one to use in connection with the use in the industry. Now the use of the hide exchange as a means of putting out hedges, which is the main use which you folks can make of it, is not perfect, any more than anything else. It does not guarantee you a profit — neither does fire insurance when you take it out, but you would not think of going without it. But where there is some loss involved, it usually is not such a one that would cripple you. If you buy hides and put out a hedge and the market goes up, you are certainly in the position that you cannot gain anything by the rise in price, but you have also put yourself in the position where you cannot take a terrible licking as a result of a drastic decline in price. Hedge markets today, not only in hides, but in cotton and grain, are very unsatisfactory hedge markets. The reason for this, of course, is the tremendous discount which exists between the nearby price and the further off months. This is a very abnormal condition and is likely to remain for some considerable time yet. I believe it is likely to remain until you have a drastic decline in prices. The main reason for the large discount on futures is the current large consumption or good business, whatever you like to call it, and the fact that high prices are rendering people cautious about covering commitments away ahead.

Factors In Judging Market Trends

The one thing you must always do in using the hide market is to make up your own mind. No one will do that for you. You have to look over the situation and decide where the market is going and the way you will use the hedge market will depend upon what your conclusion is. If you decide that a drastic fall in price is imminent, you can sell a high-priced month which is fairly nearby, but in doing so, you always have to have in mind that a concentrated long interest may have the bulk of the nearby positions and by sitting pat with them up until the delivery time, they may squeeze the price. This is the main reason you have to be pretty sure the fall is imminent. The best hedge in the world, of course, is if you buy hides and you have a sale of these hides or leather to a good buyer who will take delivery of them even if the price declines.

However, let us say you buy some hides and you are a bit uncertain about the future. I would sell a month not too near and not too far off because of the wide disparity of price the farther you go, but I would undoubtedly, within a short space of time, dispose of my hides and buy in the hedge. In other words, I would close out the lot of hides and the hedge fairly soon. You can all realize that with these discounts tapering off as you go into the future as the time passes and the month which you have sold approaches, the price will come up towards the spot level. It is therefore advisable to use hedges under present conditions only for a short-term turn until you have reached the period when you are convinced that the drastic fall in price is imminent.

Inventory Valuation Problems

I don't believe that many of you here are interested in the manufacturing end of the business and I think your life method will apply more to that end of the business than it does to hide dealers, but I have found that in my contacts in the industry in the past few months, some well informed people have the impression that last in, first out method of pricing inventory is insurance against losses. It is nothing of the kind. It merely is just as if you buy 100 shares of Steel Common at 50, watch it go to 100, and watch it go back to 50, whereas if you can put a future sale out against it when it is 100, you don't let the profit get away from you. Most firms today have large reserves buried in their inventory and I hope not too many of them are deluding themselves that the last in, first out will prevent them from taking a loss.

One of the advantages in using the hedge market is that you can keep sources where you have been in the habit of buying hides in a down market. In other words if you have been in the habit of taking the products of one packing plant you don't have to stop buying because the outlook is for a down hide market. I would warn you however against the danger of hedging cheap hides. You can appreciate that if you buy country hides at a much lower price than packer hides, that the future market is based on the packer market and that any advance that takes place is likely to be in the futures market than in country hides or other cheap quality. You can take quite a licking in the market hedging cheap hides. The one way to look at the hide market is that you have one large additional customer who is there every day in the year, always ready to buy hides at a price and it is a cash customer.

Toronto Bond Traders To Hold Lunch, Dinner

TORONTO, ONT., CANADA—The Toronto Bond Traders Association on Dec. 24 will hold its annual buffet luncheon at the King Edward Hotel. Also to be held at the King Edward Hotel is the annual dinner, scheduled for Mar. 12.

Hachez & Brown To Be Formed

SPOKANE, WASH. — Louis H. Hachez and Alden J. Brown will form Hachez & Brown, Inc., as of Jan. 1, with offices in the Paulsen Building. Mr. Hachez, who will be President of the new firm, was previously a partner in L. F. Hachez & Co. Mr. Brown, who will be Vice-President, in the past was with Standard Securities Corp.

Joins Breen Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Joseph Stern has joined the staff of F. H. Breen & Co., 609 South Grand Avenue.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Jack T. Robinson and E. B. Stone have joined the staff of King Merritt & Company, Inc., Chamber of Commerce Building.

James Valentine to Open

TAOS, N. MEXICO — James Valentine is engaging in a securities business from offices in the Bank Building.

The State of Trade and Industry

(Continued from page 5)

evidence that voluntary allocation by the steel industry under extreme government pressure will upset the distribution applecart. The industry has promised to begin shipping early next year enough steel to build 15,000 freight cars a month. This extra material can only come from other steel consumers, many of whom consider their requirements to be just as important as railroad rolling stock. Because of the enlarged freight car program practically all steel companies will be forced to slash quotas which have been set up for their customers in 1948.

The government has indicated that it would like to have allocation controls in order to eliminate the so-called gray market in steel, 'The Iron Age" notes. Such a demand is silly in the face of the fact that 96% of the total steel shipped today is at the so-called legitimate mill prices which average $100 per ton or more under gray market prices. Furthermore, gray market steel supplies for the most part are derived from steel consumers themselves who have found it lucrative to dispose of steel inventories and steel shipments which they do not need at the present time. It is unlikely that on the basis of governmental testimony before Congress that the latter will authorize steel allocations or steel price wage controls.

Latest data on the steel phase of the Marshall Plan indicate that the former program of 3.1 million tons of raw and finished steel a year in 1948 has been scaled down to 2.3 million tons with the request for raw steel only a small part of the total.

The Marshall Plan steel requirements will be part of the total export shipments which would ordinarily be made in 1948. The net increase because of the plan represents about 800,000 tons or 1.2% of this year's steel production and will require no more than one million tons of steel ingots — a small amount on which to base the request for peacetime controls over the basic steel industry, the magazine concludes.

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 97.7% of capacity for the week beginning Dec. 1, 1947. This compares with 96.3% one week ago, 96.1% one month ago and 60.2% one year ago. Current operations represent an increase of 1.4 points, or 1.5% from the preceding week.

The week's operating rate is equivalent to 1,710,000 tons of steel ingots and castings compared to 1,685,200 tons last week, 1,681,700 tons a month ago and 1,061,000 tons one year ago.

RAILROAD FREIGHT LOADINGS ADVANCE 2.8% ABOVE PRECEDING WEEK

Loadings for the latest week Nov. 22, 1947, totaled 902,672 cars, according to the Association of American Railroads. This was an increase of 24,335 cars above the preceding week. They also represented an increase of 96,079 cars, or 11.9% above the corresponding week in 1946, and an increase of 186,116 cars, or 26% above the same week in 1945, which included the Thanksgiving Day holiday.

ELECTRIC OUTPUT LOWEST IN OVER A MONTH

The amount of electrical energy distributed by the electric light and power industry for the week ended Nov. 29, 1947 was 4,983,439,000 kwh., according to the Edison Electric Institute. This compares with 5,180,496,000 kwh. (the all-time high figure) reached in the preceding week, and was 12% in excess of the 4,448,193,000 kwh., produced in the corresponding week of last year. The current figure was also the lowest since the week ended Oct. 25, 1947 when output totaled 4,963,816,000 kwh.

AUTOMOTIVE OUTPUT DECLINES FOR WEEK DUE TO HOLIDAY AND FORD SUSPENSION

As the result of the Thanksgiving holiday and the suspension of Ford assemblies for an additional two days for inventory, last week's output of cars and trucks in the U. S. and Canada was estimated by Ward's Automotive Reports to have fallen to 82,932 units from last week's revised postwar record figure of 115,197.

The current week's total comprises 57,937 cars and 20,167 trucks built in the U. S. and 3,910 cars and 918 trucks in Canada. Output in the comparable week of 1946 was 77,222 units and, in 1941, it was 96,495.

The preliminary figure for November was reported as 415,930 units, bringing output for the first 11 months of the year to 4,559,936 units.

BUSINESS FAILURES EDGE LOWER IN HOLIDAY WEEK

In the Thanksgiving-shortened week ended Nov. 27, commercial and industrial failures fell off from the previous week's 79 to 72, Dun & Bradstreet, Inc. reports. Concerns failing were three times as numerous as in the comparable week of 1946 when only 24 occurred. Twice as many businesses failed as in the corresponding weeks of any of the four preceding years. However, despite the sharp rise, failures in last week were far short of the total of 264 registered in the same week of prewar 1939.

Concerns failing with liabilities of $5,000 or more were down only two from last week, numbering 62 against 64. Over three times as many failures occurred in this size group as a year ago when 19 were reported. A somewhat sharper decline from the preceding week's level appeared in small failures involving losses under $5,000 which fell off from 15 to 10. This compared with a total of five small failures in the corresponding week of last year.

A marked decline occurred in retailing failures during the week. In other industry and trade groups failures held steady or increased.

In only one geographic region, the Pacific States, did failures vary by more than two from the previous week's total.

FOOD PRICE INDEX APPROACHES ALL-TIME PEAK

The general upward pressure in prices of foods during the past week pushed the Dun & Bradstreet wholesale food price index for Nov. 25 to $7.06, from $6.95 a week earlier. This represents a rise of 1.6% and puts the current level less than 1% under the all-time high of $7.12 recorded on Sept. 17. The latest index is 9.8% above the comparative 1946 figure of $6.43.

The index represents the sum total of the price per pound of 31 foods in general use and its chief function is to show the general trend of food prices at the wholesale level.

WHOLESALE PRICE LEVEL MOVES SHARPLY UPWARD TO NEW POSTWAR HIGH

Soaring grain prices and sustained strength in other markets boosted the Dun & Bradstreet daily wholesale commodity price index to new postwar heights last week. The index figure rose 1.5% from 293.10 on Nov. 18 to 297.49 on Nov. 25. This represented a gain of 23.8% over the 240.36 recorded on the corresponding date a year ago.

Grain prices continued to move upward in the past week with practically all deliveries of wheat, corn and oats reaching new high levels for the season.

Corn was the leader in the rising movement as country offerings of the yellow cereal failed to meet the continuing high demand. Cash wheat was in tight supply and prices rose sharply toward the close, aided by freezing weather over parts of the Southwestern Winter wheat belt and reports that the government will ship as much wheat abroad as possible. Government buying of cash wheat was only moderate during the week. Trading in oats was quite active and prices trended upward, influenced by substantial government purchases. Domestic demand for flour continued rather slow and was limited to small lots for fill-in purposes, reflecting uncertainties over possible legislative developments and the rising trend of grain prices.

In the Chicago livestock market, hogs were in liberal supply but finished steady to slightly higher than a week ago. Cattle prices were steady to slightly easier while sheep and lambs remained firm.

Cocoa supplies remained tight and prices continued to climb. Cottonseed oil and lard registered substantial gains in the week.

Cotton prices trended upward throughout the week influenced to a large degree by active mill buying and short covering against sales for export. Continued strong demand for textiles was also a factor as was the prospect of further heavy shipments to Japan and other foreign countries. Spot cotton prices at New York showed a net rise of almost a cent and a half for the week. Farmers offered cotton freely in the Southwest but there were indications of holding in other areas. Consumption of cotton during October, as officially reported by the Census Bureau, amounted to 826,200 bales.

In line with earlier expectations, this was equal to a daily average consumption of 36,300 bales, as compared with a daily rate of 33,800 in September and 40,500 in October 1946.

Registrations under the cotton export program, totalling 38,065 bales in the week ended Nov. 14, were the largest for any week this season, and brought the total for the season to date to 206,297 bales.

The movement of domestic wools in the Boston market was seasonally slow last week. Prices on fine wools in Melbourne rose sharply on active bidding by United States buyers, following the announcement last week of a reduction in the tariff on raw wool.

RETAIL AND WHOLESALE TRADE MODERATELY HIGHER FOR WEEK AND WELL ABOVE YEAR AGO.

The increased number of displays and promotions of holiday merchandise evoked very favorable consumer response last week. Retail volume rose moderatly above the level of the preceding week and remained well above that of the corresponding week a year ago. Dun & Bradstreet, Inc. reports in its current survey of trade. Christmas shopping increased and the buying of gifts and toys was considerable. Interest continued to center on moderately-priced articles of good quality.

The advent of Thanksgiving Day gave impetus to the buying of food this week. Poultry and dairy products were in large demand and fresh fruits and vegetables continued to sell well. The cheaper cuts of meat and both fresh and frozen fish were heavily purchased. The volume of canned foods too, was large. Consumer interest in dried fruits increased and baked goods and confectionery continued to attract favorable attention.

Both men's and women's clothing sold well, with jewelry, lingerie, gloves and other items suitable as gifts especially popular.

The demand for women's blouses and skirts was very large as well as suits, coats and rainwear. Interest in children's clothing increased somewhat and wool sweaters and snowsuits sold well. The volume of men's suits and sportswear was large, with overcoats continuing to be heavily purchased.

Toys and Christmas novelties were sought by consumers the past week with increased interest in electric irons, toasters and other small appliances evident.

Hardware, paints and automobile supplies were steadily purchased and demand for hunting equipment remained large in some areas.

Retail volume for the country in the period ended on Wednesday of the past week was estimated to be from 8 to 12% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England 10 to 14, East 8 to 12, South and Middle West 6 to 10, Northwest and Pacific Coast 9 to 13 and Southwest 7 to 11.

The interest of retailers in practically all types of merchandise increased in the week. Wholesale volume continued to rise moderately and remained well above that of the corresponding week a year ago. Reorders of Fall and Winter articles were substantial with considerable interest evidenced in Spring merchandise.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Nov. 22, 1947, increased by 9%, from the like period of last year. This compared with an increase of 11% in the preceding week. For the four weeks ended Nov. 22, 1947, sales increased by 11% and for the year to date increased by 8%.

Here in New York retail trade reflected a decline last week chiefly due to the comparison with the heavy purchases last year which followed as an aftermath of the trucking and delivery strike.

According to the Federal Reserve Board's index department store sales in New York City for the weekly period to Nov. 22, 1947, increased 5% above the same period last year. This compared with an increase of 9% (revised figure) in the preceding week. For the four weeks ended Nov. 22, 1947, sales increased 12% and for the year to date rose by 10%.

Comments on Stock Market Formulas

(Continued from page 4)

four months; then up 15 points in four months; then down 13 points in three months; then up 292 points in five years, three months."

The cycle of peaks in sun-spots is not unrelated to this discussion. Such a peak will be reached in January and February of next year. The 1937 peak was followed by World War II, 1929 peak by market collapse and depression, 1917 peak was associated with World War I and 1907 peak with economic depression. This represents the last four peaks.

Dr. Harlan True Stetson of the Massachusetts Institute of Technology, head of the world's only Department of Cosmic Terrestrial Relations, an astronomer and outstanding authority on sun-spots, relates in an article his latest findings in connection between sun-spots and the business cycle, but he remains entirely noncommittal concerning the existence of any connection between the two.

We thus observe there is no end to the various happenings that may determine the course of our future because they did at some other time **appear as precursor** of important events.

The cycle technique is bewildering if one listens attentively to the mass of accumulative evidence of its existence even as affecting rabbits and other animals! The overpowering influence on those addicted to such theories is the fact of actual cycles in human life, seasons and astronomical phenomena. But these with the Ratio Technique and other "systems" which Mr. May bars as market forecasters seem to the writer to be based on the subconscious attraction that all forms of systems have, that save the conflict of the individual with the unknown and inscrutable future. Otherwise, they may very well be instances of wishful thinking and cerebrated statistical delusions of grandeur.

The futility of all these systems is evidenced in the calamitous depressions from which this country has suffered (about 21 since 1789). Notwithstanding, we have always emerged in most instances to a more prosperous future.

Prosperity falls from a height into a depression and vice versa; only the unanimity of good times and a bright future bring in their train a reversal to bad times and gloomy future. There is a cycle for the "cyclists!"

Mr. May points out in his article of Oct. 16 how before V-E Day "one of the country's ablest and best informed economists enjoying the advantage of his extremely well-equipped advisory organization and unparalleled contacts wrote a most convincing and widely accepted book giving a plethora of perfectly logical and well-documented reasons such as wartime over-expansion of plant, over-consumption etc. — why the country was without doubt headed for a tremendous postwar depression." I quote this in full because if such an array of talent, material, cooperation, experience and work can't do any better how can a series of blank checks on the future be filled prophetically through systems, commutations or techniques? The above forecast was undoubtedly the 8,000,000 unemployment "gag" that fooled the administration and caused them to boost up wages and start us on the road of an indeterminable road of inflation. Since then predictions of depressions and recessions have been pouring in on us from all sides and from every source of authority.[1] So far, however, the only recession is in stocks which are selling comparatively substantially below the level of all commodities, food, service, manufactured products, etc.

Any system that could or would be 100% actually successful in fact over a period of time would prove its own inefficacy, for in that case, a bull signal would make stocks scarce to buy and a bear signal hard to sell—so we would have a "straight line" furious rise and a corresponding as furious a decline —without a bear signal!

It does not seem fit for the writer to strengthen by additional arguments Mr. May's thesis, that any form of mathematical or devised form or system by which future events can be foretold, are not conformable to sound financial practices and are to be frowned upon.

However, it might be interesting to analyze why certain tables and statistics can be workable for Life, Fire, Casualty, Accident and Health Insurance Companies which can figure out a fair approximation of the risk involved in the happening of certain events, including death. Northampton Tables have figured the expectation of life of any individual of good health from a given age; these tables have been used over a period of many years and are recognized as authoritative data.

Insurance Companies have been able to rely upon the percentages they compute, the risk they take and the coverage they must obtain. These are drawn up on the law of averages. In any community, in any part of the world, there are so many accidents, thefts, sickness, death, etc. per person in a given year, depending on the place, protection, hygiene, etc.; one could start anywhere and in a certain number of years form a series of tables and percentages that would serve as a base of workable computation. What exceptions are to be made for major wholesale catastrophes, war, etc. is another factor. The mathematics are obvious and are substantially arithmetical.

When, however, we take the extended panorama of economic activities of a country of 140,000,000 people and throw in the rest of the world for "good luck"(?), we have a series of variables of individual opinions, judgments, temperament, resources, business, finances, taxes, social disparities, manufacturing, labor, psychologies and other endless activities, reaching a startling number of influences and factors entering into a series of action, reaction and counter-action which defy certain and definite analysis as to particular results. We have in mathematics, permutation and combinations, which enables one to compute the various patterns you can make, for example, with four railroad signals which is figured by the formula $1 \times 2 \times 3 \times 4 = 24$. If each railroad signal should have three positions you have $1 \times 2 \times 3 \times 4 \times 5$ up to 12 which makes 479,002,688 positions possible. Now if you take any situation at any given time and compute, if you can the number of factors and forces with the accompanying number possible actions and reactions to and among each other, you reach by this formula a number of possible resulting combinations, which would reach an astronomical figure, that would fill this page with zeros. In life these finally assert themselves in a unified force, like all the drops of rain that make our rivers, lakes and oceans. The notion that these forces can be predetermined by systems, to the writer, seems to be fantastical. This is offered in no sense as a positive formula but only as field for serious consideration.

We have devised and perfected through centuries the experienced, matured, able individuals who in collaboration with means at their disposal have brought civilization to this point. We need the fullest exercise of our power and ability in our world crisis now before us and we should understand, that while we can split the atom and destroy the world, the power comes from outstanding genius, perseverance and toil. These methods which Mr. May criticizes do not represent an approach to or contact with, our complex and interrelated economic functionings that can assist us in the solution of these critical problems, in which the creation and preservation of capital taxes maintains a vital role.

THEODORE PRINCE, L.L.M.
Nov. 20, 1947
30 Broad Street,
New York 4, N. Y.

[1] Editor's Note—Mr. Theodore Prince's article in "The Commercial and Financial Chronicle" of Nov. 14, 1946 "Need We Have a Depression?" indicated a contrary belief.

Editor, "Commercial and Financial Chronicle":

I feel urged to supplement my letter of the 16th by a reply to the article of Mr. Justin F. Barbour, entitled "Defense of Dow Theory" [see "Chronicle" of Nov. 27, page 4] wherein he takes up the challenge of Mr. May's "de-bunking" of the Dow Jones theory. I think a casual examination of the two "arraignments" offers certain obvious conclusions.

Mr. May's article, as I have stated in my letter of Nov. 16, is in the nature of an impartial, judicial review in which personal attachments or experiences are omitted. Mr. Barbour's statements are replete with accomplishments and criticisms of a personal nature such as the statement "Mr. May simply does not understand the Dow Theory. . . ." **"He does not see the wisdom and usefulness of the philosophy of Dow, Hamilton and Rhea."** (The boldface is Mr. Barbour's and if he had not used it, I would.) For all of us are trying by open discussion to find out whether the wisdom and prescience claimed by these Dow theorists really exists. That requires **proof** not self-serving declarations of superiority in wisdom or accomplishment.

Mr. Barbour proceeds to state how much money Mr. Rhea made between Dec. 28 and March 25, 1938 and quotes in support thereof, a published audit by a certified accountant stating "My findings were that on total transactions involving 601,612 shares a gain of $436.19 was realized for each $100 of loss." However, at the best, how much in money are net profits measured in the proportion of 4.36 gains to one in losses? That could mean $4 million to $1 million or $4.36 to $1.

Then, Mr. Barbour speaks for himself and states he "has had complete supervision of certain funds for periods running from 5 to 14 years. . . . The capital gains of these funds . . . range from about 100% to about 800%, income not included." Again, how much money was invested, how much capital funds were there and what amounts? One hundred shares of Schenley bought at 10 now selling at 33 (which means 100 including split up) and a 100 shares of Allied Stores bought at 6 now selling at 30 would fulfill these claimed financial accomplishments. What have they to do with the Dow Jones theory? Mr. Barbour makes no statement in connection therewith except to point out alleged certain errors in Mr. May's article and states "he overlooks these two points: (1) Most of the time competent Dow theorists trade well in advance of the points of confirmation; . . ."

These further excerpts from Mr. Barbour's articles are enlightening. "I doubt if Robert Rhea ever had the experience of waiting for confirmation of major change to initially take or liquidate a position." "It can be said of Rhea, and of other competent Dow theorists, that they erred in judgment frequently, but that they were quick to recognize their errors. It can also be said that they did well in the market." Perhaps they rely more on "horse sense" than the Dow Theory after all! Well, perhaps here we have the secret! These successful traders of the point **don't rely on the Dow Jones theory**—they trade in advance, we must presume—on their judgment, if they have been successful.

Mr. Barbour then proceeds to an enraptured description of how wise, experienced, diligent and learned these Dow Jones theorists are and how efficient the theory is as a "philosophy for stock market analysis and interpretation, and the forecasting of the probably prevailing major trend and intermediate movements of the market." Yet, further on he states "Dow theorist knows, that Dow theorists were and are fallible in their judgment."

He refers to the Cowles report representing an analysis of 255 editorials written by Hamilton over a period of 26 years "which presented forecasts for the stock market based on the Dow theory." Mr. Barbour claims that a majority of five readers (the Cowles group) of these editorials concluded "they were sufficiently definite to permit a scoring of 90 as bullish or bearish." Other details given were intended, I should assume, to strengthen a favorable judgment upon these editorials. But, Mr. Barbour concludes as follows: **"The fallacy of the Cowles study is in its use of unwarranted assumptions."** (These are Mr. Barbour's boldface)

Mr. Barbour attempts to glorify the bear signal given by Hamilton (leading exponent of the Dow Theory) in an editorial in the "Wall Street Journal" of Oct. 25, 1929 when "this industrial average was 81 points or 21% below its bull market peak because the 20 railroad stocks on Wednesday, Oct. 23, confirmed a bearish indication given by the industrials two days before." This was "after a major bull market with the unprecedented duration of almost six years." As is well known, 32 months later, July 8, 1932, those averages were 41.22 in the industrials and 13.23 in the rails.

It is, therefore, difficult to believe that the tremendous and unprecedented bull market could give after six years a forecasting of its end by a fortuitous (for so it must be) decline in another and entirely different industry in two days; any more than the signal for the momentous rise could be accurately given at six years before—quite the contrary. (A deceptive signal for a bear market signal was given, indicated in my letter above, on June 20, 1923 when the Dow Jones average was 90.8 and from there went up to 381 in 1929.) Particularly when the 1929 year thus indicated a rise of almost 300 points in this period with all earmarks of a dangerous over-extended position.

High grade bonds were yielding 50% over the yield on common stocks (now we have the reverse) margins were 20% (which meant you could buy five times the amount of cash margin, now you can buy only 1⅓ times the amount of your cash margins) call loans were outstanding in amount of around $8 billion (now they are around one-fifteenth of that amount) and call money was 20% in March and 15% in July. Under such circumstances, does our astute investor or speculator wait to sell and thus risk his profits and capital for six years and for almost a 300 points rise for a Dow Jones fortuitous signal?

Net profits are not necessarily computed only by the Dow Jones averages, which Mr. Barbour points out in a 49 year period of $1,000 theoretical investment now worth $46,502.02. It has been computed that $100 invested and reinvested from 1915 to September 1945 in a series of industries that had their days, so to speak, during that period (beginning with automobiles and ending in department stores) would have reached $70,000 which is 700 times the individual investment or 70,000%. If, however, this $100 had been theoretically invested in 1¾ shares of the Dow Jones average, then around 54, and operated perfectly, selling every bull market top and buying every bear market bottom, he would have made only $51,000 and would have remained out of the market 10 of the 30 years and never took a loss. Of course, these theoretical operations can be computed but not proven in actual operation.

These are the major arguments in Mr. Barbour's article as I find them and if they do not vindicate his advocacy certainly not this further statement that Robert Rhea "and other Dow theorists missed the 1932 bottoms both before and after the event."

It is difficult to discern any contribution given by Mr. Barbour to the support of the Dow Jones fetish. His advocacy bristles with glittering illusions of successful operations supported by equally illusionary financial computations founded on adherence to the Dow Jones theory. Perhaps it confirms my opinion contained in the above letter that they comprise instances of wishful thinking combined with cerebrated statistical delusions of grandeur.

A prominent exponent of the Dow Jones Theory, Thomas W. Phelps, has issued a brochure of some 2,000 words, entitled "Dow Theory in Practice" [see "Chronicle" of Nov. 13, page 3] in which he advises the investor facing a problem in the Dow Theory to "fall back on Dow's dictum that the one way to forecast the market is to comprehend the tendence of events both as applied to general business and as they bear upon any stock in which dealings are contemplated."

Three quarters (approximately) of the brochure is devoted to five sound reasons (including money, business, taxes, Russia, profits, markets, etc.) why the "bears are slipping." I suggest Mr. Barbour reads that brochure instead of my letter!

THEODORE PRINCE, L. L. M.
Dec. 1, 1947
30 Broad Street,
New York 4, N. Y.

[Theodore Prince is an Economist, Investment Counsel and Lawyer specializing in corporate practices and taxes, and a financial circle figure for 30 years, and was for 20 years head of the Stock Exchange firm which bore his name—Editor.]

Joins Heath & Co.

(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL.—Dwight S. Flood is now with Heath & Company, Tower Building.

3 With C. E. Abbett & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Mrs. Dorothy R. Irwin, Elvin G. Pritchard, and Thomas D. Richardson are with C. E. Abbett & Company, 3277 Wilshire Boulevard.

Brown Bros. in San Angelo

SAN ANGELO, TEX.—Kenneth W. Brown is engaging in a securities business from offices in the Central National Bank Building, under the firm name of Brown Brothers.

With Carter H. Corbrey Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William S. Millener has become associated with Carter H. Corbrey & Co., 650 South Spring Street.

With J. A. Hogle & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Richard C. Stickney, previously with Maxwell, Marshall & Co., is now with J. A. Hogle & Co., 507 West Sixth Street.

Iliff Succeeds Pineo as World Bank Loan Director

John J. McCloy, President of the International Bank for Reconstruction and Development, announced on Nov. 26 the appointment of William A. B. Iliff, of Great Britain, as Loan Director to replace Charles C. Pineo, of Canada, who recently resigned. Mr. Iliff's appointment is effective Jan. 2, 1948, when he will assume his duties at the Bank. Mr. Iliff has been serving in various financial positions in the British Government throughout the world. In the course of his career he has been engaged in the study of national finances and budgets and has taken an active part in negotiation of loan and settlement agreements in which the British Treasury has been interested.

Recently he has been active in the Middle East where he has become familiar with the finances of the countries in that area. His present post is Cairo, where he is Financial Advisor to the British Middle East Office. In 1944 he was Financial Advisor to the Governor of Burma. During World War II, he was the British Military forces at Dunkirk. Other assignments with the British Government, prior to the war, included service wtih the Ministry of Labor and as Permanent Secretary, Ministry of Public Security in Northern Ireland. In 1916 he was commissioned to the Indian Army. He saw duty on the Northwest Frontier, Mesopotamia, Northern Persia and Southern Russia.

Mr. Iliff was born on Oct. 2, 1898, son of John Boyd Iliff, at Kircubbin, County Down, Ireland. In 1923 he married Beryl Mary Chambers of County Down. They have two children.

Understanding The Tax Laws

(Continued from page 18)

ing or annuity plan, or if the compensation is paid or accrued on account of an employee under a plan deferring the receipt of such compensation, such contributions or compensation are deductible, if they are necessary or ordinary expenses, to the following extent:

(1) If the payment or contribution is made into a pension trust or profit sharing plan which is exempt under Section 165 (A), then they are deductible up to the certain maximum amounts as specified in the law.

(2) If the plan is not a qualified plan under Section 165 (A), then the payment is deductible by the employer in the taxable year when payment is made, if the employee's rights to or derived from such employer's contribution or compensation are non-forfeitable at the time payment is made.

(3) Section 165 (C) provides that a payment made to a non-exempt trust is to be included in the employees' income for the taxable year in which the payment is made to the extent that the beneficial interest of the employee in the contribution is non-forfeitable.

(4) Section 165 (B) provides that any amounts paid into a qualified trust is not taxable to the employee until the year in which he is in actual receipt of a distribution from the trust, and then on certain conditions such payments received by the employee are reportable by him as long-term capital gains and not as ordinary income.

So far the law is very clear. But now let us take the case of the employee who for years makes $100,000 a year, and the Commissioner concedes that the employee is reasonably worth that much. The board of directors comes along and says to the employee: You are 60 years old. One of these days you plan to retire. We want to look carefully for you after you retire. We suggest that we make a contract with you for seven years, at which time you may retire. You agree not to enter competing business. The corporation will pay you $60,000 a year for the next seven years. After your retirement the corporation will pay you $28,000 a year for 10 years. In the event you die prior to the time you receive the full benefits of the contract, the corporation will pay your estate or beneficiaries 50% of the sum you otherwise would have received.

A careful study of the law seems to reveal that in such case the corporation would take the deductions when the payments are actually made (or if accrual basis, when they mature), and the employee only needs to report the income when it is actually received by him. It most likely would be that if the employee died without receiving the full benefits of the contract, his estate tax might include the value of the contract on the date he died. Eventually Section 126 would come into operation so that an adjustment would be made between eventual income taxes paid by the estate and the estate taxes paid.

A study of the law also seems to indicate to the writer that if an employer of its own volition, as part of an employment contract suggests that a non assignable, irrevocable, non surrenderable and non forfeitable annuity contract be purchased, making the employee or his estate beneficiaries thereunder, and the employer retains the contract in its possession and continues as sole owner, here is a slight possibility that the employer can deduct the payments in the year that it purchases the annuity contract and the employee would not have to report income until he is in receipt of it.

Annuity and Estate Planning

Have you ever heard of the case of Bertha S. Kann (T. C. Memo 3977)? It was handed down by the tax court in August of this year. If you are a person well on in years, let us say 70 or 80 years of age, or have a relative or client of that age, and who owns a block of valuable stock in a closely held corporation, you ought to read it. In 1939, Bertha was 77 years old. She had 8 children. In that year she transferred a block of stock worth $240,000 to the children. Each child agreed to pay her $3,000 a year while she lived, or $24,000 in the aggregate. If Bertha had bought an annuity from an insurance company, it would have cost her $218,000. On her tax returns for the first year the annuity was in operation Bertha reported as income $6,540 which was 3% of $218,000, the amount she would have had to pay for a commercial annuity. The Commissioner claimed that—(1) Bertha had a long term capital gain on the transfer and (2) that the correct amount of the annuity reportable in each year was 3% of the actual cost of $240,000—and not 3% of $218,000. The tax court ruled on the first issue that an agreement by an individual to pay a life annuity has no fair market value for purposes of computing capital gain. And on the second issue, the court held that the amount of the annuity reported as taxable was correct in the absence of a showing by the Commissioner that the excess of the value of the stock transferred over the cost of a commercial annuity constituted consideration paid rather than a gift. On the main issue, considerable tax saving is indicated—at least where an annuitant dies before full cost has been recouped. In that case, the capital gains tax is avoided. Moreover, no estate tax appears to be payable on the value of the property transferred or the annuity. (See Security Trust & Savings Bank 11BTA833—"Estate of Johnson 10BTA 411.) The principle of the Kann case shows that proper estate planning is worthwhile.

The Burke Case

The case of Oscar M. Burke, decided by the United States District Court in 1944 is worthwhile reading. This is especially true if two or more men contemplate forming a syndicate or pool. An understanding of the principles of the Burke case will come in handy. Burke in 1929 verbally made an agreement with his friend, Warner. In substance, Burke said: "Warner, you buy the sticks. If there's a gain, you give me 50% of the profit, and if there's a loss, I'll pay you 50% of the loss." Quite a number of shares of stock were bought and sold. Finally, when they stopped buying and selling in 1930, Warner accounted, and there was a loss. Warner paid it. Burke, who was on a cash basis for tax purposes, gave his note to Warner for half the loss. Although Burke was then in poor financial condition, he was nevertheless financially able to pay the note in whole or in part in every year from 1930 up to 1940 if he had so desired, or had Warner compelled him. Burke paid off the note. After Burke filed his tax return for 1940 and paid his taxes due, he filed a claim for a refund on the ground of a loss arising from a transaction entered into for profit. The Commissioner of Internal Revenue denied the claim, and Burke pressed the case in the United States District Court. It was the Government's contention that Burke and Warner were partners in the transaction If so, Burke should have deducted the loss in 1930 when the partnership incurred the loss. Or in any event the Government said if there were no partnership, then Burke must be deemed to have been a 50% owner of the stock when it was purchased, and that Warner had loaned him the money for this purpose. Under these circumstances, Burke should have deducted his share of the loss in 1930 when the stock was sold. The court denied the Government's position and upheld Burke, the taxpayer. Burke contended he never was a partner, that he never owned an interest in stock, that he never borrowed money from Warner, all he did was enter into a contract. This contract merely gave him a right of action against Warner for debt if there had been a profit, and likewise, it gave Warner a claim against Burke for debt if there had been a loss. Under such a contract, Burke said he couldn't possibly have a deductible loss until he paid his debt because he was on a cash basis. The court said Burke was right, allowed the deduction for 1940, and gave him a refund. The philosophy of this case demonstrates that care must be used in determining the type of contract to be entered into. Here on these simple facts, the parties could have either had a partnership or have been joint owners of stock, or just have a debtor and creditor relation between them.

Carry-Back—Carry-Over Credits

Another subject with which taxpayers are either generally or expertly familiar deals with carry over or carry back loss credits. One recent case brought to light a point of law which is well worth remembering. (Reo Motors, Inc. (9 T.C. No. 47). In this case, the taxpayer sustained a loss in 1941 from worthlessness of stock in its wholly owned subsidiary. Under the 1941 law it treated the loss as a capital loss. Under the 1942 Revenue Act an amendment to Sec. 23(g) effective for years ending after Dec. 31, 1941, such a loss was fully deductible. The court held that for purposes of carry over to 1942, the loss must be treated as required by the law in effect in 1941. This case seems to be good law. But do not take it as final. One judge dissented and based his dissent on Moore, Inc. (151 F(2)527). In that case the problem was whether a net operating law carry over should be computed under the law in effect when the deduction is claimed or under the law for the year when the loss is incurred. The court there held that the law when the deduction is claimed is the year that controls. However, compare this with the Oscar Burke case previously mentioned. In that case under the law in effect in 1929 and 1930, when the transaction incurred no partnership existed. Yet, as a result of the change in the law which took place in 1932 and which continued ever since, the transaction could have constituted a partnership. The court said the law in effect when the transaction took place and not when the loss was paid, controlled. The same thing was true in regard to the law on whether a loss was a capital loss or an ordinary loss. The definition in effect in 1929 had a different definition as to what constituted a capital asset, from the law in effect in 1940. The court held the 1929 and 1930 law control here also. Thus, whenever you have a loss carry back, a carry over, or a loss which has some transaction taking place today although the history goes back a way, do not rule out the present deductibility of the loss. Survey the facts carefully. You might come up with something valuable.

Reorganizations

The Supreme Court this past summer decided the Adams case and the Bazley case. They make worthwhile reading, showing how, in those cases, the taxpayers got themselves into a sorry mess. Then read Cleveland Adolph Mayer Realty Corp. 160F2, 1012. In the Adams case and Bazley case, the corporations were closely held. Each corporation was reorganized and recapitalized and apparently complied with the sections of 112 (b) which permitted an exchange of stock or securities in a corporation for stock or securities in the same corporation or another corporation. In each case, the stockholders turned in their old stock and received new stock and debentures. The respective interests of the parties were the same both before and after the recapitalizations. The Supreme Court held that the issuance of the corporate debentures were the equivalent to promises by the corporation to pay cash and that there was no practical difference between this and a cash dividend The debentures were therefore held to be taxable as ordinary dividends to the extent that they represented earned surplus. Now read the Cleveland Adolph Mayer Realty Corporation case. The issue there was a little different, but its applicability is apparent. In that case, the stockholders of the old corporation transferred their stock to the new corporation in return for stock debentures of the new corporation up to the value of the stock transferred to it. Later the old corporation merged into the new corporation. The court held the transaction valid for tax purposes, and allowed the new corporation to deduct interest on the debentures. There was no question in the case of the taxability of the debentures to the stockholders. However, the problem of creating taxable dividend as in the Adams and Bazley cases seems to have been eliminated because, at the time the new corporation issued the debentures, it had no earned surplus, which could be said to attribute to an ordinary dividend. Then, in a later taxable year, the new corporation causes a straight tax free liquidation of the old corporation under section 112 (b)(6).

Black Market Dealings

Just a few weeks back there were two decisions by the Tax Court. The substance of them held that an OPA fine or settlement made with OPA for violations of the maximum price regulations were not deductible. These decisions appear to be very much in line with the San Antonio and Portland Cement Co. cases decided by the Supreme Court a few years back. But I do not believe that we should accept these decisions as final. Suppose we take the case of an overpayment instead of an overcharge. Can the taxpayer deduct as his proper cost the price he actually paid even though it is in excess of the maximum price fixed by law. I believe that the actual price paid is deductible, even though it is violative of the law. There are several decisions which have been handed down by the Tax Court and other courts to the effect that even though the expenditures themselves are part of an illegal business, they must be allowed as deductions where they produce taxable income. Ask any Revenue agent what the law is on the subject and he will take the opposite view. But what the real answer is always depends on the precise facts and circumstances of the case. It is not advisable to give up a struggle at too early a stage in a case. It is worthwhile pursuing each matter thoroughly and carefully.

Conclusion

Whether or not you have found the foregoing of interest depends on whether you have had the particular problem. But, regardless of that, I say to you, in any transaction of any sizable amount, in any matter that is not in the regular ordinary course of business, a careful study and understanding of the law will oftentimes result in tax savings and refunds.

Downs With Flynn & Levitt

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Cecil J. Downs has become associated with Flynn & Levitt, 411 West Seventh Street. He was formerly with Fewel & Co. and Merrill Lynch, Pierce, Fenner & Beane.

E. A. Gabryel in Seattle

SEATTLE, WASH.—Ewing A. Gabryel is engaging in a securities business from offices at 920 Second Avenue.

With First California

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—J. F. Furlong, Jr. has been added to the staff of First California Company, 300 Montgomery Street.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—William L. Eckert is now with Herrick, Waddell & Co., Inc.

Joins A. M. Kidder Staff

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—William M. Powell is now connected with A. M. Kidder & Co., Florida National Bank Building.

With Herrick Waddell Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Jesse L. Whitlock is with Herrick, Waddell & Co., Inc.

A Gold Coin Standard to Halt Inflation

(Continued from page 2)

volved and difficult to understand, the consequences are not.

The rising prices that portray money deterioration are painfully apparent today to the American people. A spiraling cost of living is no longer a theoretical danger discussed only by Republicans and economists. Not any more. It is a fact.

Already it has almost certainly become a decisive factor in American political affairs. Developments in this field will influence and probably determine the outcome of 1948 elections.

And so it was not surprising that the rising cost of living, called the "march of inflation" by the President, is one of the two reasons why he called a special session.

Exports Currently Fuel Inflation Fires

No one but the most zealous New Deal partisan will now quarrel with the fact that gigantic foreign exports are the immediate cause of most spiraling prices. Exceptional rises have taken place mostly in products and materials directly affected by this export boom.

And so it requires no special ability to foresee that if this outpouring continues, the momentum of rising prices will continue. Especially is this true if public resistance to handouts and high prices takes the form of lowered productivity. That possibility is something to think about.

But today I want to get at the root of this problem, the underlying basic cause of the dilution in the purchasing power of the American dollar. What is causing the continuous decline in the purchasing power of the American dollar, and how can it be cured? This is the real problem. On its sound solution rests the future of America, with all that America means to the rest of the world.

Money Deterioration Started in 1933

The seeds for the present harvest of inflation were planted in 1933. At that time we changed from a sound currency redeemable in gold on demand to a money system domestically tied to the printing press and internationally to gold.

This mongrel or mixed-breed money system is not too different from the paper-money system used in Russia and other totalitarian states. Here, as in Russia, the plain citizen cannot own gold. That basic freedom is verboten in both lands.

I am not expert enough to expound the technicalities of the abandonment of the gold-coin standard. And the technical aspects do not concern us at this moment. The important fact is that we departed from sound money redeemable on demand in gold, and today have a managed system of printing-press currency.

When this revolution in our money system took place, the immediate surface effects on our currency were not disturbing. Public faith in our money system rested on a long heritage of sound money redeemable in gold.

We had been on a gold coin standard from 1837 until 1933, except for a lapse caused by the Civil War. This century-long record of stability, coupled with the seeming security which Treasury-owned gold stocks created, served to keep the vast majority of people complacent.

While the real anchor for a sound currency, gold coins of a fixed weight and fineness freely available upon demand was gone, the loss seemed of little importance.

Evils of Printing-Press Money Not Quickly Discovered

There was no significant immediate effect on the domestic purchasing power of the dollar. The vigorous alarms sounded by those who knew the perils of paper money were dismissed as unimportant. Besides these alarms were easily drowned out by administration ballyhoo sugarcoating the change.

And so the orgy of reckless public spending using printing-press money that got under way promptly met with no effective resistance. Deficit spending running into the billions brought a general feeling of prosperity not unlike that of the greenhorn who drifted into a brokerage office and deposited $1,000 to speculate. With unusual luck he soon had a $500 paper profit, whereupon he exclaimed: "How long has this been going on? Why did not somebody tell me about this easy money sooner?"

Our fiat money was similarly intoxicating in its early stages, as demonstrated by the 1936 elections.

This reckless spending spree continued unabated until the outbreak of the war.

A 1939 Treasury Sales Letter

Early in 1939 a form letter from the Secretary of the Treasury came to our house. Sensing that the day would come when the contents of that letter might prove interesting, I filed it away in my inflation file started in 1933.

What has happened on the inflation front since 1939 can perhaps best be illustrated by reading to you from that letter, which I know hold in my hand.

It is headed "The Secretary of the Treasury." It is dated March 22, 1939. It is signed by Henry Morgenthau.

It starts out like this:

"Dear Mrs. Buffett: I appreciate the cordial interest shown and the response given to my previous letters concerning United States savings bonds. The amount sold has already passed the $2,000,000,000 mark in maturity value, and the sale of these securities is increasing."

Then on page 2, it says:

"This makes them ideally suitable for many objectives for which individuals and families lay aside money, such things as the education of children, the purchase of a home, the creation of a retirement fund, and so on."

Included with this letter was an attractive booklet setting out various alleged benefits that would accrue to the purchaser of the bonds. On the cover is this claim: "A practical way to establish financial independence."

These were the promises and allurements offered the prospective purchaser of savings bonds in 1939. Over one billion one hundred million of maturity value of savings bonds were sold that year to purchasers relying on the soundness of the dollar.

What has happened to their investment in the 8½ years since the date of Mr. Morgenthau's letter?

I have a chart here that gives the prices and total cost of a market basket of food in 1939:

Measured by 1947 food prices, the $1,000 bond of March 1939 has shrunk to $387 in November 1947

	Prices in March 1939	Prices in November 1947
2 doz. eggs	$0.35	$1.18
5 lbs. chuck roast	.85	2.75
3 lbs. Crisco	.47	1.12
1 lb. butter	.26	.85
12 lbs. flour	.39	1.02
5 lbs. sugar	.22	.45
1 lb. coffee (8 O'clock)	.14	.39
10 lbs. potatoes	.19	.45
2 lbs. bread	.15	.22
2 quarts milk	.28	.38
2 cans pork and beans (1 pound each)	.13	.23
2 cans corn (Niblets)	.20	.36
3 lbs. picnic ham	.45	1.29
1 head lettuce	.05	.13
1 pint salad dressing	.17	.29
2 cans pears (Del Monte)	.30	.86
1 box Rinso (large pkg.)	.19	.36
1 lb. peanut butter	.17	.35
Total	4.96	12.68

In terms of this typical market basket, it will take in 1947 over $2,500 to buy the groceries that $1,000 would purchase in 1939.

These foods are as typical a list as I could select. They show the cost of this market basket in Washington was $4.96 on March 23, 1939. That was about the same day that Mr. Morgenthau's sales letter reached our house.

Last week, according to ads in the Washington papers, this same market basket of food would have cost $12.68. That is an increase of over 150%.

This means that measured by 1939 prices a 1939 $1,000 savings bond today has a buying power of only $387. This investment, in terms of the amount of food it will buy, has shrunk 60%.

That indicates that the 1939 investor in savings bonds or in insurance, or in any investment calling for fixed repayment in dollars, has lost, in food-buying power, over one-half of his original purchasing power.

Large-Scale Debasement Has Taken Place

This debasement of our money and bonds proves that we have gone far down the road of currency depreciation in America.

This march toward currency destruction can never be cured by the ideas and plans proposed by the President in his message to Congress. The best of his suggestions are helpful palliatives, while others are simply economic narcotics which might delay an inflationary smash-up but deepen its evil consequences.

Surely our task is not to try to deaden the pain of the inflationary infection afflicting us, but to find and cure the cause or causes.

May not the basic cause of our currency deterioration stem out of this fact, that since 1933 the people have no effective brake on government spending? The issuance of fiat money and bonds payable in printing-press money are subject to no effective control by the people. The taxpaying citizens are no longer able to prevent government spending from continuing to the point of currency destruction.

The power of the purse, although technically lodged in the House of Representatives, basically remained in the hands of the people so long as our currency was redeemable in gold coin.

Political Parties Will Not Stop Inflationary Spending

The events since V-J Day have demonstrated that neither political party will stop this spending under a fiat-money system. Let me illustrate. Suppose a major party exhibited the integrity to stand firm for economy and against further inflation? It is extremely doubtful if it could maintain its own ranks even temporarily, let alone long enough to effectively prevent further deterioration of our currency.

Realistically this is the political situation that confronts us so long as our currency is not anchored to free coinage and circulation of gold.

With printing-press money easily available, the temptation to stay on the slide currency deterioration inflation is almost irresistible. Take a period of high governmental revenues like the present. The political advantage of prolonging the boom prevents the "ins" from curtailing expenditures and restraining the rise, except for campaign oratory and indecisive remedies.

Similarly in times of falling governmental revenues the temptation to meet deficits by printing-press money is even more powerful, not only for the executive departments but for the legislative branch as well.

Restore Gold Standard

And so bills are being prepared, designed to restore the right of private ownership of gold and to provide for the minting and free circulation of gold coins. I expect to introduce these bills together with the appropriate corollary legislation needed to achieve this constructive goal. It is expected that similar bills will be introduced in the Senate.

I am convinced that the restoration of the free circulation of gold is the only sound cure for our inflation sickness. It is the only action that will constructively and permanently halt the deterioration of our currency.

Regimentation Will Not Stop Money Depreciation

For his part, the President wants the power to regiment the people in peacetime. He believes he can stabilize our currency by political regulation of natural economic forces.

I respectfully suggest that if the President would study carefully the history of previous attempts of this kind, his views would change. He would no longer believe that governmental regimentation could stop money deterioration, no matter how well intentioned and skillful the regulating authorities might be. The natural laws of economics, like all natural laws, are not changed by human desire or caprice.

Many people still nurse the hope that increased production will cure this situation. They forget that production always creates its own purchasing power. If we produce in 1948 $150 billions of goods, there will be $150 billions of new money created to buy those goods.

Also, there is good reason to believe that without the prompt stabilization of our currency, sporadic lags in productivity by some segments of our people will become general. Our industrious people, who have been working hard and saving dollars for the future, are certainly human. They will not continue to do so if they become convinced that the deterioration of such savings will continue indefinitely.

Somewhere along the line these thrifty and frugal people will decide that depriving themselves of immediate enjoyment by saving dollars is unwise. Then, like the populations of many European lands, these workers will no longer put their trust in an irredeemable paper currency.

If Congress does not soon effectively deal with the problem, this peril may not be too far away. A mass abandonment of dollar saving habits would be a major calamity, especially as a mass flight from the dollar would almost surely follow.

The People Should Have the Power to Prevent Money Deterioration

I do not speak on this subject with the assurance of a complete understanding of all the intricacies of this problem. But I believe I am correct on the fundamentals, which can be summed up as follows:

Inflation will not end until the people again possess the final power of restraint over government spending.

They only possess that restraining power when they can exchange paper currency for gold.

Until that basic control is again in the hands of the American people where it belongs, we have not put in operation the only final cure to inflation and a deteriorating currency.

In the meantime, except for intervals, prices are headed higher and higher.

Until we restore to our people the American heritage of an honest dollar redeemable in gold, instead of the totalitarian device of printing-press currency, our economic, political, and social structure will continue to deteriorate.

Printing-Press Money a Favorite Communist Tactic

Nicolai Lenin, the first President of Communist Russia, is reported to have declared that the surest way to overturn the existing social order is to debauch the currency. Mr. Roosevelt adopted this economic technique of communism in 1933. We have been using, with clever variations, that totalitarian printing-press money system ever since.

Unless we repudiate it, that Lenin-favored device in itself will ultimately bring communism to America. Printing-press money is a device that robs and cheats the working and trusting people while the shrewd and well-informed enrich themselves.

Paper money is an enemy much more to be feared than Soviet military power, real or fancied.

Since printing-press money has been a decisive device in the political success of the New Deal, it is obvious that any real fight to restore an honest American dollar redeemable in gold must come from the Republican Party.

And conversely, if we of the Republican Party do not make this fight for the people, the people will have no reason to restore us to power. In this drive for an honest gold dollar, all patriots have a common interest. But without vigorous leadership little progress is possible.

Until we restore an honest American dollar redeemable in gold, prices are headed higher and higher. Survey, if you will, the shattered and worthless paper currencies of Europe. There you will see the chaos that awaits us in the absence of a restoration of an honest dollar, redeemable in gold on demand.

Eventually, when the people find that our currency is deteriorating, they will lose their enthusiasm for saving dollars. Many shrewd people have been for years putting their savings into land, jewels, works of art, and real wealth of all kinds. Some day that alarm about the value of our currency will spread to the rank and file. No person is knowingly going to invest in securities that are steadily deteriorating in real value.

Business Man's Bookshelf

Brooklyn Union Gas Company Review of Operations for 15 Years 1932-1946—Brooklyn Union Gas Company, 176 Remsen Street, Brooklyn 2, N. Y.—paper.

Survey of Current Inflationary and Deflationary Tendencies—United Nations Department of Economic Affairs—Columbia University Press, Morningside Heights, New York, N. Y.—paper—50c.

Bacon, Stevenson Co. Admit C. R. Hayes

Clarence R. Hayes is today being admitted to partnership in Bacon, Stevenson & Co., 39 Broadway, New York City, members of the New York Stock Exchange. Mr. Hayes has been with the firm for some time. In the past he held membership in the New York Stock Exchange.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

PORTLAND, ORE. — Hugh V. Crawford has been added to the staff of Merrill Lynch, Pierce, Fenner & Beane, Wilcox Building.

The Legislative Outlook

(Continued from page 17)

they must thus cooperate while the money is available—and they have their chance.

This enormous job of rebuilding Europe cannot be financed entirely from the United States Treasury. We must enlist and encourage the aid of private sources willing to risk venture capital in rebuilding industries abroad.

There must be improved methods for the distribution of relief abroad. Good business executives should be selected to supervise the expenditures if we are ever to finish successfully the job we have started. The job should not be given to theorists and chairwarmers whose chief aim is to remain on the government payroll. Congress hopes to evolve a plan to meet these requirements.

And in all this, we must consider America, too.

All real Americans are united in wanting to preserve this grand, glorious, free, rich land of ours. You want your children's children to have the fair chance you have had. You want the young veterans and the rest of America's youth to know and make stronger the freedom and the richness of life in the America you love.

Wants no Rationing or Price Control

The Administration wants a return of price controls and rationing.

Do you remember when the people were begging for bacon, and butter and sugar? Do you remember the fruits and berries which were allowed to spoil for lack of sugar, because governmental price-fixers and rationers appeared to be ignorant that they were deliberately wasting food by that sort of thing?

Do you remember those days when you stood in line and adopted a mighty meek attitude when the clerks in the rationing boards barked at you and acted as though you were some kind of a criminal because you wanted ration coupons for food?

Do you recall how the store clerks—if they liked you—would go down under the counter for scarce items while they blandly told other customers they were out of the commodities?

You will recall that before the OPA was abolished by executive order of the President during the 79th Congress, black markets were springing up everywhere. Meat butchered under the trees with flies swarming on it was being sold to the helpless public. Everything from sugar to nylon stockings, from coffee to automobile tires, was going into the black market faster and faster. And prices were skyrocketing. And the OPA had been proved a dismal failure. Prices were high and the food difficult to secure.

The Administration seeks the power to return to all that.

Now, fellow citizens, helping the rest of the world is commendable. But it must not be made the excuse for taking the brakes off governmental spending at home.

Cut Reckless Government Spending

We started to cut reckless wasteful governmental spending in the first session of the 80th Congress, and we are going to do it again in the second regular session of this Congress.

We saved three billions of dollars for the taxpayers by cuts where cuts could safely be made, but the bureaucrats don't like to talk about that.

Just while I am on this subject, I want to recall the record on the national defense. There is a growing propaganda emanating from officials high in the Executive branch that the 80th Congress refused to appropriate sufficient money and wrecked our national defense. Several times within the past few weeks the charge has been made that our defense in the air is a hollow shell because Congress was too tight-fisted.

Now let's look at the facts.

The budget requests for the Army and Navy air forces were $1,379 million cash and $553 million contractual authority, a total of $1,932 million. Public laws 202 and 267 containing the final action on these requests, show that Congress gave the air forces in cash and contractual authority an aggregate of $76 million more with which to function than was originally requested in the President's budget.

The total effective reduction of defense budgetary requests, all items considered, was a net reduction of only $120 millions or 1.3% of the President's request. Significant factors to consider include the fact that funds for personnel, both civilian and military, were predicated on the Department's estimates of their ability to recruit. Reliable information is that the recruiting is behind schedule. They may not be able to spend all the money they have.

Since the national defense has been treated so generously one begins to wonder how it can be that a net cut of $120 million, or 1.3%, can wreck the national defense. What are they doing with all the billions which were appropriated? Certainly, with proper supervision, the nine billion, 539 million should have provided adequate defense.

Economy Will Not Embarrass National Defense

The revelations in the Ferguson Senate Committee are timely. The Michigan Senator should go even deeper into these questions. But the facts and figures which stand in the record prove the absolute falsity of the charges and insinuations that the Congress has embarrassed the national defense, much less weakened it, by reduced appropriations. The services may be embarrassed but if so it is not by being denied funds by the Congress.

Let me say to you, we had better keep uppermost in our thinking one very pertinent fact. It is easy enough to shackle the people of this country under governmental controls, price fixing, wage regulations, and regimentation by a bare majority of both houses of Congress. But it will take a two-thirds vote of both houses to strike off those shackles and recapture those delegated powers over the lives and activities of our people.

Of course, all the assurances these rationing powers and regimentating restrictions will not be used unless necessary are pure twaddle. They are like the lion saying to the lamb: "Come and lie down between my paws. I won't eat you unless I get hungry." Did you ever see a bureaucrat who wasn't hungry for power? You can bet your last dollar if those powers are granted to the Executive Department of the government they will promptly be invoked and used. And when the people get tired of them and want to be freed, those bureaucrats will do exactly as they have done all along. They will fight to the last ditch to resist losing their powers They will try to hold on to their fat jobs. It will require a two-thirds majority of both houses of the Congress to break their hold.

It has not been so long ago that American business was struggling along trying to operate and help to win a war under *seventy-six thousand* Administrative regulations which had the force and effect of law. In many cases even recourse to the courts was denied. They were so contradictory, so inconsistent, and, in some cases, displayed such ignorance of business, of agriculture, as to astound the country. Do you recall the advice given by the New Deal bureaucrats to farmers to take the shoes off their horses at night to save wear? Can you remember when a solemn order was sent out that there should be no more butchering of "female steers"? Do we want any more of that sort of thing?

Controls Throttle Production

Controls throttle down production. We know the salvation of America lies in a constantly expanding economy. For the sake of the wage earners, as well as of everybody else, we have got to produce more goods and services at lower prices. That cannot be done by raising wages, and then raising prices, and then raising wages and prices all over again. That, of course, is an inflationary spiral. The wage earners see that as plainly as other people do. We must employ our most skillful engineers to produce new techniques for us. We must increase the per man hour output. Lower prices and improved quality would give every wage earner, every farmer—every man, woman and child in this nation—an increased real income.

Deficit spending, currency inflation, and the inflationary effects of war production are responsible for high prices. War activities left the wages and salaries at home. The goods and services went overseas and were lost to us. Now the inflationary condition is being aggravated by the drain on our supplies—the billions of dollars worth of goods we have sent and are sending abroad since the war ended. Drouths and unusual winters have added to the burdens of the world. The law of supply and demand has coincided with and further aggravated inflation.

In the face of the stark fact that more of everything is needed by a suffering world, in many foreign countries communist strikes are now under way to produce less. Chaos is their objective, of course.

Not a Partisan Problem

This whole issue is not a partisan problem, nor is it a partisan question. The demand of the President for a restoration of his wartime powers to ration supplies, regiment, prorate and fix prices and wages, is the gravest demand ever made upon the American people in peacetime.

It could easily mark the end of our American system of free government, free economy and free society. It could start our slide into the abyss of the police state.

No man, no bureau, no clique, no party, is to be trusted with such power in peacetime, except as a very last, very desperate resort. No clique in Washington can run America as well as the people themselves can run it. Give them the truth, let them know the facts, and they will do a good job of governing themselves. Our danger is the citizens may be misled by clever, cunning, skillfully-managed and well-financed propaganda aimed to bring the American people into subjection to a centralized power at Washington.

You may be assured the Congress is going to examine every one of those proposals most carefully. We are facing fateful decisions. We do not intend to make those decisions on snap judgment or insufficient information. Congress is determined to do its part to solve the problem of high prices —the American way. It is a problem we recognize. It must be solved the right way. That will take team-play between the people, the Administration and the Congress.

America must be kept American. Our incomparable system must be perpetuated. We must stamp out the fifth column of Communism in this country and look to our liberties. We owe it not only to ourselves but to the world and to posterity.

If the torch of freedom is ever allowed to go out in America the world will be in spiritual darkness.

God forbid that.
America will stand.
America will lead the world.
America will continue to be the torch of hope and the beacon of progress for all the people of the world.

May God give us the strength and the wisdom to lead all other countries of this world to adopt and work under a world-wide slogan—"Pull Together for Peace and Progress."

Shall We Construct Or Conscript?

(Continued from first page)

each year through 1951. On Nov. 8, 1947, a committee appointed by President Truman on foreign trade revised downward the cost of the reconstruction plan so that its estimated cost would be about $17 billion with almost $5,750,000,000 suggested as the grant for 1948.

The Army's proposal for peacetime military conscription would cost between $3 and $5 billion a year, according to an article in the July, 1947 "Readers' Digest" by the nation's leading military writer, Hanson Baldwin.

An exact breakdown of the cost has not been made, but according to the President's Commission on Universal Training $1,750,000,000 would cover the cost of the camp training. At the end of six months' basic training each boy would have to decide either to stay another six months in camp or take four years R.O.T.C. in college, or three or more years in the National Guard and Reserves. The President's Commission estimates the cost of the National Guard program at about $765,000,000 and the Organized Reserve at about $400,000,000, the bulk of which would be directly chargeable to a compulsory training program. The R.O.T.C. and technical training would add still other millions.

In addition to this, a government economist, Rainer Schickele, estimates about a billion dollars a year replacement cost for weapons, and about $2 billion a year in goods and services, which would be lost through withdrawing a million draftees from production. Thus the total cost of compulsory training would be not less than $5 billions each year.

Unlimited Spending and Our Economy

Two problems which worry Congress and which have a bearing both on reconstruction and the proposal for conscription, are how to prevent the spread of Communism and how to avoid a serious financial crisis. The Army has played up the fear of Russia as a motive for expanding American armaments and passing conscription. The State Department has stressed the need for aiding the European economy if we are to prevent the kind of financial collapse which would drive thousands of people into the arms of Communism.

On the other hand, financial experts both in and out of Congress have warned us that unlimited spending would injure our own American economy. No one wants to see an economic collapse in America both because we are the source of economic hope for millions throughout the world and also because collapse here would create conditions on which domestic communism would thrive In view of the $20 billion reconstruction would cost in the next four years and the $20 billion universal military training would cost in the same period, it is important to ask which is an essential expenditure and which could we postpone or eliminate entirely.

Reconstruction is more than a relief program because it aims at building up the agricultural and industrial life of Europe so that the people there may produce for themselves and for foreign trade enough to support a decent standard of living. Such aid to Europe will of course provide markets for American products as well as prevent the growth of Communism. Communism is unlikely to spread among people whose needs are being met.

Universal Military Training, which is far less frightening than the atom bomb, would neither scare Russia nor prevent the growth of Communism in Europe, if all our other vast military preparations have not produced these results. Instead, it would withdraw much-needed labor from the production of consumer goods in this country. A shortage of consumer goods and a surplus of money in the hands of consumers is a major factor in causing inflation. Marriner Eccles, Chairman of the Federal Reserve Board, was quoted in the New York "Times" of Sept. 26 as warning that the country faces danger of "economic collapse" if inflation continues unchecked, and that "military expenditures comprising the largest single item in the budget . . . are one of the most important factors that contribute to inflation." He suggested that it would be better to reduce expenditures on the nation's military forces. He said, "It may be we could spend less on military forces if we spent more to maintain conditions on which democracy and peace depend." He indicated that a choice must be made between helping "get democracies back on their feet" and "preparing for the next war."

If we cannot add $3 to $5 billion each year to our military expenditures without the possibility of economic collapse, it would be folly to pass conscription. Nothing would do more to encourage the growth of communism at home and abroad than the economic collapse of America.

Not only must a choice be made between reconstruction and conscription, but if the Marshall Plan is going to cost about $20 billion, there ought to be a reasonable assurance that it will succeed. Insistence on the passage of compulsory military training now would certainly imply lack of confidence in the ability of the Marshall Plan to accomplish its purpose. It would obviously be difficult to make a case for compulsory training if the reconstruction of Europe does accomplish its purpose.

Moreover, a provocative move like the adoption of conscription would seem to imply that the reconstruction of Europe was just another aspect of the power struggle between Russia and America and not really intended to help achieve peace. This in itself would injure America. Marquis Childs, writing from Paris, was quoted in the Oct. 8, 1947 Los Angeles "Daily News" as saying:

"If in coming into being the Marshall Plan takes on the appearance of another and grander move in the struggle for supremacy, the chances of final success will be small. The ordinary man who has endured so much wants to believe that it represents the hope of a better world."

To give the Marshall Plan of reconstruction the best possible chance to succeed, the proposal for compulsory military training should be dropped.

Jacquin, Bliss to Admit

Jacquin, Bliss & Stanley, 61 Broadway, New York City, members of the New York Stock Exchange, will admit Ernest Jellinek to partnership on Dec. 11. Mr. Jellinek was formerly with Dreyfus & Co.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market patterns, constantly repeated, point to violent move in near future.

The pattern I described in the two previous columns is the same one the market is making now. The pattern runs along something like this: Stocks, as represented by the averages, manage to climb up to about the 184 level. But just when this recovery starts to look like it will develop into the real thing, prices start backing away and before a week is over the averages are back around 180 again.

* * *

Such patterns are interesting to watch, if watching is all you're interesting in. But if you're committed to either the long or short side in such a market you stand an excellent chance of becoming a man people point to as one who's always talking to himself. This goes back to a market fundamental that if enough people recognize a certain signal the chances are that the signal is completely meaningless. Or worse still, may be entirely erroneous.

* * *

Right now it seems almost an automatic procedure. Buy them when they're at 180 or so; sell them at 184 or better. It's all so simple. It's like a multiplication table. All you have to do is learn it and then sit back and make profits.

* * *

Unfortunately markets don't behave so rationally. The chances are that just when you have everything nice and pat the whole thing will blow up in your face leaving you sprayed with losses. As a matter of fact, the pattern discussed in the first paragraph may well be the one that can explode.

* * *

There is no hard and fast rule that can cover all contingencies. Placing stops at bottom points (or top points if you're short) and disposing of part of your long stock at top levels (or covering part of short positions at lower levels) is one way that helps. A word of warning: stops are not insurance. In a roaring market, up or down, stops broken become market orders. Still it's six of one or half dozen of another.

* * *

The market is still mulling over the French, Italian and the Washington situation. How they will turn out is apparently unknown. If they were known you can be sure the market would reflect it. The Washington picture is a little clearer. It's almost a certainty that some kind of controls will come through. Politics being what they are, maybe the controls won't be Truman's, or the GOP's. But some kind of a combination which both parties will agree on will result. If controls were the only things facing the market, the outlook wouldn't be so obscure. It is the foreign picture of which the Marshall Plan is such a major part that is back of all this uncertainty. And so long as the market shows this uncertainty, I see no point in getting too far away from shore.

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.]

Russell Gartley With First Securities Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Russell Gartley has become associated with First Securities Co. of Chicago, 134

Russell Gartley

South La Salle Street. Mr. Gartley was formerly manager of the Chicago office of the Ranson-Davidson Co. Prior to serving in the armed forces he was a partner of A. S Huyck & Company.

Wheelock & Cummins Open Chicago Office

CHICAGO, ILL. — Wheelock & Cummins, Inc., Des Moines investment firm, announce the opening of a Chicago office at 135 South La Salle Street and the association with them as officers in Chicago of David N. Danielson and Edgar F. Grimm. Mr. Danielson was formerly with F. S. Moseley & Co. Mr. Grimm was with Kidder, Peabody & Co.

Industry's Answer to the Police State

(Continued from page 13)

America believes that the way to fight totalitarianism abroad is to adopt totalitarianism here.

I know, and from what President Truman himself has said of the police state, I feel sure he knows that its establishment here is the most deadly dangerous alternative we face.

Then why do it? Why start it, step by step?

We hear it argued that no one proposes a "full scale" police state. What foolishness! Who ever heard of "just a little smallpox?"

A Three-Fold Problem

Our problem is threefold:

(a) To reduce inflationary pressures on prices in this country, thereby making it possible—

(b) To maintain the standard of living of the American public, and thus assuring our ability

(c) To provide the necessary amount of aid to foreign nations.

There we have three simple, decent, necessary objectives. What's more, here are 12 things we must do to reach these objectives—a 12-point program of action.

Let's look at this program. And let's realize that if we're going to get out of the woods and reach our objectives, there's no "hop, skip and jump" route around the problem, simply because the answer may be politically, or otherwise unpopular.

We've got to take every step, courageously, with our eyes and our hearts fixed, regardless of selfish group or individual interests, on the national welfare.

And let's be practical about it. Americans are being asked to conserve, to economize and to buy only necessities so that we shall be able to feed and rehabilitate half or more of the world. And every American worthy of the name agrees. **But, that should go for government, too!**

To paraphrase a copy-book theme let's have some **official practising of official preaching!**

So, the first plank in NAM's platform deals with government fiscal policies. It is directed at excessive government spending as a major inflation factor. We recommend that:

Government spending should be reduced by maximum efficiency in administration; elimination of excessive government personnel and activities; and postponement of all government expenditures not immediately necessary.

After exhaustive consideration, our Association is convinced that the over-all Federal budget can be cut to $31 billion, even providing $4 billion for contingencies including international affairs and finance. This $31 billion also includes adequate provision for military needs on the basis of established national policy.

Second of our platform planks is a realistic approach to the problem of relieving the inflationary pressures on prices by revision of the Federal tax policy which drains away at its source the investment capital needed to expand existing industries, create new enterprises and thus make possible more and better goods at lower prices. Therefore we recommend that:

Funds for further capital investment should be provided by an immediate and substantial reduction of individual income tax rates.

Reduced Taxation Not Inflationary

Now let me emphasize that tax reduction is **NOT** inflationary. It simply means that you and millions of other Americans can spend your own money instead of handing it over to the government to spend for you.

NAM proposes that fair play be restored as a basic ingredient of taxation. That does not make it a "rich man's program," or "relief for the greedy at the expense of the needy." NAM believes that allowances for emergency personal expenditures such as large outlays for medical expenses should be liberalized. And Americans should have greater protection through income tax deductions for moderate amounts invested in life insurance. Actually under the NAM's plan, low income groups would receive the greatest amount of tax reduction —a minimum of 37% and ranging up to 60% reduction in their personal income taxes. It would work out, for example, so that a $2,500 a year man with a wife and two children would be required to pay, at the maximum, only 60 cents a week in Federal income taxes—the price of one movie a week.

But of even greater benefit to all people of moderate and small means, is the basic principle of **capital formation,** which we are fighting for.

During the tragic thirties we incurred a staggering deficit in the capital formation which is needed before any American can prosper. Prior to 1930 we had consistently plowed back one-fifth of our gross national product into the formation of new, job-creating, progress-making capital. On this proven basis of what it takes to create prosperous years, during the New Deal decade our deficit in capital formation amounted to **$125 billion.** Rich or poor, every American's future depends on our making up as much as we can of this loss to our economy, and in our reestablishing the 20% formula for future years.

Fair play across the board in taxes is imperative if there is to be enough capital to spark-plug the jobs and goods and lower prices that all Americans need. In the medium and upper income groups, from 60 to 80% of the amount saved from taxes can be relied on for creative investment. What this situation demands is statesmanship on the part of our national legislators as well as on the parts of management and labor.

The easiest way—the political—the demagogic way with an eye on the next national elections would be to give all the tax reductions to the $5,000 and under income bracket. There's where the votes lie. But it's about time that our government and our Congress gave some thought to the jobs, the goods, the higher standards these same people and their children will need tomorrow —it's time Washington gave some real thought to the formation of investment capital for the jobs, the goods and the prosperity and security of tomorrow.

Plan of Debt Redemption

The third plank in the program to fight the inflationary spiral calls for adoption of a **systematic plan for paying off the public debt providing for a minimum annual debt retirement of $2½ billion.**

This debt must be faithfully met, but it should not be used as an excuse for a tax level which crushes our power to produce payments. The debt now stands at $257 billion. When our government adopts a plan for applying a total annual sum equal to the present interest burden plus $2½ billion, and applies the same sum each year in the future (dividing it differently between interest and amortization each year, of course) the debt will be paid off in about 60 years.

By adopting such a systematic program for retirement of the debt held by banks, we will shrink the volume of buying power which today is bidding up prices of goods in short supply.

One of the most effective ways to reduce inflationary pressures on prices is to give people an inducement to save rather than spend. Accordingly, as the fourth of its 12 plans NAM recommends that:

A new long-term government bond issue having an interest bearing rate attractive to individual investors should be offered and vigorously promoted by the government, the proceeds to be used to retire government bonds held by banks.

Artificially low interest rates on Federal bonds lead to credit inflation. Today government securities are not sufficiently attractive to individual investors, and the banks are overloaded with them. By putting out a bond which is more attractive to individual investors, still further excess purchasing power would be removed from the competition for goods, and thus further relieve the upward pressure on prices.

Wants Uncontrolled Interest Rates

NAM's fifth plank to stem inflation deals with the vastly complicated problem of expanded bank credits and artificially fixed interest rates. In this field NAM proposes to:

Discourage inflationary expansion of bank credit by permitting interest rates to seek their own levels free of government domination.

At the risk of over-simplifying something that could be discussed for hours, we can agree that people will always borrow more money at 2% interest than they will at 6%. But for many years now the government has held down the interest rates and thus encouraged a greater demand for credit than could be justified. Our proposal is simply to allow interest rates to find their own level so that if too many people want to borrow, it will discourage those who should not get or do not really need the money.

The present system makes it possible for commercial banks to build up reserves and expand credit without any possible penalty. It serves as a constant incentive for banks to dump their bonds on the Federal Reserve System in order to increase their loans and discounts.

Up to this point we have been discussing those aspects of government policy which contribute to inflation. Management, too, bears a heavy responsibility. So, in our sixth proposal, we say that:

Management must redouble its efforts to increase production, lower unit costs, and pass on the benefits of such increased productivity to the public.

Management must never take the easy way out by assuming that any item of cost has reached rock bottom. If it really has reached rock bottom—blast the rock. We must fight this problem of production and distribution costs with modern scientific methods—with constant studies of every element that goes into cost —with constant research and experimentation to reduce unit costs.

As costs are lowered—through new methods, new equipment, new processes—any saving above an amount necessary to earn a reasonable return or investors should be passed on to the public in the form of price reductions. If we ever lose sight of the fact that we've got to satisfy our customers to stay in business—and if we ever lose sight of the fact that constantly more and better goods for less money is the job America pays free enterprise to do—then, gentlemen, we shall be on our way out.

Our seventh plank, designed to reduce prices, increase living standards and help us meet our international requirements is that:

There should be encouragement to business to plow back earnings

and increase output, through elimination of present U. S. Treasury pressure upon business to distribute at least 70% of its profits as dividends.

NAM does not ask for the repeal of that section of our tax law designed to prevent the withholding of earnings as a means for evading taxes. But we do recommend that the present pressure of the Treasury to force the paying out of at least 70% of all earnings be modified so that business will feel free to retain as much earnings as it finds can best be invested to increase output. A moderate dividend policy with a maximum of earnings going into plant investment should be the objective of all manufacturing business.

Cautions Against Renewed Wage Increases

Now, of course, labor has responsibilities too in this fight against inflation. As we see it:

Labor leaders should forego demands for further general increase in wages without a corresponding increase in productivity, except in cases of gross inequity.

Certainly by this time labor leaders should have learned that wage increases which are not paralleled by increases in worker output can have no other effect than to add to the cost, and thereby add to the selling price that workers have to pay for the goods they buy. Certainly if labor leaders will devote as much time and thought and energy to helping management increase output per worker and per machine as they have in the past to driving through uneconomic wage increases, the inevitable result will be a steady decrease in the cost of living and a steady increase in the real wages of American workers.

Management has much to learn too. The ideas, suggestions and problems of our employees and their spokesmen should never be ignored. This is no time—and there never was a time—for stiff-necked management.

And the ninth plank in this national effort toward a sound economy is one which we believe would contribute mightily toward balking inflation by increasing production. Here we say:

All restrictions on individual productivity not essential to the safety and health of employees and all feather-bedding rules should be set aside.

Restriction on productivity was a false theory hatched with that equally false notion of economic maturity in the late twenties. Restrictions on productivity were schemed up for the purpose of sharing work when there were more job hunters than there were jobs available.

We don't know how much feather-bedding and make-work have retarded the production we so desperately need at this time to keep living costs down. But we do know that the myth of economic maturity created a deficit of capital formation which amounts to $125 billion. I am convinced that if we could translate the equally cockeyed results of the feather-bed theory into the actual cost of living, we would find that every year it is extorting many billions of dollars in higher prices from the American people.

We have now covered, in the briefest possible fashion, nine of the 12 planks in a program, NAM believes will enable us to reduce inflationary pressures on prices here, maintain our American standard of living and fulfill our obligations to our stricken neighbors abroad.

At this very moment Congress is in special session wrestling with the knotty problem of what, how much, and where American aid shall be extended. And NAM has pronounced views here too.

Our tenth proposal is that:

Emergency foreign relief should be in goods, not in dollars, with an American relief agency making the necessary purchases of whatever goods in whatever markets, here or abroad, prove most economical and identifying them as provided by the United States.

The reasons for this recommendation are:

(a) There is only one kind of dollar available—the American taxpayer's dollar. But there is a wide variety of goods that will do the job of emergency relief. Goods in short supply should not be sent when their equivalent is available elsewhere in relative abundance. It seems incredible that with Americans being urged to conserve food and with millions abroad starving, potatoes should be left to rot when they could be dehydrated and substituted for scarce grains.

(b) Unless emergency foreign relief is handled by an American agency, we will have no check on whether the job which most needs doing is being done, and done well.

(c) Unless the agency buys relief goods wherever they are cheapest, the American taxpayer is twice penalized; once through unnecessarily high cost he pays for foreign relief, and again through unnecessarily forcing up the cost of the goods he buys for himself.

(d) Unless the ultimate recipients of our relief realize that America is supplying the aid, we will have no protection against relief goods being misrepresented as the donations of "philanthropic totalitarian"—God save the mark—governments. This is no imaginary danger. It has already happened. Many foreign beneficiaries of American relief still think that UNRRA is a Russian province. In connection with loans, gifts or grants to foreign countries, NAM, as the 11th plank in its program, believes: **To the greatest extent feasible, reconstruction loans to foreign countries, as distinct from gifts and grants, should be financed through the World Bank and private sources rather than out of taxes collected from the American public.**

We cannot too sharply differentiate, even in our own thinking between outright gifts to meet dire need, and reconstruction loans. And we should never take the shortsighted, slipshod way of thinking that foreign aid for reconstruction is a charitable operation. For the sake of our future relations with the countries to which such aid will be extended, we ought to develop a business-like method of doing this job. Dealings between friends can be put on a businesslike basis with mutual benefit. Whatever we can do in putting foreign reconstruction loans through either the World Bank or private banking sources will develop a much sounder basis for harmonious future relations with the countries involved.

It is unthinkable, of course, that NAM as the proponent of a free, individual enterprise economy at home would endorse the encouragement, at the expense of American taxpayers and consumers, of controlled economies elsewhere. So the 12th and final phase of our program urges that:

More Production Abroad

Maximum incentive for increased production abroad should be provided by requiring foreign nations, as a condition of our aid, to establish sound currencies and modify and eventually eliminate price control and other controls over the internal production and distribution of commodities.

Believing in fair incentives as we do, and able as we are to demonstrate the benefits of free private competitive enterprise, we are convinced that application of the basic principles of our economic system offers the brightest future for those countries which need our aid for reconstruction purposes. We believe anything—cartels, state monopolies or other controls—which interferes with the basic elements of free competitive enterprise will only retard and delay the reconstruction which we are so anxious to bring about.

Believing in our own system, we should certainly be most interested in giving aid for reconstruction to those countries which will make the best use of our aid. The decision is up to the individual country. But whatever that country decides will indicate pretty clearly how constructively it will use our aid.

NAM believes the 12 points just enumerated are fair and valid answers to the three great problems that we face. They are the direct route to the wholesome objectives we seek. They would nullify the Administration's proposal to establish a "police state" in America. They would assure maintenance of the standard of living of the American public, and would make possible a generous amount of aid to foreign nations.

As new countries such as America grow great—as small businesses such as ours grow big—associations such as the National Association of Manufacturers must assume new responsibilities. Then let's remember one thing. We Americans don't like to be kicked around by total states or total war or any other evil thing. We like to be our individual selves—free to earn a decent living, free to lead our own individual lives without let or hindrance.

This is not our personal eccentricity. All free men share these convictions.

Let us, then, here today, representing American manufacturing industry, declare to the American people our determination that, with their help and with God's blessing, America shall continue to be a land of free men, of free individual enterprise dedicated to the greatest good for the greatest number and an inspiration to freedom-seeking people everywhere.

Income Taxes from Investor's Veiwpoint

(Continued from page 11)

losses are treated together at 100%, and likewise the long-term at 50%. After the net short-term gains or losses and the net long-term gains or losses have been computed, they are combined. A net long-term gain or loss is added to a net short-term gain or loss. If one is a loss and the other a gain, the smaller is deducted from the larger (after taking any capital loss caryover into account) to get a final result.

If this result is a long-term capital gain (in excess of short-term losses) taxes are computed by the alternative methods of (1) inclusion in ordinary income, (2) considering capital gains separately, and the lower tax figure is paid. A net short-term gain is simply added to ordinary income. A net capital loss can be used to cut, by up to $1,000, ordinary income and any remainder can be carried over into the succeeding years up to five, wherein it can be used to offset gains, and $1,000 of ordinary income each year.

For those who have the type of ordinary income where a loss can be recorded, it is possible to absorb capital gains through such losses. It is also possible in some cases to hold ordinary income down (such as by deferring income and anticipating expenses) and use capital gains, which will result in a lower effective tax rate for those in the higher brackets.

Since short-term transactions are given full effect, whereas only 50% of long-term are taken into account, it is advantageous when possible to take losses in securities held for six months or less, and to register gains in those held for more than six months. When this can be done, it of course enables full deduction of losses, but addition of only half of gains.

The long-established rule must be remembered, that losses (it does not apply to gains) are not allowed for tax purposes if "substantially identical" securities have been acquired 30 days before or after the date of sale, a total of 61 days. A short sale, however, results in a gain or loss when covered by delivery of stock, and a recognized loss is not barred by the 30-day provision. It applies only on purchase within 30 days before or after the date of buying in to cover the short sale (not the date of the short sale). Incidentally, a Supreme Court decision this year killed the avoidance of the 30-day provision by having a wife or other close person in a family sell while the taxpayer bought back the same security, or vice versa.

Short selling also provides a means of postponing the recording of profits to next year. By selling short a security held, and keeping the security (selling "against the box") and then covering the short sale next year, the gain (or loss) will be included in next year's tax return. A short-term gain can, in effect, be converted into long-term by selling the security in question short and covering after six months have elapsed.

Effective Tax Rates Applicable to Profits on Security Sales in 1947†

Brackets of Income After Exemptions	*On Excess Over*	*Net—Short-Term*	*Net—Long-Term*
$ 2,000— 4,000	$ 2,000	20.90%	10.45%
4,000— 6,000	4,000	24.70	12.35
6,000— 8,000	6,000	28.50	14.25
8,000— 10,000	8,000	32.30	16.15
10,000— 12,000	10,000	36.10	18.05
12,000— 14,000	12,000	40.85	20.43
14,000— 16,000	14,000	44.65	22.33
16,000— 18,000	16,000	47.50	23.75
18,000— 20,000	18,000	50.35	25.00*
20,000— 22,000	20,000	53.20	25.00*
22,000— 26,000	22,000	56.05	25.00*
26,000— 32,000	26,000	58.90	25.00*
32,000— 38,000	32,000	61.75	25.00*
38,000— 44,000	38,000	65.55	25.00*
44,000— 50,000	44,000	68.40	25.00*
50,000— 60,000	50,000	71.25	25.00*
60,000— 70,000	60,000	70.10	25.00*
70,000— 80,000	70,000	76.95	25.00*
80,000— 90,000	80,000	79.80	25.00*
90,000—100,000	90,000	82.65	25.00*
100,000—150,000	100,000	84.55	25.00*
150,000—200,000	150,000	85.50	25.00*
Over 200,000	200,000	86.45	25.00*

†Combined normal tax and surtax after adjustment for 5% over-all reduction.

*Maximum rate of 25% applies to net long-term capital gains.

Adjusting to Prospects

The preceding comments deal with tax laws now and are more or less standard considerations under present conditions. The only consideration that is specifically different this time relates to the extremely likely prospects for tax reduction next year. Of the major items proposed, raising exemptions would have the least bearing on our present subject; the effect of lowering rates would depend largely on how it was done in the different brackets; and extension of the community property provisions would be important for higher brackets.

If the presumption of lower tax rates next year be accepted, it would first be advisable, other things being equal, to postpone taking profits until next year, when the effective rate would be lower. This of course would not be important to those who would probably be subject to the 25% effective maximum in any event.

On the other hand, it adds to the desirability of offsetting, by taking losses, any profits that might seem advisable, from the investment standpoint, to take this year, since if the taking of profits were postponed to next year, the effective rate (in a number of brackets) would presumably be less. The short-selling method of postponing profit realization could also be advantageously employed. It is of course, always a tax objective to offset gains as much as soundly possible.

There is of course no reason to postpone taking losses. Indeed, the presumption would be that losses now would be better than next year, since more taxes could be cancelled out for a given amount this year than next. However, there is no particular tax reason to accumulate a large loss carryover this year (though there might be investment reasons, depending largely on opinions as to future movements of security prices).

There seems no especial disadvantage in tempering tax action this year on the premise of lower taxes in 1948. Even if lower taxes are not realized, one is no worse off (other things being equal) with taxes left the same as this year.

Conclusion

With no change in the tax laws affecting individuals this year, the general course of action that taxpayers should take is the same as last year. Only about a month remains for action, and it is desirable to examine portfolios and transactions promptly to see what might be done to improve tax status. The great likelihood of lower taxes next year makes it advisable to adjust tax actions to this prospect—the principal feature being to consider postponing taking profits this year, where other reasons do not interfere, because profits may cost less taxwise in 1948, in view of reduction prospects.

After it has been decided what might be most desirable from the tax angle, the final test of soundness, as always, should be that no action taken would appear to represent more disadvantage from the investment (or appreciation) standpoint than the advantage apparently involved on a tax basis.

Elliott P. Woodruff With Paine, Webber Co.

(Special to THE FINANCIAL CHRONICLE)

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Wage and Price Restraints to Combat Inflation

(Continued from page 7

American diet — have been most alarming. Between May and September meats rose 21% and dairy products 14%. Between mid-June and mid-September pork prices rose 15%, beef and veal 11%, and lamb 8%. Only the unusually — and temporarily—heavy slaughtering of this fall checked the rise in meat prices. During the summer and early fall the price of eggs advanced seasonally by 29%, and storage stocks, greatly depleted, were less than half of normal. Butter prices rose 30%, bringing the average price by early fall to 92 cents a pound. On top of this, in October, there was a nationwide wave of increases of one to two cents a loaf in the price of bread—equivalent to 10 or 15%. It is true that there were a number of declines, either from seasonal influences or because of improved supplies, for example, canned goods, vegetable shortening, potatoes and oranges; but most of the declines were less than the seasonal expectations. As a consequence, the average city housewife who goes to buy food today must take nearly $21 to buy what $10 bought in 1939 and what less than $15 bought on V-J Day. Even as recently as 18 months ago the same food could have been bought for $15.

Farmers Are Not to Blame

Certainly the farmers are not to be blamed for the increases in the cost of food. They had no control over the weather—either in our corn belt or in the grain growing belts in the rest of the world. Nor can they, even if they all joined up to try, stop the rises in prices which come from the commodity market-speculation.

It is important to remember also that the burden of such large increases in food prices falls heaviest on those sections of our population who are least able to bear it. The low income groups—whether the families of the low-paid wage earners, or veterans and pensioners on small fixed allowances, or low-paid clerical workers — always spend a very large proportion of their incomes on food. When the price of bread increases they have to pay it. When the prices of milk and meat and butter increase they and their children simply consume less of these essential foods. This is nowhere more clearly seen than in the consumption of fluid milk, which has declined by 10% per capita since 1945 in the face of a price increase of almost 25%.

Nor can we be sure, in the absence of positive action as proposed by the President, that prices will level off — much less decline —next year. The outlook for food —as the Secretary of Agriculture has testified—is for rather shorter supplies and higher prices of grains and related livestock products next year than this. As long as American incomes remain high, and foreign demands for grain continue, there will be upward pressures on the prices of cereals, meats and dairy products. And if we should have a poor crop year in 1948, the effect on farm and food prices could be explosive.

Meanwhile non-agricultural prices continue to creep up month by month. The same speculation that has driven up grain and livestock prices has been at work on hides, raw cotton, scrap steel, and other basic raw materials. These are quickly reflected by rising prices of finished goods. There is no major segment of the price structure in which we can confidently expect declines in the near future. It is not alarmist, but sober fact, to say that only action by the government, at certain key points in the economy where supplies cannot quickly be increased, can prevent further substantial increases in prices and living costs. This action should be directed at selected commodities and specific price situations.

Rents

Rents, which have been rising about 1% a month, will rise much faster after February unless rent control is extended. Up to June, 1947, just before the amended Rent Control Act went into effect, there had been an over-all increase in rents charged for homes and apartments in American cities of nearly 5% from August, 1939. With the amendment of the Rent Control Act, rents began to rise and by September had advanced by another 4% from their June levels, making the total over-all increase from 1939 almost 9%. If there were a 15% increase in rents across the board, it is estimated that it would raise the consumers' price index of the Bureau of Labor Statistics by about 2%. This relatively small effect is due to the fact that prices of food have increased so much more than rents that food has now become a much more important proportion of family living costs. The shortage of housing for rent is so great that it is evident to all of us, I am sure, that if controls are removed, rents will increase by large amounts and very rapidly.

There has been much controversy over the relationship between rising wages and rising prices, particularly since V-J Day. The fact is that wage rates, between V-J Day and the middle of 1946, rose faster than prices. On the other hand, earnings of factory workers, which dropped so sharply after the reduction of working hours at the end of the war, had scarcely more than regained by the middle of 1946 what they lost at V-J Day.

During the war and postwar periods, profits have been ample, and there is no doubt that for the last 18 months prices — and profits — have risen consistently faster than wages. Wage increases, since the middle of 1946, have been in pursuit of a rising cost of living, and real wages have not regained what they lost in the decontrol period.

Prices Rising Faster Than Wages

The general level of prices has risen much faster and much farther than can be explained by increased wage costs. It is true that in some industries, especially those in which labor costs are a large fraction of total costs, wage increases have contributed directly to increased prices. On the other hand, even in such industries, prices in many cases have risen by more than the amount of the increased wage and material costs. Furthermore, some of the most spectacular price increases have occurred in those commodities in which wages are a negligible factor in direct costs, such as grains, livestock, hides, raw cotton, scrap steel. If prices had risen by no more than the amount necessary to cover increased wage costs, even leaving profits undiminished, the price level would be very much lower than it is now. And conversely, if wages had not risen at all since the middle of 1946, there is little doubt that the price level would have risen substantially, though less than it has.

Wage increases have been one —but by no means the only one—of the additions to current purchasing power which have provided fuel for the inflationary fire. Increased incomes of farmers have been another. Increased profits have been still another.

Price Legislation Required

The problem that confronts us now is to enact legislation which will stop the present price rise and will reduce the price level so as to make unnecessary demands for a compensating third round of wage increases.

If we are successful in checking the upward movement of prices and in lowering the costs of common foods, we shall have a basis for calling on labor voluntarily to withhold demands for further wage increases—at least temporarily—while we, as a nation, try to achieve a basis of stability. Labor has a vital stake in this endeavor. Inflation hits first at the living standards of the workingman, and the success of the President's program is indispensable to labor's welfare. The price increases of the last two years have brought home more clearly than ever before the futility of wage increases that are followed by price rises. It is my belief that labor will cooperate in this effort if given some real assurances that price rises will be checked. But I have little hope that organized labor will be able to keep from asking for sizable wage increases if such assurances are not given. There are already pressures for a third wage round, based upon the price increases of the last four months and the fear that prices will continue their upward trend. Once a few key wage increases are sought and obtained in a few basic organized industries, there is little likelihood of keeping them from spreading and assuming the proportions of a full third round. It is of first importance, therefore, that we have labor's full cooperation at the outset of this program. Labor cannot reasonably be asked, however, to bear a solitary burden in the anti-inflation effort, although it very properly should be asked to contribute its full share and to refrain from action which would upset the economy. The full variety of efforts which the President has outlined is necessary to provide the assurances which labor will require.

The pressure for a third round of wage increases can be offset in one way only: by prompt and firm action to reduce the cost of living, and particularly the cost of food, and to restrain further increases in other prices. It is essential that we check the rise in rents and that we bring down the price of common foods. The President's program is designed to provide the means for doing this, on the one hand by lessening the general inflationary pressures through control of credit and the maintenance of high government revenues; and on the other hand, by direct government action at those points in the price structure where it is required to bring prices down in the absence of adequate supplies.

Avoidance of further substantial general wage increases does not mean that we should freeze wages and salaries or deny increases to those groups who are the victims of well-recognized inequities in the wage structure There are some disadvantaged groups in both private and public employment, whose wages or salaries need to rise in order to provide them with the same real standard of living that they had before the war. Wages are still very low in many trade and service industries not subject to the Fair Labor Standards Act and in many branches of public employment. The employees of the Federal Government, whose pay has risen since the beginning of the war by only about half as much as the cost of living, are another example.

Restraint on Wages Should Be Voluntary

In general, any attempt to hold wages while we act to restrain and reduce prices must necessarily come by the voluntary and cooperative action of labor and management. This does not, as I have said, preclude adjustments to correct inequities. Nor does it preclude moderate adjustments which are clearly understood by management and labor to be made within the structure of existing prices: I believe that there are some situations where this may today be possible. Neither does it preclude the many kinds of agreements which labor and management may reach to pay increased earnings on increased productivity, or otherwise to adjust wages in ways that will not result in increased prices.

In fact, one of our objectives during this period should be to increase output by every available means. Our production record in the last year has been aided by a notable reduction of major labor disputes. This record should be continued and improved by encouraging the peaceful settlement of disputes and the adoption of sound industrial relations practices which will minimize sporadic interruptions of work. Production increases will have positive effects in relieving inflationary pressures as well as in permitting the kinds of wage increases which do not create price pressures. This will require labor and management cooperation of a very high order. My Department, wherever it can do so in connection with its established program, will be glad to offer its good offices in fostering this kind of cooperation.

Expects Voluntary Restraints

It is my belief that the stabilization of our economy in such a way as to avoid further price spiral as an essential part of the total program, can be achieved through voluntary restraint if the other parts of the program are carried forward. Even if it is decided to control prices of certain industrial products, directly rather than through allocations, I am of the belief that it may well be possible through voluntary action, assuming that the cost of living is held, to insure that wage costs are kept in line with the controlled prices in the same product lines. This will require constant and careful watching of the wage picture, both in the industries where prices are controlled, and in the key industries where nationwide wage movements begin It is my recommendation that, as the counterpart of such machinery as might be established to deal with price questions, there be established in the Department of Labor a wage board to watch and report on the course of companion wage questions. This board might be composed of government officials, of public members, or might well be tripartite and include representatives of labor, management, and the public. Such a board would also be of direct use to management and labor who are trying, on a voluntary basis, to maintain price-wage stability Such a board should be within the Department but should have the same independence that the Wage Stabilization Board had when it was in the Department.

There may be a handful of critical situations within the price-control industries where questions of wages will become crucial factors that cannot be solved by voluntary action alone. It is for this reason that the President has proposed authority to impose "such wage ceilings as are necessary to maintain the necessary price ceilings." This standard defines the area where controls may be necessary, and at the outset restricts their application to a very small segment of the economy. In view of the highly selective nature of the price controls proposed, and the fact that many of them will affect agricultural prices, it is unlikely that the need for wage controls would arise in more than a very few cases. Before compulsory authority is invoked, however, every effort should be made to exhaust voluntary methods. One of the functions of the board I have mentioned would be to avoid the imposition of controls by the exercise of foresight. Where it appears that controls might eventually be necessary, and long before they appear to be imminent, it would be the function of the board to take or propose measures to head them off.

Even where wage controls have to be used as a companion to price controls, this would not necessarily mean a wage freeze. Here again, there is room for adjustment of inequities in the process of establishing both wage and price levels. Any action that is likely to be taken in controlling wages—in the few cases than can be envisaged at this time—would have to be taken on a case by case basis. For this reason, it is neither essential nor possible to plan in detail the kind of administrative machinery that will be needed. It may be that the wage board which I have mentioned would be a suitable body to entrust with the administration of any necessary controls. It may well be, however, that the few cases which arise will each be so unique that it will be best to handle them by special means, such as the creation of individual wage boards or wage-price boards whose function it would be to achieve settlements or to make recommendations. Even in these cases, voluntary action will play an important role, since there has been no request for authority to order wage settlements in the absence of labor-management agreement.

I have given my views concerning the accelerated use of voluntary methods to maintain a proper price-wage relationship in the anti-inflation program. I have also discussed the need for authority for the imposition of wage controls which are essential to maintain price ceilings which may be placed in effect. I am hopeful that in this field the use of voluntary methods may be a sufficient answer. The urgency of the situation, however, is such that I believe authority should be granted to take involuntary action if such controls should be necessary.

From Washington Ahead of the News

(Continued from page 7)

chief justice of the State, a man of an illustrious family and an illustrious career of his own. Seemingly the only person that thought Taft could win was his wife, Martha. Together they toured the State denouncing John L. Lewis and his CIO when both were at the height of their popularity. It made the orthodox politicians shudder. But Bob turned up with some 400,000 votes to the good and subsequently won the election by about the same size.

The reporters who accompanied him on his recent trip to the West Coast agree that he helped the party tremendously but some of them express doubt that he helped himself. I don't see how this could be possible. It is but a part of the propaganda that although he is able, honest and courageous, he can't because of these virtues, be President.

The plain facts are that Truman and the New Dealers are more afraid of him than they are of any other candidate. That is the reason they are working so assiduously to kill him off. He would, to my mind, devastate Truman in the campaign.

I am sure I don't know whether he will get the nomination. But I am quite convinced it is not going to profit the Republicans to run from him. If they turn him down because of CIO pickets, which there will undoubtedly be around his headquarters at Philadelphia, or because of his record, his inescapable Republican sense, they may as well not make the campaign. Those who are most cunningly saying they hope the Republicans will not commit suicide and nominate him, do not intend to vote Republican under any circumstances. They are not well wishers of the Republican party at all.

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)	Dec. 7	97.7	96.3	96.1	60.2
Equivalent to—					
Steel ingots and castings produced (net tons)	Dec. 7	1,710,000	1,685,200	1,681,700	1,061,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Nov. 22	5,275,000	5,257,100	5,295,350	4,809,650
Crude runs to stills—daily average (bbls.)	Nov. 22	5,229,000	5,229,000	5,165,000	4,612,000
Gasoline output (bbls.)	Nov. 22	16,138,000	16,086,000	16,529,000	15,188,000
Kerosine output (bbls.)	Nov. 22	2,192,000	2,107,000	2,050,000	1,896,000
Gas oil and distillate fuel oil output (bbls.)	Nov. 22	6,574,000	6,159,000	6,638,000	5,691,000
Residual fuel oil output (bbls.)	Nov. 22	8,447,000	8,556,000	8,666,000	7,872,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Nov. 22	84,777,000	83,041,000	82,003,000	87,620,000
Kerosine (bbls.) at	Nov. 22	21,218,000	21,473,000	23,014,000	21,038,000
Gas oil and distillate fuel oil (bbls.) at	Nov. 22	62,646,000	63,283,000	62,609,000	68,646,000
Residual fuel oil (bbls.) at	Nov. 22	56,774,000	57,827,000	57,419,000	59,744,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Nov. 22	902,672	878,337	954,627	806,593
Revenue freight rec'd from connections (number of cars)	Nov. 22	733,139	714,848	742,077	681,354
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Nov. 27	$116,802,000	$100,930,000	$82,237,000	$32,574,000
Private construction	Nov. 27	49,693,000	54,084,000	33,509,000	20,835,000
Public construction	Nov. 27	67,109,000	46,846,000	48,728,000	11,739,000
State and municipal	Nov. 27	55,680,000	42,655,000	44,894,000	7,572,000
Federal	Nov. 27	11,429,000	4,191,000	3,834,000	4,167,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Nov. 22	12,900,000	12,600,000	12,635,000	6,519,000
Pennsylvania anthracite (tons)	Nov. 22	1,213,000	1,097,000	1,230,000	1,187,000
Beehive coke (tons)	Nov. 22	132,200	*123,800	132,200	84,000
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Nov. 22	394	380	306	363
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Nov. 29	4,983,439	5,180,496	5,009,286	4,448,193
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Nov. 27	72	79	70	24
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Nov. 25	3.18925c	3.18925c	3.18925c	2.70711c
Pig iron (per gross ton)	Nov. 25	$36.96	$36.96	$36.96	$28.13
Scrap steel (per gross ton)	Nov. 25	$40.58	$41.25	$42.58	$25.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Nov. 26	21.200c	21.200c	21.200c	19.275c
Export refinery at	Nov. 26	21.550c	21.500c	21.425c	17.025c
Straits tin (New York) at	Nov. 26	80.000c	80.000c	80.000c	70.000c
Lead (New York) at	Nov. 26	15.000c	15.000c	15.000c	11.300c
Lead (St. Louis) at	Nov. 26	14.800c	14.800c	14.800c	11.650c
Zinc (East St. Louis) at	Nov. 26	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 2	101.87	101.89	102.71	103.16
Average corporate	Dec. 2	111.62	112.19	113.50	116.22
Aaa	Dec. 2	116.61	117.00	118.60	120.84
Aa	Dec. 2	114.85	115.04	116.80	119.00
A	Dec. 2	111.62	112.37	113.31	116.02
Baa	Dec. 2	104.31	105.00	105.86	109.60
Railroad Group	Dec. 2	105.74	107.09	108.16	111.31
Public Utilities Group	Dec. 2	113.50	113.89	115.24	117.60
Industrials Group	Dec. 2	115.04	115.63	117.40	119.61
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 2	2.37	2.37	2.32	2.29
Average corporate	Dec. 2	3.08	3.05	2.98	2.84
Aaa	Dec. 2	2.82	2.80	2.72	2.61
Aa	Dec. 2	2.91	2.90	2.81	2.70
A	Dec. 2	3.08	3.04	2.99	2.85
Baa	Dec. 2	3.49	3.45	3.40	3.19
Railroad Group	Dec. 2	3.35	3.33	3.27	3.07
Public Utilities Group	Dec. 2	2.98	2.96	2.89	2.77
Industrials Group	Dec. 2	2.90	2.87	2.78	2.67
MOODY'S COMMODITY INDEX	Dec. 2	456.7	455.7	444.1	374.7
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Nov. 29	235.3	233.6	228.7	216.9
Fats and oils	Nov. 29	287.6	282.2	235.5	273.5
Farm products	Nov. 29	268.6	261.2	256.7	235.1
Cotton	Nov. 29	336.6	324.8	306.4	295.2
Grains	Nov. 29	311.8	304.5	288.2	205.2
Livestock	Nov. 29	252.1	245.1	246.5	240.9
Fuels	Nov. 29	198.2	198.2	195.0	156.9
Miscellaneous commodities	Nov. 29	179.4	177.9	172.9	162.8
Textiles	Nov. 29	223.1	221.1	217.0	210.4
Metals	Nov. 29	159.4	159.4	159.6	136.4
Building materials	Nov. 29	236.4	235.4	232.6	207.0
Chemicals and drugs	Nov. 29	157.1	157.1	154.5	152.8
Fertilizer materials	Nov. 29	136.8	136.7	135.5	122.4
Fertilizers	Nov. 29	140.6	*140.6	136.9	125.6
Farm machinery	Nov. 29	129.3	128.3	128.3	116.7
All groups combined	Nov. 29	218.1	215.9	212.0	192.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Nov. 22	165,882	154,639	169,061	145,507
Production (tons)	Nov. 22	182,964	182,686	182,173	170,532
Percentage of activity	Nov. 22	102	101	101	100
Unfilled orders (tons) at	Nov. 22	418,582	436,819	431,860	554,982
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Nov. 28	151.0	150.7	147.9	150.3
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Nov. 22	159.2	158.5	158.0	137.3
Farm products	Nov. 22	188.6	186.9	190.7	172.1
Foods	Nov. 22	178.8	178.0	176.2	165.0
Hides and leather products	Nov. 22	200.4	199.6	191.3	158.6
Textile products	Nov. 22	144.0	142.9	142.1	129.6
Fuel and lighting materials	Nov. 22	118.7	118.7	117.4	94.9
Metal and metal products	Nov. 22	151.3	151.3	151.3	117.2
Building materials	Nov. 22	186.1	185.3	184.4	142.0
Chemicals and allied products	Nov. 22	136.5	131.3	126.9	123.1
Housefurnishings goods	Nov. 22	134.7	133.5	132.9	118.0
Miscellaneous commodities	Nov. 22	118.1	118.1	117.1	106.1
Special groups—					
Raw materials	Nov. 22	176.7	175.8	177.0	155.3
Semi-manufactured articles	Nov. 22	156.1	155.4	154.1	128.2
Manufactured products	Nov. 22	152.2	151.7	150.6	131.1
All commodities other than farm products	Nov. 22	152.7	152.3	150.9	129.7
All commodities other than farm products and foods	Nov. 22	142.0	141.5	140.2	116.9

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of October	7,564,302	*6,788,642	6,951,742
Shipments of steel products, including alloy and stainless (net tons)—Month of Sept.	5,116,839	5,278,223	4,994,377
AMERICAN ZINC INSTITUTE, INC.—Month of October:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	71,745	*67,867	64,138
Shipments (tons of 2,000 lbs.)	69,751	*92,549	73,915
Stock at end of period (tons)	138,568	*136,574	220,384
Unfilled orders at end of period (tons)	49,361	38,041	52,694
BANK DEBITS—BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of October (in thousands)	$105,320,000	$91,889,000	$91,340,000
BANKERS DOLLAR ACCEPTANCES OUTSTANDING — FED. RESERVE BANK OF NEW YORK—As of Oct. 31:			
Imports	$144,466,000	$140,078,000	$154,203,000
Exports	54,335,000	41,940,000	18,195,000
Domestic shipments	8,977,000	9,210,000	10,216,000
Domestic warehouse credits	14,444,000	14,352,000	12,292,000
Dollar exchange	4,100,000	2,100,000	724,000
Based on goods stored and shipped between foreign countries	10,339,000	11,260,000	8,212,000
Total	$236,661,000	$218,940,000	$203,842,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of October (in millions):			
Total construction	$1,459	*$1,464	$1,243
New construction	1,252	*1,259	1,070
Private construction	958	*957	786
Residential building (nonfarm)	500	*485	347
Nonresidential building (nonfarm)	281	*275	318
Industrial	138	*140	171
Commercial	88	82	93
All other	55	53	54
Farm construction	50	65	40
Public utilities	127	*132	83
Public construction	294	*302	284
Residential building	9	9	66
Nonresidential building (except military and naval facilities)	43	*45	32
Industrial	1	*1	9
All other	42	*44	23
Military and naval facilities	19	*21	20
Highways	140	140	99
Sewer and water	27	27	24
Conservation and development	39	*40	30
All other public	17	*20	11
Minor building repairs	207	*205	173
Residential building (nonfarm)	65	*70	47
Nonresidential building (nonfarm)	70	70	66
Farm	72	65	60
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of October:			
Manufacturing number	98	101	60
Wholesale number	55	40	17
Retail number	129	103	21
Construction number	25	20	14
Commercial service number	29	28	11
Total number	336	292	123
Manufacturing liabilities	$13,337,000	$5,964,000	$4,975,000
Wholesale liabilities	2,321,000	1,407,000	426,000
Retail liabilities	2,289,000	1,390,000	352,000
Construction liabilities	2,301,000	444,000	500,000
Commercial service liabilities	1,074,000	829,000	147,000
Total liabilities	$21,322,000	$10,034,000	$6,400,000
COMMERCIAL PAPER OUTSTANDING — FEDERAL RESERVE BANK OF NEW YORK—			
As of October 31	$283,000,000	$242,000,000	$202,000,000
COTTON ACREAGE AND PRODUCTION—U. S. DEPT. OF AGRICULTURE—As of Nov. 1:			
Acreage	21,143,000	21,143,000	-------
Production, bales lint	11,505,000	11,508,000	8,640,000
COTTON GINNING (DEPT. OF COMMERCE)—			
Prior to Nov. 1:			
Running bales	8,361,685	6,767,485	5,726,145
COTTON AND LINTERS — DEPT. OF COMMERCE — RUNNING BALES—			
Lint—Consumed Month of October	826,216	727,448	933,615
In consuming establishment as of Oct. 31	1,479,136	1,137,516	2,019,236
In public storage as of Oct. 31	5,101,358	2,583,306	5,913,270
Linters—Consumed Month of October	103,116	90,926	79,547
In consuming establishments as of Oct. 31	142,817	127,766	158,352
In public storage as of Oct. 31	67,052	53,491	46,018
Cotton spindles active as of Oct. 31	21,563,000	21,410,000	21,773,000
COTTON SEED — DEPT. OF COMMERCE—			
Received at mills (tons) Aug. 1 to Oct. 31	2,452,918	943,425	1,633,191
Crushed (tons) Aug. 1 to Oct. 31	1,094,707	447,489	834,451
Stock (tons) Oct. 31	1,457,739	594,275	916,546
INTERSTATE COMMERCE COMMISSION —			
Index of Railway Employment at middle of October 1935-39 Average=100	†133.2	†133.7	134.9
RETAIL FOOD PRICE INDEX IN LARGE CITIES — U. S. DEPT. OF LABOR — 1935-1939=100 — As of August 15:			
All foods	196.5	193.1	171.2
Cereals & bakery products	155.7	155.0	135.4
Meats, poultry & fish	228.4	220.2	186.6
Meats	229.8	219.6	181.7
Beef and veal	230.5	220.8	160.8
Pork	229.3	216.4	182.4
Lamb	232.1	228.6	189.5
Chickens	180.5	181.9	175.2
Fish, fresh and canned	262.4	260.6	237.6
Dairy products	183.8	178.8	180.1
Eggs	212.3	203.0	173.6
Fruits and vegetables	199.8	202.0	178.3
Fresh	202.1	204.2	185.8
Canned	165.7	168.5	140.7
Dried	263.4	263.6	183.0
Beverages	181.7	180.8	126.6
Fats and oils	178.5	182.0	180.3
Sugar and sweets	179.8	179.7	140.3
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of October:			
Net sales	$14,128,500	$123,096,300	$122,054,250
Net purchases	-------	-------	-------

*Revised figure. †Preliminary figure.

More Production and Government Economy to Offset Spiraling Prices

(Continued from page 3)

cuss how we reached the present situation of high prices when all the Administration economic experts predicted a collapse after the end of the war, serious unemployment and lower prices. Some time ago in San Francisco, I pointed out that in my opinion it is the inevitable result of the policies pursued by our government. The policy of deficit spending which reached $50 billion a year during the war, increased tremendously the amount of currency, deposits and "E" bonds available for spending to meet our needs deferred by the war. The OPA deliberately held down prices while it let wages rise, creating a false relationship by 1945 when wage rates of factory workers had gone up 56% compared to 30% in the cost of living. This relationship created by inflation and deficits, the wage earners have naturally attempted to maintain. Prices have constantly had to chase wages, to make production possible at all. This policy was accentuated after the war when the Administration adopted the curious theory that wages could be generally increased on top of the condition created by the OPA, without further increase in prices. This theory was disproved almost at once, but it started the upward spiral.

The maintenance of high government expenses reflected in high taxes has also been an important factor in raising prices. When taxes are as heavy as they are today, they are passed on into the cost and the price of every article that is purchased by the consumer.

If the removal of price control took place too soon, then it is clearly due to the President's own action in vetoing a perfectly adequate price control bill, and then himself removing all price control before the Congress met in January, 1947.

The real question is not so much past history as present policy. I have no confidence in any proposed remedy of restoring price ceilings. If the underlying conditions create a demand in excess of supply at the fixed price, I don't believe price fixing in peacetime will prevent a black market or prevent prices reaching their natural level. Even if it were successful, it would tend to increase demand and decrease supply, creating new shortages and furnishing no ultimate solution. Whatever we do ought to be directed toward increased production and at least a temporary decrease of demand. I was for price control during the war, because there was no possibility of reaching a balance when the government was purchasing a hundred billion dollars of goods for the war. But certainly today, we must be fairly close to a proper balance between production and purchasing power.

Current wages and other income such as profits and return on capital, represent roughly the value of the goods and services produced by those who receive the income and so should be in reasonable balance. In fact if there is a normal amount of saving production ought to be more than adequate. But there are many other sources of purchasing power than current wages and income. The factors which seem to upset the balance by creating unbalanced purchasing power, are the following:

(1) Accumulated savings in cash, deposits and "E" bonds. There seems to be no net decrease in the total net amount of such savings, but probably money and bonds saved during the war are being spent by many lower income families thus reducing the amount of total savings of all families. Therefore, savings are less than would be normal in times of such prosperity as we have today.

(2) Increase in bank loans now proceeding at the rate of $5 billion a year. Of course if we are to increase production, and keep business going with the increased costs of inventories and replacement, this increase in bank loans cannot be completely checked. This dilemma faces us in every effort to control prices, and yet surely the increase should be restrained.

(3) Increase in mortgages on new homes estimated to be about $5 billion a year. To a certain extent this comes from new savings, but not entirely. This increase is deliberately stimulated by government guarantees amounting to from 90% to 100% of the cost. Again, the program cannot be abandoned, but it could be placed on a sounder basis.

(4) Increase in consumer credit. installment buying, amounting from $1 to $2 billion a year.

(5) Exports of $11 billion more of goods and services than we import. About $6 billion of this surplus is clearly inflationary since it rises out of various kinds of foreign credit from the Bretton Woods Fund and Bank, and from the dollars accumulated abroad through lend-lease or war trading. These dollars are now coming back to compete for our short supply of many types of goods, without providing any imports to be purchased by our people. The other $5 billion is covered by taxes, but still provides purchasing power which competes for goods in short supply here and thus raises prices.

(6) The tremendous cost of government in this country with the corresponding burden of taxation which is largely passed on by the taxpayer, reflected in the general cost of commodities and added to the price of practically everything we buy.

If we really wish to stop the rise of prices, we should consider how we can best meet these fundamental causes. We can't meet these causes by any panacea of fixed prices and rationing and a controlled economy. We can't have our cake and eat it too. If we don't want high prices, we, and our government, will have to spend less. We can't build new houses for everyone who wants them. We can't export many billions more than we import. We can't spend too much borrowed money. If we don't want to sacrifice any of these pleasant, and politically advantageous, activities then we had better face the fact that we will have high prices.

Suggested Remedies

Certainly I do not have any stock solution of remedies, but I suggest that the following fields should be carefully explored in every case. Remedies which appear effective on the surface may be too drastic, or may interfere with the production which we ultimately wish to attain, but certainly none of them can be ignored:

(1) Conduct a campaign to secure an increased productivity per man from all workmen, both through the improvement of methods and machinery by management and better individual work by the men. Certainly, if further wage increases are granted, they may well be conditioned on a more complete day's work.

(2) Cut government expenses and activity with a corresponding reduction in taxes.

(3) Limit our exports particularly to countries outside of Western Europe so that they are largely balanced by imports, and limit our assistance to foreign nations to specific fields which we know can be effective.

(4) Restrain the increase of bank credit, either by the traditional methods, or by Mr. Eccles' proposal for increased reserves in short-term government bonds, as may be determined to be most sound.

(5) Reduce the percentage of government guarantee on housing loans.

(6) Impose some limit on consumer credit.

(7) Carry on a campaign to discourage spending and encourage saving. The Secretary of the Treasury has excellent plans for the sale of more "E" bonds, but the campaign should include saving in all directions, and particularly the reduction of the purchase of scarce foods by those who can afford to waste less and eat less. Only let it be carefully thought out and made reasonable to the people and the trades.

(8) Carry out the obligation to support prices with discretion, and only to the extent required to keep our promise to the farmers.

Administration's Proposals Ineffective

Up to this time the Administration proposals to prevent further price increase do not seem to hit any vital spot. They are demanding indefinite power to impose controls of all kinds, but avoiding the fundamental actions which might really reduce prices. Surely, after the experience with OPA in the postwar period, a complete reliance by the Administration on a return to controls at least raises the question whether it is in good faith in its denunciation of high prices. Up to this time the government officials themselves have disagreed on nearly every important proposal. Is it possible that they would like to see the present condition continue until after the November election in order that there may not be the slightest chance of a falling off in the boom so favorable to anyone in power?

Take the subjects which I have discussed. There has been no suggestion that labor might be more productive. The suggestion that we limit exports, which has always been in the power of the Administration, has been completely discouraged by Mr. Harriman's testimony last week, and by the submission of a greatly increased program for shipments to Western Europe.

With regard to the increase in bank loans, Mr. Eccles submits an elaborate plan for increased reserves which meets the universal disapproval of bankers, and is opposed apparently by Mr. Snyder, Secretary of the Treasury. In the meantime, the government refuses to use the orthodox methods against inflation, by increasing the rediscount rate and selling some of the Federal Reserve System's bonds on the open market.

Mr. Eccles agrees completely with my proposal that a program to prevent inflation means the cutting of government expenses. He said: "It means rigid government economy. It means deferment of all expenditures—Federal, State or local, to the greatest extent consistent with public obligations at home and abroad. . . . This means the greatest possible economy in all government expenditures." But the President has fought bitterly every effort to cut any item of his budget, and we now read in the papers that next year's budget is to be $40 billion, $2 or $3 billion in excess of this year's budget.

The government fully agrees with the general idea of a campaign to encourage saving by others than the government but up to date there has been no official warning against our general spending, and the campaign to save food was so poorly organized that we must almost question its good faith now that it has collapsed.

Mr. Eccles says that the increase of housing credit guaranteed by the government is a serious danger, but Mr. Harriman says that the necessity for a continued housing program is so great that no change should be made.

With regard to the support price program, while I think it has not had a tremendous effect under present conditions and must be continued to keep our promises to the farmer, certainly the Department of Agriculture up to this time has gone out of its way to indicate a desire to maintain farm prices at a high level, and the bureaus lower down seem to have no conception of the danger of overdoing these prices. They begin to buy before the price reaches the level fixed. I could find no indication in their testimony that they would cooperate in any general effort to lower meat prices as of today.

Except for the saving campaign and the proposed limit on consumer credit which amounts to about 5% of the increase in total credit, the Administration has apparently no interest in the fundamental causes of the present situation. Congress will certainly consider their proposals to restore Regulation W on consumer credit and larger appropriations to conduct a proper saving campaign. Congress will furthermore consider most seriously the question of power to fix margins on commodity exchanges, although the evidence to date shows that such margins have no long term effect on commodity prices.

The Administration policy today is to leave all the fundamental reasons alone, particularly if they happen to interfere with some favored policy or special interest, and put their whole cause on a restoration of a planned economy to restrain the prices which other policies cause to rise They want full power to allocate commodities, to regulate their use, to fix prices and to ration consumers goods. These are police state methods abandoned by themselves before the end of 1946 because they were so ineffective and unpopular. There is a good deal of talk of limited control, but the authority requested by the President and Mr. Harriman is unlimited authority with the statement that they will only use that authority to a limited degree.

Limited Controls Require Complete Controls

I do not say it is absolutely impossible to regulate one commodity without extending controls to all. Every experience we have had, however, shows that controls of this kind are closely interrelated—that you cannot regulate grain without regulating meat, you cannot regulate meat without regulating chickens and eggs and dairy products. You cannot well regulate steel without regulating the hundreds of industries that depend on steel. We face the issue of returning to a controlled economy, the same kind of economy which exists in nearly every other country in the world. It is an issue greater than that of high prices.

From an economic standpoint, it is not a remedy, although it might hold prices back at least on the surface for a few months. If it were effective, however, it would choke production instead of increasing it and our ultimate solution must be more production to give people what they need at reasonable prices. Certainly, price control has not increased production in any foreign country. It has had the opposite effect. Here in America we saw how under OPA controls, many important products disappeared from the market. There was no butter, no meat, no soap or canned goods, no white shirts or new suits, no leather and no shoes. There was no lumber or any other building materials, and none of them came back in sufficient quantity until we got rid of OPA. By price control you increase every shortage, necessarily because you increase the demand. When prices are held too rigid, you also decrease production.

Furthermore, no matter how well price control might work in theory, there isn't anybody in the world who knows enough to do it right in a country the size of the United States. There isn't any evidence that the government can distribute better than the natural laws of supply and demand.

Finally, price controls won't work in the United States. In time of war a certain morale develops which makes it possible to retain control. I served with Hoover in the World War, and he relied almost entirely on that morale. I was always convinced then that we couldn't have done the same job in time of peace. Certainly that was our experience with the OPA after the war. Whenever the economic price of any agricultural commodity was above the OPA price, the commodity went into the black market to seek the natural level of prices. The American people don't like to be regimented and they don't like to be ordered around by Federal officials. There was no regret when OPA closed down and free production started. No, the remedy for present conditions in America does not lie in price control. It lies in saving and restraint. It lies in sound government fiscal policy. It lies in more production and every incentive to more production.

And with modifications the remedy for world conditions lies in more freedom and less government attempts to restrain.

Even more than that, I believe most strongly that a peaceful and prosperous world can only be based ultimately on individual freedom. In time of war that freedom must be surrendered. But if we admit that it must be surrendered in time of peace for some peacetime emergency, we will never find the time when that emergency does not exist. If we once admit that in peacetime we must surrender individual liberty, then it will never return. This country is today the bulwark of the principles of liberty. If we abandon them, the whole world must follow.

The reason this country has a surplus of food to ship in such tremendous amount today is that we have pursued a system based on personal and economic liberty. If we go back to government restrictions, the time will come when there won't be any surplus to ship abroad. Our European friends can point out that by strict rationing we could save more food for foreign shipment. That might be so this year, but in the end if accomplished by compulsory controls we would be subject to the same paralysis of initiative which exists in 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.

The advocates of a planned economy have had their day. They have made a complete failure throughout the world, except in some closely confined areas. Certainly, the government can greatly improve any condition by sound policy, but it cannot improve those conditions by a detailed attempt to regulate millions of transactions throughout vast areas.

A return to OPA means an end to economic freedom. An end of economic freedom in time of peace leads to the end of political freedom. Surely we should not turn now to the methods that have failed in every nation which has adopted them. Surely, we should not abandon now all of the principles of liberty which have made this country today the envy of the world.

Current Problems in Depreciation Accounting

(Continued from page 9)

cations to operations of the cost of depreciable assets. Where are these net assets shown on the balance sheet? Some of them may be reflected in the fixed asset accounts on account of additions; some of them may be reflected in any or all of the current asset accounts; and some of them may be reflected by a decrease in liability accounts.

Effect on Presenting Current Condition

If there is an accumulation of current assets in a business, resulting from the charges for depreciation, which are awaiting investment in replacements, it is quite possible that a wrong impression regarding the current position of the company is given. The years 1942-1945 are good illustrations of this possibility.

We keep liability accounts and equity capital accounts in order to show where all of the assets come from, or to show the creditor and stockholder equities in those assets. If some of the creditors' or stockholders' capital which was originally invested in depreciable fixed assets has been recovered through the charges as provision for depreciation, and retained in the business in the form of gross or net assets, why shouldn't the Reserve for Depreciation be shown on the liability or accountability side of the balance sheet, to show the amount of assets, net or gross, which are presently in the business because of the recovery and retention of some of the capital originally invested in the depreciable assets? Rarely are all the assets that are recovered as part of the cost of the original capital invested in depreciable assets reinvested in additional fixed assets. Large amounts of such recoveries flow into other assets, and it would seem to reflect these facts more clearly if the Reserve for Depreciation was shown on the so-called liability side of the balance sheet with the other accounts which reflect the source of equities in, or claims upon the assets. If anyone wants to determine the portion of the capital invested in depreciable assets which has not been recovered up to date through charges as provision for depreciation, it is a simple matter to subtract the balance of the Reserve for Depreciation account from the cost of the depreciable assets to obtain this figure.

One of the frequent questions asked by business analysts relates to management's policy in regard to the reinvestment of the net assets resulting from the allocation to operations of the provision for depreciation. They want to know the ratio of the periodic charge to the amount invested in new capital additions. I have never seen the Reserve for Depreciation broken down on the balance sheet to show the disposition of the corresponding assets, but I wonder if the balance sheet wouldn't be far more valuable if some of these facts were disclosed on the face of this statement. Certainly it is worth thinking about, particularly today when the financial statements have such a broad circulation.

Financial statements are now sent to investors, employees, and in many cases to the public at large, but we have failed and are still failing to put across the message which these statements should convey. Admittedly, accountants and people with accounting training understand these and can interpret them, but many of those for whom they were prepared do not comprehend them. Accountants should attempt to talk the language of their audience, rather than try to get the audience to understand the accountant's language.

Now, let us consider the second part of my subject, namely, current problems of depreciation accounting. Limitations of time make it necessary for me to confine my discussion to the three of these problems which I consider most important.

The first of these problems is the current agitation for the current charge as provision for depreciation to be based on replacement costs rather than on original cost. This is not a new idea, as it has been re-agitated in my own memory every time that there has been an increase in prices; and it sinks into oblivion every time there is a price recession.

Fundamentally, this involves the question of whether depreciation accounting should be based on the dollar as a fixed unit of measurement, i.e. the dollar cost, or upon the continuously varying purchasing power of the dollar. Under this latter theory the capital to be recovered by the depreciation policy would not be the original cost of the asset but the cost of the replacement of the asset at the end of its service life. All this would do, in my opinion, is to put one more guess or variable into the determination of the current charge to be allocated to the operations of each period. It would remove from such calculation the only known present factor, the cost at date of acquisition, and would substitute therefor a prophecy as to future cost, which could be just as wrong on the up side as on the down side.

To realize the practical absurdities connected with such a theory, take a look at the variations of the purchasing power of the dollar for the past 40 years; or, to bring it within the memory of most of us, let us look at these variations since 1929. The National Industrial Conference Board released recently a chart showing the purchasing value of the dollar in the United States from 1929 to 1947. The 1935 to 1939 dollar was used as 100 in this chart. In 1929 a dollar spent for construction would have a purchasing power of 108 of the 1935-1939 dollar; the dollar spent in 1932 a purchasing power of about 140 of the base; the dollar spent in 1940 a purchasing power of about 90 of the base; and a dollar spent in September, 1947, has been reduced in purchasing power to only 53 cents.

Is there any living individual who can predict today, with all the economic, political, and social complications that exist, what the 1935-1939 dollar will purchase in 1952?

I believe, with all deference to those who hold otherwise, that it is the accountant's responsibility to recover during the service life of the depreciable assets the original cost of such assets measured by our unit of measurement of values, the dollar, irrespective of its purchasing power. Stated in other words, I believe that it is the accountant's duty to recover during the useful life of the depreciable assets the same number of dollars as were originally invested in such assets, and it is the obligation of the financial officer, if those dollars are not sufficient to replace the assets, to have provided through retention of profits or to provide through other ways the additional capital required to replace the assets.

I like the heading used in the October issue of the "Journal of Accountancy," in reprinting the special statement by the Committee on Accounting Procedure, A. I. A. on this subject— "Appropriation, Not Charges, Recommended to Cover Inflated Replacement Cost." In connection with this subject, I would refer you to that statement, reprinted on pages 289-290 of the "Journal of Accountancy."

Determination of Periodic Charge

The second current problem relating to depreciation accounting is the determination of the periodic charge for depreciation to be allocated to operations in the case of new assets constructed or purchased at the prevailing high prices. In order that the provision for depreciation on these high cost assets may not be a burden on the more remote future years, it is suggested that greater provision for depreciation be made in early years of the life of the assets, so that a considerable portion of the excess cost of the depreciable assets may be allocated to operations during the prevailing high prices.

To accomplish this objective, the declining-balance method of calculating the periodic provision for depreciation could be used, or some arbitrary write-off of the abnormal costs over a relatively few years would accomplish this same result. The declining-balance method has been given some support by the Treasury Department, but it is doubtful if the write-off of abnormal costs would be allowable for tax purposes.

The matter of spreading the cost of depreciable assets over the estimated life of those assets is one of depreciation policy, and I know of no good reason why this policy need be immutable. Under present conditions of known high business activity, I can see some very convincing reasons why it is not only good business but also good accounting to allocate a larger portion of the cost to these periods. In depreciation accounting we have become slaves to periods of time, rather than units of production or use of the assets. Consistency is a word you hear much about in accounting, but its observance is not universally mandatory. Consideration should and must be given to the charging against income of each period of the proper costs of producing this income.

In cases of costs of depreciable assets which do not vary widely from normal costs, and in which the income of the period does not vary between wide limits, then the allocation of the costs of the use of depreciable assets in equal amounts over the expected service life of such does not produce results that are too inequitable. However, present costs of assets are abnormally high, and business activity is also abnormally high. The abnormal costs of acquisition of new or additional depreciable assets were assumed to take advantage of this abnormal business activity, and it seems realistic and equitable to charge these abnormal costs to present operations under some method or other. In fact not to do so, in my humble opinion, would be improper accounting.

Again the following quotation from the special statement by the Committee on Accounting Procedure is pertinent:

"The committee disapproves immediate write-downs of plant cost by charges against current income in amounts believed to represent excessive or abnormal costs occasioned by current price levels. However, the committee calls attention to the fact that plants expected to have less than normal useful life can properly be depreciated on a systematic basis related to economic usefulness."

This problem is covered by Mr. C. G. Blough, CPA, in his article on "Current Accounting Problems" in the October issue of the "Journal of Accountancy," on page 336.

But I again would remind you that many decisions to buy or construct additional facilities have been based on the expectation of high demand for the next three to five years, during which they expected to be reimbursed for their investment to a considerable extent. In other words, these assets were bought or constructed to meet the extraordinary demand resulting from little or no production during the war. There is no doubt in the minds of some of us that some of these new depreciable assets can become surplus facilities just as soon as the present condition changes. An asset may reach the end of its useful life in more ways than by wearing out. In speaking of this problem, I would like to refer you to page 235 of the Conference Board Bulletin of August, 1947.

The third current problem is that of the reinstatement on the books of fully depreciated assets, in order that some charge for depreciation may be made to present operations for the use of those assets. This problem involves assets which, in pursuance of a systematic depreciation policy, have been written off, and also assets constructed under certificates of necessity which were written off over the so-called emergency period, without regard to the normal service lives of such assets.

It is somewhat difficult to support the suggestion of restoring on the books assets which have been written off in accordance with a planned depreciable policy and which are still usable and being used, in order that some charge may be made to the current operations for the use of such assets, unless the whole depreciation policy is reviewed and proper adjustments made. If these assets have been written off because of too liberal allocations to operations over prior periods, it is reasonable to assume that other assets, not yet completely depreciated, are being depreciated under the same liberal plan, with corresponding high charges to current operations. Certainly, if depreciation charges for assets written off were added to the current charges, there would be a pyramiding of charges against current operations.

Depreciation Policy Should Not Be Immutable

However, if a business decides that it has been depreciating at too high a rate, or the basic premises on which the depreciation policy was based are changed, I do not see any reason in the world why the depreciation policy cannot be changed, as long as full disclosure is made in reporting. It would seem to me rather dogmatic to say that once a certain depreciation policy has been established, no changes therein may ever be made. The present high price of replacement assets may very well extend the actual service life of assets acquired some time in the past, and justify reconsideration of depreciation policy.

Now, in regard to the restoration of assets acquired under certificates of necessity and written off over the period of the emergency, much more support can be given to this proposition. These assets were not written off in accordance with a systematic depreciation plan, but were written off during the period of the emergency because of the tax advantage in so doing. If the normal provision for depreciation on such assets is a significant amount, greater distortions of true operating results would occur if no charge for the use of these assets were made than if they were restored on the books and the normal charge for depreciation charged to current operations. For some examples of this practice I would refer you to the National Industrial Conference Board Report of August, 1947, pages 233 and 236.

Obviously, there would not be any tax advantage from the depreciation charges on fully depreciated assets, and some complicated inventory adjustment might be necessary. The advantages and disadvantages resulting from the restoration of fully depreciated assets have to be weighed in each individual case, and a decision reached applicable to such case.

Problems Are Confusing

The present problems of depreciation accounting are real and most confusing. The difference I see in the situation today from what it was in the twenties is in the higher income tax rates, the fears in regard to the application of Section 102, the greater amount of replacements that have to be made because of low replacement records of the period 1930-1946, the strong likelihood that the increases in costs will prevail longer because of the support to the current scales given by labor, and the increasing evidence and belief that the business volume is going to maintain a new plateau, thus requiring not only replacement of existing facilities, but also the acquiring of additional ones to take care of the increased volume.

In any event, from the various studies that have been made, some of which have been referred to herein, it is most evident that the facts indicate that, at the present time, the abnormalities of the present price situation as they relate to depreciation accounting are being treated in different ways even by comparable businesses. This seems to make it mandatory that every business incorporate in its financial statements explicit definitions of its present depreciation policies and practices. Under these varying conditions the bare statement of the amount of the periodic charge for depreciation is not going to suffice to answer the questions that analysts will ask.

It must always be kept in mind that accounting is not an exact science, and is not governed by any natural or immutable laws. As the subject matter of accounting changes (as it has in the past and will in the future), the consensus of the authoritative thinking of the body of professional accountants will recommend procedures which will give effect to the changed conditions, without abandoning long established and proven accounting policies and practices. In the meantime, irrespective of the pressure of those not of our profession, let us adhere closely to present policies in depreciation accounting, until it is proven conclusively that modification is necessary. After all, it may be only history repeating itself.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **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.

• **Allen (Walter H.) Co., Inc., Dallas Texas**
Nov. 25 (letter of notification) 870 shares (no par) common. **Price**—$100 a share. No underwriting. For additional working capital.

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 Box Board Co., Grand Rapids, Mich.**
Dec. 1 filed 100,000 shares ($1 par) common. **Underwriter**—Paine, Webber, Jackson & Curtis, Boston. Price by amendment. **Proceeds**—To improve its plants and to reimburse its treasury for funds invested in new subsidiary, American Pulp & Paper Co., Filer City, Mich. **Business**—Manufacture of folding paper boxes and other containers.

Americana Furniture, Inc.
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 Insurance Co., Newark, N. J. (12/19)
Nov. 14 filed 662,504 shares of capital stock (par $2.50). **Underwriter**—The First Boston Corp. **Offering**—To be offered for subscription by stockholders of record Dec. 5 on basis of one new share for each two shares held. Rights expire Dec. 18. Price by amendment. Unsubscribed shares to be publicly offered by underwriters. **Proceeds**—To be used for capital funds.

American & Overseas Development Corp., N. Y.
Nov. 18 (letter of notification) $125,000 5-year 5% convertible subordinate debentures. **Price**—Par. **Underwriting**—None. Working capital and day-to-day operating expenses.

• **Batchler Manufacturing Co. of Colorado, Denver, Colo.**
Nov. 25 (letter of notification) 500 shares ($100 par) preferred. **Price**—$100 per share. No underwriting. To purchase machinery and for working capital.

Brown & Bigelow, St. Paul, Minn. (12/8-12)
Nov. 19 filed 1,033,207 shares of common stock (after split-up of 10-for-1). **Underwriter**—Otis & Co., Cleveland. **Proceeds**—874,562 shares of stock are being sold by Charles A. Ward and other stockholders who will receive the proceeds, and 163,645 shares are to be issued in exchange for outstanding shares of Quality Park Box Co., Inc.; Consolidated Printing Ink Co., and John Beissel Co. **Price**—$9.50 per share.

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.

• **Cascade Iron Corp., Canton, Ohio**
Nov. 28 (letter of notification) 4,000 shares (no par) common and $120,000 6% five-year notes. **Price**—$20 per common share and notes at face amount. No underwriting. For construction of electric furnace plant and for working capital.

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 Maine Power Co. (12/8)
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. Probable bidders: Blyth & Co., Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only); Harriman Ripley & Co.; The First Boston Corp. and Coffin & Burr (jointly); Shields & Co. **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. Bids for the purchase of the securities will be received at company's office 443 Congress St., Portland, Me., up to 11 a.m. (EST) for the bonds and up to noon (EST) for the stock, on Dec. 8.

Central Power & Light Co. (12/8)
Nov. 21 filed $6,000,000 first mortgage bonds, series B, due 1977; and 40,000 shares ($100 par) cumulative preferred. Underwriting to be determined by 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); Salomon Bros. & Hutzler. **Price**—By competitive bidding. **Proceeds**—For property additions and expenses. **Bids**—Bids for purchase of securities tentatively set for Dec. 15.

Century Steel Corp., Hollydale, Calif.
Nov. 10 filed 4,000 shares ($100 par) common. No underwriting. **Price**—$100 a share. **Proceeds**—To purchase rolling mill, equipment and for working capital.

• **Cincinnati Gas & Electric Co.**
Dec. 1 filed 204,000 shares ($8.50 par) common. No underwriting. **Offering**—To common stockholders on the basis of one new share for each 10 shares held. Price by amendment. **Proceeds**—To finance construction.

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 Electric Illuminating Co. (12/9)
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.; White, Weld & Co. **Proceeds**—For construction program. **Bids** for purchase of the bonds will be received by company at Room 712, 75 Public Square, Cleveland, O., up to noon (EST) Dec. 9.

• **Colonial Ice Co., Greensboro, N. C.**
Nov. 25 (letter of notification) 990 shares $6 series cumulative preferred on behalf of A. C. Allyn and Co., Inc., Chicago. **Price**—$100 a share. No underwriting.

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.

• **Curlette, Inc., Los Angeles**
Nov. 24 (letter of notification) 125,000 shares ($1 par) capital stock. **Price**—$1 a share. To be sold through president of company. For operation of business consisting of manufacture of amusement game known as "Curlette."

• **Curtis Publishing Co.**
Nov. 28 (letter of notification) 500 shares of prior preferred stock. **Price**—At market (about $62). **Underwriter**—The First Boston Corp. Proceeds to Curtis Estate trustees.

• **Curtis Publishing Co.**
Nov. 28 (letter of notification) 2,000 shares of common stock. **Price**—Market (about $9¾). **Underwriter**—Granbery, Marache & Lord, New York. Proceeds to William Curtis Bok.

• **Curtis Publishing Co.**
Nov. 28 (letter of notification) 2,000 shares of common stock. **Price**—Market (about $9¾). **Underwriter**—Hecker & Co., Philadelphia. Proceeds to Cary William Bok.

• **Danielson Manufacturing Co., Danielson, Conn.**
Dec. 1 (letter of notification) 20,000 shares ($10 par) preferred and 4,000 preferred stock option warrants. The preferred will be offered publicly at $10 a share and the warrants will be sold to the agent at 10 cents each. **Underwriter**—Coburn & Middlebrook, Hartford. For working capital.

Delaware Power & Light Co. (12/9)
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. **Bids** for purchase of bonds will be received by company, 600 Market Street, Wilmington, Del., before noon (EST) Dec. 9.

Dogpaw Gold Mines Ltd., Toronto
Oct. 22 filed 1,000,000 shares ($1 par) capital stock. **Underwriter**—Tellier & Co. **Price**—40¢ per share. **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.

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.

Elliott Co., Jeannette, Pa. (12/11)
Nov. 20 filed 60,000 shares ($50 par) 5% convertible cumulative preference stock. **Underwriter**—F. Eberstadt & Co., Inc., New York. Price by amendment. **Proceeds**—For construction and expansion program.

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. Underwriter, Ray T. Hass, Chicago.

• **Fidelity Corp. of Michigan, Grand Rapids, Mich.**
Nov. 26 (letter of notification) $150,000 6% long term notes and $150,000 5% short term notes. To be sold at face amount. No underwriting. To reduce indebtedness and to carry on business.

• **Fidelity Electric Co., Inc., Lancaster, Pa.**
Nov. 28 (letter of notification) $99,900 5% convertible and subordinated notes. **Price**—$150 per unit. Underwriting none. **Proceeds**—Additional working capital and general working capital.

Firemen's Insurance Co., Newark, N. J. (12/17)
Nov. 12 filed 120,462 shares ($5 par) common. **Underwriter**—Blyth & Co., Inc., New York. **Offering**—Shares are offered to stockholders of record Dec. 3 on basis of two shares for each 31 shares held. Rights expire 3 p.m. (EST) Dec. 16. Unsubscribed shares will be offered publicly. **Proceeds**—To be added to company's capital and surplus.

• **First Guardian Securities Corp., New York**
Nov. 26 filed 36,000 shares ($25 par) 5% cumulative convertible preferred and 100,000 shares ($1 par) common. Underwriting to be filed by amendment. **Price**—$25 a preferred share and $10 a common share. **Proceeds**—For investment. **Business**—Investment business.

Fischer Baking Co., Newark, N. J.
Nov. 17 (letter of notification) $299,000 5% cumulative non-voting preferred. **Price**—$100 per share. No underwriters. To refinance a part of corporate obligations and improve employee and employer relations.

• **Florida Products, Inc., Atlanta, Ga.**
Nov. 26 (letter of notification) 20,000 shares of common. **Price**—$5 a share. To be sold through Samuel S. Tomlin, President of the company. To pay off indebtedness, plant trees and for working capital.

NEW ISSUE CALENDAR

December 5, 1947
Phillips Petroleum Co. — Common

December 8, 1947
Brown & Bigelow — Common
Central Maine Power Co., 11 a.m. (EST) — Bonds
Central Maine Power Co., Noon (EST) — Stock
Central Power & Light Co. — Bonds & Preferred
Springfield Fire & Marine Ins. Co. — Capital Stock

December 9, 1947
Cleveland Electric Illuminating Co. Noon (EST) — Bonds
Delaware Power & Light Co., Noon (EST) — Bonds
Georgia Power Co., 11:30 a.m. (EST) — Bonds
Southern California Edison Co. — Preferred

December 10, 1947
General Instrument Corp. — Common
Pittsburgh Steel Co. — Bonds
Reading Tube Co. — Preferred & Class B

December 11, 1947
Elliott Co. — Preference

December 12, 1947
Indianapolis Power & Light Co. — Preferred

December 15, 1947
Permanente Cement Corp. — Common

December 16, 1947
International Great North. RR. — Equip. Trust Ctfs.
Missouri Pacific RR. — Equip. Trust Ctfs.
Northern Natural Gas Co. — Common
Sunray Oil Corp. — Debs. & Preferred

December 17, 1947
Firemen's Insurance Co. — Common
Monsanto Chemical Co. — Preference
Northern Indiana Public Service Co. — Preference

December 19, 1947
American Insurance Co. — Capital Stock

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.

General Instrument Corp. (12/10)
Nov. 14 filed 150,000 shares of common (par $1). **Underwriter**—Burr & Co., Inc., New York. **Proceeds**—Stock being sold by four stockholders who will receive proceeds. Price by amendment. Expected about Dec. 10.

Georgia Power Co., Atlanta (12/9)
Nov. 7 filed $10,000,000 30-year first mortgage bonds. Underwriting to be determined by competitive bidding. 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. **Bids** for purchase of the bonds will be received at office of Commonwealth & Southern Corp. (N. Y.), 20 Pine St., New York City, before 11:30 a.m. (EST) Dec. 9.

Gerity-Michigan Corp., Adrian, Mich.
Sept. 29 filed 40,049 shares ($1 par) common. **Underwriter**—Ames, Emerich & Co., Inc. and Dempsey & Co. Price based on market: $10-$10.50 per share. **Proceeds**—The shares are being sold for the account of James Gerity, Jr., company President.

● **Greenwich Gas Co., Greenwich, Conn.**
Nov. 25 (letter of notification) 7,333 shares (no par) common. To stockholders at $14 a share. No underwriting. To pay construction loans.

● **Gulf Insurance Co., Dallas, Texas**
Nov. 25 (letter of notification) 110,000 certificates of rights to be exchanged for common in ratio of 11 rights for one share of common. **Price** — $27.50 to present stockholders and unsubscribed common $30 to the public. No underwriting. For capital and surplus.

Gulf States Utilities Co., Baton Rouge, La.
Nov. 13 filed 272,852 shares (no par) common. No underwriting. **Offering**—The shares will be offered to stockholders on the basis of one new share for each seven held. The Company also plans to sell privately 50,000 shares ($100 par) preferred $4.50 series. Price by amendment. **Proceeds**—For new construction.

Guyana Mines, Ltd., Toronto, Canada
Nov. 26 filed 303,587 shares ($1 par) common. **Underwriting**—None. **Price**—50 cents a share. **Proceeds**—For equipment and working capital.

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.

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.

● **Hayward Milling Co., Los Angeles**
Nov. 24 (letter of notification) $301,200 2% unsecured bonds and 66,560 shares ($1 par) capital stock. **Price**—$77.50 per $100 principal amount of bond and $1 per share of stock. No underwriting. To purchase sawmill and for working capital.

Hickok Manufacturing Co., Inc., Rochester, New York
Sept. 19 filed 200,000 shares ($1 par) common. **Underwriter**—E. H. Rollins & Sons, Inc., New York. **Price**—By amendment. **Proceeds**—The shares are being sold by 36 stockholders who will receive proceeds. Offering postponed indefinitely.

Hilo (Hawaii) Electric Light Co.
Oct. 27 filed 25,000 shares ($20 par) common. **Underwriting** — None. Unsubscribed shares will be sold at auction after Dec. 22, when subscription warrants expire. **Offering**—For subscription to common stockholders on the basis of one share for each two held. Price at par. **Proceeds**—To repay bank loans and finance construction.

● **Huron Building Co., Kansas City, Mo.**
Nov. 28 filed voting trust certificates in connection with a maximum of 2,851 shares of common stock of the corporation deposited under the voting trust agreement.

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. (12/12)
Oct. 9 filed 40,000 shares ($100 par) cumulative preferred. **Underwriters**—Names by competitive bidding. Probable bidders: Lehman Brothers; Blyth & Co., Inc.; W. C. Langley & Co.; Shields & Co., and White, Weld & Co. (jointly); Otis & Co. **Proceeds**—For new construction purposes. **Bids**—Bids for purchase of stock scheduled for Dec. 2 postponed to not later than Dec. 12.

● **Industrial Engineering Corp., Cincinnati**
Nov. 28 (letter of notification) 500 shares (no par) common and 500 shares ($50 par) 5% cumulative preferred. **Price**—$50 a share. No underwriting. To organize business of manufacturing plastic products and screw machine products.

Interstate Department Stores, Inc.
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. Temporarily postponed.

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.

● **Jardine Mining Co., Jardine, Mont.**
Nov. 24 (letter of notification) 62,500 shares of common. **Price**—$1.50 a share. **Underwriter**—Sulzbacher, Granger & Co., New York. To improve efficiency of mill operation.

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.

Johnson Bronze Co., New Castle, Pa.
Nov. 10 filed 300,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account of certain stockholders. Offering indefinite.

Laurel (Md.) Harness Racing Association, Inc.
Oct. 23 filed $490,000 10-year 6% cumulative income debentures and 49,000 shares (1¢ par) common. No underwriting. **Price**—$1,001 per unit, consisting of $1,000 of debentures and 100 shares of common. Of the above $146,000 debentures and 14,600 common shares will be held by agent until lapse of escrow agreement. **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. Registration statement effective Nov. 20.

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.

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.

● **Louproco Realties, Inc., Louisville, Ky.**
Nov. 26 (letter of notification) $182,500 of 10-year first mortgage refunding 6% bonds, due 1958. To be sold at face amount. **Underwriter**—The Bankers Bond Co., Inc., Louisville, Ky. To refund a like amount of bonds due Dec. 31, 1947.

Lowenstein & Sons, Inc., New York
Nov. 26 filed 20,000 shares ($1 par) common. **Underwriting**—None. **Offering**—Shares are being offered to certain officers and employees under an "employees stock option plan." **Price**—$21 a share. **Proceeds**—To be added to working capital.

Manhattan Coil Corp., Atlanta, Ga.
May 20 filed $500,000 5% serial debentures, due 1949-1957; 12,000 shares ($25 par) 5½% cumulative convertible preferred and 85,000 shares ($1 par) common. **Underwriter**—Kirchofer & Arnold, Inc., Raleigh, N. C. **Price**—The debentures at 102.507, while the preferred shares will be offered at par and the common shares at $4 each. **Proceeds**—To retire bank indebtedness and to finance purchase of machinery and other plant equipment.

● **Manufacturers & Jobbers Finance Corp., Shelby, N. C.**
Nov. 25 (letter of notification) 1,500 shares ($100 par) 5% preferred and 10,000 shares ($10 par) class B common. **Price**—$100 a preferred share and $15 a common share. No underwriting. For additional working capital.

● **Marshall (John) Insurance Co., Chicago**
Nov. 28 (letter of notification) 6,000 shares of capital stock. **Price**—$25 a share. No underwriting. For general working capital.

● **Martinez-Bell Mining Co., Superior, Ariz.**
Nov. 26 (letter of notification) 102,100 shares of common. **Price**—$1 a share. No underwriting. For development of mining properties.

● **Massachusetts Life Fund, Boston, Mass.**
Nov. 28 filed 150,000 units of Beneficial Interest. **Underwriting**—None specified. The Massachusetts Hospital Life Insurance Co., Boston, is sole trustee. **Offering**—To the public. Price based on market prices. **Proceeds**—For investment. **Business**—Investment business.

● **Maumee Oil Corp., Toledo, Ohio**
Nov. 24 (letter of notification) 2,900 shares (no par) class A common and 50 shares (no par) class B common. **Price**—$100 a share. No underwriting. Class A common to be exchanged for oil leases and Class B proceeds will be used to defray expenses of incorporation.

McKay Davis Inc., Toledo, O.
Nov. 17 (letter of notification) 28,000 shares (10 par) 5% cumulative preferred and 20,000 shares (no par) common. To be sold in units of seven shares of preferred and five shares of common for $75 per unit. **Underwriter**—Clair S. Hall & Co., Cincinnati, O. For working capital and general corporate purposes.

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.

● **Monsanto Chemical Co., St. Louis (12/17)**
Nov. 28 filed 250,000 shares (no par) $4 dividend cumulative preference stock, series B. **Underwriter**—Smith, Barney & Co., New York. Price to be filed by amendment. Proceeds for general corporate purposes including financing new plant construction and additions to present facilities.

● **Nationwide Home Equipment Corp., New Haven, Conn.**
Nov. 19 (letter of notification) 100,000 shares of capital stock (par $1). **Price**—$2⅝ per share. **Underwriter**—Henry P. Rosenfeld Co., New York. **Proceeds** — For expansion. **Business** — Company sells furniture, household appliances, etc., at retail.

North American Oil Co., Baltimore, Md.
Nov. 7 (letter of notification) 25,000 shares of common. **Price**—90 cents a share. **Underwriter**—Henry

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White & Co., Baltimore, Md. For payment and development of mining lease.

Northern Indiana Public Service Co. (12/17)
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 of record Dec. 2 on basis of one preferred share for each eight common shares held. Rights expire Dec. 16. Unsubscribed shares will be offered publicly. **Price**—$21 a share. **Proceeds**—To improve its public utility system.

Northern Natural Gas Co. (12/16)
Nov. 14 filed 710,500 shares of common stock (par $10). **Underwriters**—To be sold through competitive bidding. Probable bidders: Blyth & Co., Inc.; Dillon, Read & Co. Inc. **Proceeds**—Shares being sold by North American Light & Power Co. which will use proceeds to retire 109,255 shares of its own $6 preferred stock held by others than North American Co. **Bids**—Bids for purchase of stock tentatively set for Dec. 16.

● **Ocean Downs Racing Association, Inc., Berlin, Md.**
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md. **Business**—Operation of race track.

● **Palace Clothing Co., Kansas City, Mo.**
Nov. 24 (letter of notification) 2,950 shares ($100 par) 5% cumulative preferred, 1947 series. Of the total 2,700 shares are being offered through the following underwriters: George K. Baum & Co., and Prescott-Wright-Snider Co., both of Kansas City, Mo., and Kenneth Van Sickle, Inc., Emporia, Kansas. The remaining 250 shares will be offered to certain officers, shareholders and former shareholders directly by the company. **Price**—$100 a share. **Proceeds**—To be used to retire outstanding 6% preferred.

● **Permanente Cement Co., Oakland, Calif. (12/15-19)**
Nov. 24 filed 150,000 shares of common stock (par $1). **Underwriters**—Dean Witter & Co., and Schwabacher & Co., San Francisco. Price by amendment. **Proceeds**—To reduce bank loans and for working capital. **Business**—Manufacturers of cement.

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 (12/5)
Oct. 31 filed 1,007,517 shares (no par) common. **Underwriter**—The First Boston Corp., New York. **Offering**—Offered to common holders of record Nov. 19 in the ratio of one new share for each five held at $49 per share. Rights expire 3 p.m. Dec. 3. Unsubscribed shares will be offered publicly. **Proceeds**—To repay bank loans and for working capital.

Pittsburgh Steel Co. (12/10)
Nov. 20 filed $6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co., Inc. and Hemphill, Noyes & Co. Price by amendment. **Proceeds** — To refund outstanding first mortgage bonds. **Business** — Manufacturer of tubular, wire and semi-finished steel products.

Public Service Co. of New Hampshire
Nov. 25 filed 139,739 shares ($10 par) common and $3,000,000 30-year series C first mortgage bonds. **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp., Coffin & Burr, Inc. (jointly); Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); W. C. Langley & Co. and Glore, Forgan & Co. (jointly); Halsey, Stuart & Co. Inc. (bonds only); Kuhn, Loeb & Co., Harriman Ripley & Co. and Smith, Barney & Co. (jointly). **Offering**—Common stock first will be offered for subscription to present shareholders at the rate of one share for each five shares held. Unsubscribed shares and the bonds will be offered publicly. Price to be determined by competitive bidding. **Proceeds**—To pay off loans and for construction purposes.

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 indefinite.

Reading (Pa.) Tube Co. (12/10)
Oct. 28 filed 200,000 shares (no par) 50¢ cumulative class A and participating stock, 50,000 shares (10¢ par) class B stock, and 50,000 shares 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 at $6 and class B stock will be sold to underwriters for investment at 10¢ per share. **Proceeds**—To pay bank loans. Statement effective Nov. 19.

St. Regis Paper Co., New York
Nov. 26 filed 300,000 shares ($5 par) common. **Underwriting**—No underwriting. To be offered on New York Stock Exchange. **Price**—At market. **Proceeds**—Shares are being sold by Weco Corp., a wholly-owned subsidiary of Western Electric Co.

● **Save Rite Drug Stores, Salt Lake City**
Nov. 26 (letter of notification) 196 shares ($100 par) common and $68,600 5% bonds. **Price**—$100 per unit. No underwriting. For operating capital and expansion purposes.

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.

● **South Carolina Electric & Gas Co., Columbia, S. C.**
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 1,091,586 shares ($4.50 par) common. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp. **Business**—Public utility.

● **Southern Broadcasters, Inc., Washington, D. C.**
Nov. 25 (letter of notification) 10,000 shares ($10 par) 5% cumulative preferred; 2,950 shares ($2 par) Class A common and 52,050 shares ($2 par) Class B common. **Price**—$10 per preferred share and the Class A and Class B common at $2.67 per share. No underwriting. To finance construction of frequency modulation radio station at Richmond, Va.

Southern California Edison Co. (12/9)
Nov. 18 filed 800,000 shares cumulative preferred stock (par $25). **Underwriters**—To be determined by competitive bidding. Probable bidders: The First Boston Corp. and Harris, Hall & Co. (Inc.) (jointly); Blyth & Co., Inc. **Proceeds**—Repayment of current bank loans and reimbursement for expenditures for property and construction. **Bids**—Bids for purchase of stock will be received by company up to 9 a.m. (PST) on Dec. 9 at 610 West 5th Street, Los Angeles, Calif.

Southwestern Gas & Elec. Co. (12/8)
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. **Bids** for purchase of bonds expected about Dec. 8.

Springfield Fire & Marine Insurance Co. (12/8)
Oct. 29 filed 200,000 shares ($10 par) capital stock. **Underwriters**—The First Boston Corp., and Kidder, Peabody & Co., New York. **Offering**—Offered to stockholders of record Oct. 6 at $38 per share on the basis of one share for each 2½ shares held. Rights expire 3 p.m. Dec. 5. Unsubscribed shares will be sold publicly. **Proceeds**—To be added to company's capital funds.

Steam Motive Power, Inc., Mishawaka, Ind.
Nov. 14 (letter of notification) 60,000 shares ($1 par) class A common. **Price**—$5 a share. **Underwriters**—Harrison & Austin, Inc.; Ferron R. Davis, Inc.; and Herbert S. Wolff Securities Co., all of South Bend, Inc. To organize business and for working capital.

Strong Manufacturing Co., Sebring, Ohio
Nov. 12 (letter of notification) 3,674 shares (no par) common. **Price**—$10 a share. **Underwriter** — Gunn, Carey and Co., Cleveland. For operating expenses.

Sunray Oil Corp. (12/16-18)
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**—To financing merger of Pacific Western Oil Corp. and Mission Corp. into Sunray.

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.

● **Tropical Broadcasting Co., Washington, D. C.**
Nov. 25 (letter of notification) 10,000 shares ($10 par) 5% cumulative preferred; 2,950 shares ($2 par) Class A common and 52,050 shares ($2 par) Class B common. **Price**—$10 a preferred share and Class A and Class B common at $2 67 per share. No underwriting. To build frequency modulation radio station at Miami, Fla.

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 of record Dec. 26 on the basis of one share for each five held. Subscription warrants will expire Jan. 13, 1948. **Price**—$20 per share. **Proceeds**—To be added to general funds for current construction program.

Western Light & Telephone Co., Inc., Kansas City, Kansas
Nov. 6 (letter of notification) 10,000 shares of 5% cumulative preferred. **Price**—$28 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.
Oct. 28 filed 275,000 shares ($1 par) stock. **Underwriter**—Hornblower & Weeks, New York. **Offering**—Proposed offering postponed indefinitely according to an announcement Nov. 17.

Wisconsin Central Airlines, Clintonville, Wis.
Nov. 18 filed 125,000 shares ($1 par) common. **Underwriter**—Loewi & Co. **Price**—$4 a share. **Proceeds**—To purchase aircraft, repay notes and for working capital.

Prospective Offerings

● **Atlantic Coast Fisheries Co.**
Dec. 1 stockholders voted to authorize the issuance and sale of $556,500 4½% 10-year collateral trust (convertible) bonds. The bonds will first be offered to the stockholders and any unsubscribed portion will be purchased by underwriters, Doolittle, Schoellkopf & Co., at not less than 97½.

● **Equitable Office Building Corp.**
Nov. 28 announced a record of the stockholders will be taken at the close of business Dec. 4, to whom warrants will be mailed on that day which will entitle the holders of such warrants to subscribe to shares of capital stock of the corporation in accordance with the terms of the plan of reorganization. The offering of stock has been underwritten by Wertheim & Co.; Graham Newman Corp.; Cullman Brothers, Inc.; Arnold Bros.; Bear, Stearns & Co.; Hallgarten & Co.; Values, Inc.; Baker, Evans & Co., Inc.; Kirkeby Corp., and Overseas Securities Co., Inc.

● **Iowa Power & Light Co.**
Nov. 28 company has under consideration plans for sale, possibly in the latter part of January, of $6,000,000 additional bonds. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.

● **International Great Northern RR. (12/16)**
The trustee is inviting bids to be considered Dec. 16 for the purchase of $2,496,000 equipment trust certificates, to mature in one-to-eight years. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.); Salomon Bros. & Hutzler.

● **Missouri Pacific RR. (12/16)**
The trustee is inviting bids to be considered Dec. 16 for the purchase of $5,248,000 equipment trust certificates, maturing serially in one-to-eight years. Probable bidders: Harris, Hall & Co. (Inc.); Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **New York Telephone Co.**
Dec. 1, at hearing before Public Service Commission, company counsel stated company hopes to sell $60,000,000 30-year refunding mortgage bonds through competitive bidding about Jan. 27, next. Proceeds for capital expenditures. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.

● **Ohio Public Service Co.**
Dec. 1 company, in asking SEC for authority to borrow $3,000,000 from three banks and use the proceeds to repay a note of a like amount, stated it plans to sell at competitive bidding $10,000,000 of new first mortgage bonds for construction and other purposes. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.

● **Philadelphia Transportation Co.**
Transit Investment Corp., an investment company undergoing involuntary dissolution, will receive bids Dec. 10 for purchase of voting trust certificates for 7,203 shares participating preferred and 3,795 shares common stock of Philadelphia Transportation Co. The voting trust certificates for each class of stock will be sold separately.

● **Southern Co.**
Dec. 9 SEC will hold hearings on application of the company (subsidiary of Commonwealth & Southern Corp.) to sell a sufficient number of shares ($5 par) common stock to obtain approximately $20,000,000. The latter fund would be used to purchase additional shares of common stocks of its subsidiary companies to assist them in financing their construction programs.

● **Southwestern Public Service Co.**
Dec. 2 reported new financing to provide funds for construction, besides the $9,700,000 obtained through bond issue placed privately, is expected to be raised through the offering of additional common stock. Probable bidders include Dillon, Read & Co. Inc.

Our Reporter's Report

The next two weeks promise to round out pretty well such corporate financing as corporations plan to complete before the close of the year, it was indicated in underwriting circles.

Next Tuesday and Wednesday promise to corral the bulk of such remaining activity with four issues, all for public utility companies, slated to go up for competitive bids.

Since all are of the so-called "Street size" on which investment bankers like to bid, prospects are that the competition will be lively with several groups seeking each issue.

Tuesday will bring out $10,000,000 of new first mortgage collateral trust bonds, due in 30 years, for Delaware Power & Light Co. and a similar amount of new first mortgage bonds, also 30-year maturity for the account of the Georgia Power Co.

On the same day bankers will be bidding for $20,000,000 of new 35-year first mortgage bonds of Cleveland Electric Illuminating Co., which recently decided to forego a somewhat larger preferred stock undertaking.

Also on Tuesday underwriters will be matching bids for $20,000,000 of new $25 par preferred stock of the Southern California Edison Co., a deal which originally was to have been twice the now projected dimensions.

Wednesday's schedule calls for the marketing, via negotiation, of $6,500,000 20-year first mortgage bonds of Pittsburgh Steel Corp.

Scheduled for the following week are the $40,000,000 of Sunray Oil Corp. 20-year debentures and $19,000,000 of the company's cumulative second preferred stock, depending on the outcome of the present court proceedings.

Cutting It Close

Amazingly close bidding between the winning group and the runner-up market the sale of Appalachian Electric Power Co.'s $28,000,000 first mortgage bonds on Tuesday.

Only about two cents on each $100 of bonds separated the winning tender of 100.10 and the second bid of 100.079 for a 3⅛% coupon. Two other groups sought the issue bidding 100.13 and 102.18 for a 3¼% coupon rate.

Latest reports indicated that all but a small portion of the issue, a couple of million, had been disposed of on the reoffering by the end of the first day.

Working on Small Margin

Just when the underwriting world was beginning to think that competitive bidding for securities was giving signs of determination of bidders to be assured of a little better working margin than recently, the Appalachian Electric sale brought a recurrence of extremely close pricing.

Reoffering was made at a price of 100.50 to yield 3.10%, indicating a spread of only 40 cents a hundred, or $4 a thousand, between the foregoing figure and the price paid for the issue.

Celerity with which the issue moved, indicated that the yield offered was attractive to institutional investors, particularly the insurance companies.

Buyers Watch Spread

In some underwriting circles the conclusion has been reached that institutional investors are not going to let the bankers realize too wide a margin of profit on any given undertaking.

It has been noted in such quarters that where an issue is offered at a nominal spread between the buying and selling price, that insurance portfolio men, for example, are more inclined to take izable allotments.

But where the spread is one that would suggest a reasonable profit for the underwriter, even though the yield may be just as fetching, there is a tendency to step aside and hope for a breaking of the syndicate price.

Preparing to Close Books

Feeling is that once the next week is passed, things will slow down to a walk in the new issue market until after the turn of the year.

Potential issuers and major outlets for new emissions alike are gradually tapering off with an eye toward the year-end and the task of closing their books and records.

Appalachian El. Pfd. Priced at $100 per Sh.

Offering by Appalachian Electric Power Co. of 75,000 shares of its 4.50% cumulative preferred stock (par $100) to holders of its presently outstanding 4½% cumulative preferred, at $100 per share, has been underwritten by an investment group headed jointly by The First Boston Corp. and Union Securities Corp. Subscription will be at the rate of one share of the 4.50% preferred for each four shares of the 4½% preferred held of record at the close of business on Nov. 24, 1947. Subscription period will terminate at 3 p.m. on Dec. 15. The company is a subsidiary of the American Gas & Electric Co.

Proceeds from the sale of the preferred stock, together with proceeds remaining from other financing of the company through the sale of $10,000,000 of common stock to the parent company and $28,000,000 first mortgage bonds to the public, will be added to the company's treasury funds to be applied to extensions, additions and improvements, and for other corporate purposes. The company's construction program for the last five months of 1947 and for the years 1948 through 1951, inclusive, is estimated at approximately $64,850,000.

SITUATION WANTED

TRADER

Wishes position to give service and execute orders in over-the-counter securities. Box M124, Commercial & Financial Chronicle, 25 Park Place, New York 8, N. Y.

DIVIDEND NOTICES

HOMESTAKE MINING COMPANY
DIVIDEND No. 866

The Board of Directors has declared dividend No. 866 of fifty cents ($.50) per share c $12.50 par value Capital Stock, payable December 19, 1947 to stockholders of record 3:00 o'clock P. M., December 8, 1947.

Checks will be mailed by Irving Trust Company, Dividend Disbursing Agent.

JOHN W. HAMILTON, *Secretary*.

November 18, 1947

THE YALE & TOWNE MFG. CO.

On December 2, 1947, a special dividend No. 234 of one dollar ($1.00) per share was declared by the Board of Directors out of past earnings, payable December 23, 1947, to stockholders of record at the close of business December 12, 1947.

F. DUNNING, Secretary.

THE YALE & TOWNE MFG. CO.

On December 2, 1947, a dividend No. 235 of twenty-five cents (25c) per share was declared by the Board of Directors out of past earnings, payable January 2, 1948, to stockholders of record at the close of business December 12, 1947.

F. DUNNING, Secretary.

FUNDAMENTAL INVESTORS INC.

The Directors of Fundamental Investors, Inc. have declared year-end dividends of $.15 from ordinary income and $.20 from capital gains—total $.35 per share—payable on the Corporation's capital stock Dec. 24, 1947, to holders of record at the close of business on Dec. 10, 1947.

HUGH W. LONG & CO. INCORPORATED
CHICAGO • LOS ANGELES
48 WALL STREET, NEW YORK 5, N. Y.

DIVIDEND NOTICES

AMERICAN LOCOMOTIVE COMPANY

30 Church Street New York 8, N. Y.

PREFERRED DIVIDEND No. 158
COMMON DIVIDEND No. 90

Dividends of one dollar seventy five cents ($1.75) per share on the Preferred Stock and of thirty five cents (35¢) per share on the Common Stock of this Company have been declared payable January 1, 1948 to holders of record at the close of business on December 11, 1947. Transfer books will not be closed.

CARL A. SUNDBERG
November 24, 1947 *Secretary*

ARKANSAS WESTERN GAS COMPANY

Dividend Notice
Common Stock

The Board of Directors of Arkansas Western Gas Company has declared a quarterly dividend of twenty cents (20c) per share, payable December 30, 1947, to its holders of common stock of record December 15, 1947. Checks will be mailed from The First National Bank of Chicago on or about December 30, 1947.

L. L. BAXTER, *President*

ELECTRIC POWER & LIGHT CORPORATION

DIVIDEND NOTICE

The Board of Directors has this day declared a dividend of $1.50 per share on the $6 Preferred Stock and a dividend of $1.75 per share on the $7 Preferred Stock of this Corporation, payable January 2, 1948, to stockholders of record at the close of business December 12, 1947.

H. F. SANDERS,
December 2, 1947 *Treasurer.*

THE ATCHISON, TOPEKA AND SANTA FE RAILWAY COMPANY

New York, N. Y., November 25, 1947

The Board of Directors has this day declared a dividend of Two Dollars and Fifty Cents ($2.50) per share, being Dividend No. 98, on the Preferred Capital Stock of this Company, payable February 2, 1948, out of undivided net profits for the year ended June 30, 1947, to holders of said Preferred Capital Stock registered on the books of the Company at the close of business December 30, 1947.

The Board also declared on this day a dividend of One Dollar and Fifty Cents ($1.50) per share, being Dividend No. 140, on th Common Capital Stock of this Company, payable March 1, 1948 to holders of said Commor Capital Stock registered on the books of the Company at the close of business January 30, 1948.

Dividend checks will be mailed to holders of Preferred and Common Capital Stock who have filed suitable orders therefor at this office.

D. C. WILSON, Assistant Treasurer,
120 Broadway, New York 5, N. Y.

AMERICAN BANK NOTE COMPANY

Preferred Dividend No. 167
Common Dividend No. 154
Common Dividend No. 155

A quarterly dividend of 75¢ per share (1½%) on the Preferred Stock for the quarter ending December 31, 1947 payable January 2, 1948, a year-end dividend of 40¢ per share on the Common Stock payable December 26, 1947 and a dividend of 40¢ per share on the Common Stock payable January 2, 1948 have been declared, to respective holders of record December 8, 1947. The stock transfer books will remain open.

W. F. COLCLOUGH, JR.,
November 26, 1947 Secretary

DIVIDEND NOTICES

AMERICAN CAN COMPANY

PREFERRED STOCK

On November 25, 1947, a quarterly dividend of one and three-quarters per cent was declared on the Preferred Stock of this Company, payable January 2, 1948, to Stockholders of record at the close of business December 17, 1947. Transfer Books will remain open. Checks will be mailed.

R. A. BURGER, *Secretary.*

C.I.T. FINANCIAL CORPORATION

Dividend on Common Stock

A quarterly dividend of 50 cents per share in cash has been declared on the Common Stock of C. I. T. FINANCIAL CORPORATION, payable January 1, 1948, to stockholders of record at the close of business December 10, 1947. The transfer books will not close. Checks will be mailed.

FRED W. HAUTAU, *Treasurer.*

November 26, 1947.

EATON MANUFACTURING COMPANY
Cleveland, Ohio

EXTRA DIVIDEND
(DIVIDEND No. 92)

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Two Dollars ($2) per share on the outstanding common stock of the Company, payable December 20, 1947, to shareholders of record at the close of business December 5, 1947.

H. C. STUESSY
November 21, 1947 *Secretary & Treasurer*

OTIS ELEVATOR COMPANY

PREFERRED DIVIDEND No. 196

A quarterly dividend of $1.50 per share on the Preferred Stock has been declared payable December 20, 1947, to stockholders of record at the close of business on December 8, 1947.

Checks will be mailed.

C. A. SANFORD, *Treasurer*
New York, November 26, 1947.

CHEMICALS
TEXTILES
PLASTICS

CELANESE CORPORATION OF AMERICA
180 Madison Avenue, New York 16, N. Y.

THE Board of Directors has this day declared the following dividends:

FIRST PREFERRED STOCK
$4.75 SERIES

The regular quarterly dividend for the current quarter of $1.18¾ per share, payable January 1, 1948 to holders of record at the close of business December 16, 1947.

7% SECOND PREFERRED STOCK

The regular quarterly dividend for the current quarter of $1.75 per share, payable January 1, 1948 to holders of record at the close of business December 16, 1947.

COMMON STOCK

40 cents per share, payable December 31, 1947 to holders of record at the close of business December 16, 1947.

R. O. GILBERT
Secretary
December 2, 1947

DIVIDEND NOTICES

GUARANTY TRUST COMPANY OF NEW YORK

New York, December 3, 1947.

The Board of Directors has this day declared a quarterly dividend of Three Dollars ($3.) per share on the Capital Stock of this Company for the quarter ending December 31, 1947, payable on January 2, 1948 to stockholders of record at the close of business December 15, 1947.

MATTHEW T. MURRAY, Secretary.

UNITED GAS CORPORATION
SHREVEPORT, LOUISIANA

Dividend Notice

The Board of Directors has this date declared a dividend of twenty-five cents (25¢) per share on the Common Stock of the Corporation, payable January 2, 1948, to stockholders of record at the close of business on December 12, 1947.

J. H. MIRACLE,
December 2, 1947 *Secretary*

REYNOLDS METALS COMPANY

Reynolds Metals Building
Richmond 19, Virginia

COMMON STOCK

A dividend of ten percent (10%) on the outstanding common stock of the Company, has been declared payable December 31, 1947, in common stock of the Company, to holders of record at the close of business December 10, 1947. Scrip certificates will be issued for resulting fractional shares.

The transfer books will not be closed. Resulting stock and scrip certificates will be mailed by Bank of the Manhattan Company.

ALLYN DILLARD, *Secretary*
Dated, November 25, 1947

Safeway Stores, Incorporated

Preferred and Common Stock Dividends

The Board of Directors of Safeway Stores, Incorporated, on November 14, 1947 declared quarterly dividends on the Company's $5 Par Value Common and 5% Preferred Stocks.

The dividend on the Common Stock is at the rate of 25c per share and is payable December 19, 1947 to stockholders of record at the close of business December 9, 1947.

The dividend on the 5% Preferred Stock is at the rate of $1.25 per share and is payable January 1, 1948 to stockholders of record at the close of business December 9, 1947.

MILTON L. SELBY, *Secretary.*

November 14, 1947.

International MINERALS & CHEMICAL CORPORATION

General Offices
20 North Wacker Drive, Chicago

★

Dividends were declared by the Board of Directors on October 20, 1947, as follows:

4% Cumulative Preferred Stock 23rd Consecutive Regular Quarterly Dividend of One Dollar ($1.00) per share.

$5.00 Par Value Common Stock Regular Quarterly Dividend of Forty Cents (40c) per share.

Both dividends are payable December 30, 1947 to stockholders of record at the close of business December 12, 1947.

Checks will be mailed by the Bankers Trust Company of New York.

Robert P. Resch
Vice President and Treasurer

★

Mining and Manufacturing
Phosphate • Potash • Fertilizer • Chemicals

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

President Truman is just beginning to understand the chagrin felt by the Red bosses of the Kremlin when it began to dawn upon them that their first and token attack upon the Finns was turning out to be a flop.

For President Truman's "anti-inflation" program has turned out to be a phony far beyond the expectations of the most seasoned — or cynical — observers. To be sure, there was doubt before the President's message to the special session that the Administration intended to carry the principle of its fight against inflation far enough to stop inflation. Yet the President's words to Congress sounded meaningful, even when one takes in account that he couldn't have expected Congress to go along.

* * *

In the first several days of the hearings on this program, some amazing developments came to light. There was no sign whatever that within the Administration an agreement had been reached on the broad program. The signs were quite the opposite. Few of those testifying appeared to want the program. None of the Cabinet boys had done any home work on what they would do if they got the controls the President sought. There was even good grounds for suspicioning that some of the members of the Cabinet were trying to sabotage the program.

* * *

News dispatches of these hearings necessarily have failed to underline this situation. They were pre-occupied with reporting by the hundreds of words what the Administration bigwigs said on scores of subjects, even if some of the responses were inferentially negative. Even the rank and file of the GOP membership has failed to catch this fundamental. They still are crying privately as though Mr. Truman had hit them below the belt and knocked the wind out of them.

* * *

Take the matter of credit controls, for instance. Chairman Eccles of the Federal Reserve Board appeared and dusted off his old plan for requiring secondary reserves. This would enable the Reserve Board to restrain credit expansion. It was the only device in the credit control area feasible, in Mr. Eccles' opinion, to make possible the restraining of credit expansion.

* * *

Under close questioning by Senator Taft before the Joint Economic Committee, however, Eccles admitted that he didn't want this control and hoped he would not get it. With customary frankness he indicated that if the controls were successful in promoting a little deflation the Reserve system would be blamed. If they failed to arrest inflation, on the other hand, the Reserve system also would be blamed. He bluntly told Congress he was up there to describe what mechanism they could dream up, what device they could fashion, if they wanted to restrain bank credit expansion. He pointed out what most people have been writing and saying, that there are a lot of things promoting inflation besides bank credit. And he lambasted the program whereby 10 million or more veterans can all at one and the same time buy a house with nothing down if they want to.

* * *

It is a safe bet that but for Mr. Truman, the Reserve Board Chairman never would have trotted out the 1945 secondary reserve plan at this time. It is not that Mr. Eccles does not believe in having the power on tap to restrain credit. But this is not the time for "Feddy" Reserve to stick his finger in the dike. The hole is too big for his finger. With more time he would have not just have dusted off the 1945 plan. He would have whittled some of the edges and polished it up to a finer gloss.

* * *

Even as the boss of the Federal debt and with a very big finger in the credit pie, the Treasury would not stick its finger along with that of "Feddy" Reserve into the inflation dike. Secretary Snyder threw down the the secondary reserve proposition. That left exactly zero members of the Administration offering to support a program for restraining bank credit expansion — No. 1 of the President's broad proposals.

* * *

Then there was the Administration "quarterback" for the entire anti-inflation program, Commerce Secretary Harriman. Mr. Harriman didn't want to carry the ball. He didn't even want to call the signals. He confined his first testimony only as to how allocations, priorities, set asides, etc., within the jurisdiction of the Commerce Department might be used by the Department if Congress enacted the controls. He didn't want to speak policy for other members of the Cabinet. And as for price and rationing controls, Mr. Harriman just hadn't done his lessons yet.

* * *

Then, Clint Anderson, the Secretary of Agriculture, wasn't very sure he knew of any way to compel farmers to market beef cattle and hogs to lighter weights. He knows and the department knows and statistics show, that farmers already are doing this. Farmers know that it is a diminishing returns business to finish livestock to heaviest weights at present grain prices. Perhaps if the department got a little more money for "education" it could send a few agents down Tobacco Road and explain the economics of feeding to a few farmers who have some rat-infested corn but no radio or newspaper or other way to get market reports.

* * *

In the net, Administration spokesmen favor continuance of export controls, re-enactment of installment credit restrictions, perhaps (but with tongue in cheek) legislation to empower the government to set commodity margins, rent control renewal, and the granting of 150 more employes to the Treasury to ballyhoo baby bond sales.

* * *

So far the Administration spokesmen have let the President down. It thus appears that so far as the Administration as a whole is concerned, the attack upon inflation was a token attack, not meant to be taken seriously. It is only possible to conjecture how this developed. The most reasonable conjecture is that the President was so convinced that Republicans would laugh off his control proposals without even a hearing, that he felt safe merely to propose them for politically strategic reasons: The accepted interpretation of the strategy being that the Congress would get the blame for failing to stop inflation.

* * *

Possibly some of the brighter newspaper boys will dig out the story. Possibly it won't come out until the memoirs are written. But it is easy to guess what happened. The President's Economic Council outlined the anti-inflation objectives. Putting them down like the European Committee's Marshall Plan shopping list, the President thought he had tied a smart political package.

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It may not be so smart. The President will be made to look foolish the more it permeates on the Congressional and public consciousness that the Administration had not intended or prepared to carry such a program through. It also is poor tactics so far as getting long range foreign aid approved. The inflation target has been so illuminated by the President that long-term foreign aid has been put in the dark. Only if the Commies succeed in taking over France, can it be brought back to the light. It is almost everywhere believed in Washington that with the President's linking of foreign aid and inflation control, he has doomed the former to be cut down very much to size.

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There is a widely held view that when the Russians launched their first attack upon Finland, they expected the Finns to capitulate after a mere show of resistance. This expectation was based upon the advice of the fifth columnists that they had done a good job on the Finns. So the Russians cooked up a token resistance, and got their pants spanked off.

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Mr. Truman has cooked up a token anti-inflation program. He now finds it exposed as a feint. The Russians in their case re-formed, brought up the heavy artillery, and won the war. If Mr. Truman is really concerned with inflation, he may have to try something like that. In such a case, although it conjures up the image of a pygmy chastising some runts, he may have to spank his Cabinet into line, and decide to drive hard for inflation control power. However, inflation control is no more Truman's final objective that Belgium was the Kaiser's goal in the First World War. Mr. Truman will now have to decide whether the France of a national election requires the passage through Belgium.

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Republicans have developed an interim strategy of exposing the Truman program. The dissent within the Cabinet was brought out by their questioning. They had little idea, however, this dissension was so pervasive when they launched their hearings. They had intended to conjure up the wraiths of shortages, black markets, senseless bottlenecks, etc., to discredit the controls.

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The fact that Truman had dropped his program on Congress so completely without advance preparation, without agreement, even with such large intra-Administration opposition, was in a large measure to them a windfall. A few of the leaders at this moment are conscious of what is happening. When the idea permeates the rank and file generally, there will be far less crying that Truman has put the Congress on a spot by proposing a program they could not adopt.

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Note: Bob Taft is doing a bang-up job on these hearings. Unfortunately he gets blamed for trying to run away with the show. When he asked both Banking Committees to sit jointly with the Joint Economic Committee, he was trying to get around the fact that the Senate Banking Committee has neither the ability nor the inclination to do the job. Chairman Jesse Wolcott of the House Committee is doing a good job also in letting the Administration boys talk themselves out of the Truman program. But the two haven't got together.

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Steel is the No. 1 target for Administration controls, if and when Congress enacts them—allocations, priorities, inventory controls, use limitations.

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High tariff Congressmen believe that they can do nothing to upset the veritable revision of the customs laws effected by the 23-nation agreements. They will concentrate on trying to kill the Reciprocal Trade Agreements Act in its entirety. Majority sentiment would not go that far, but time will work against renewal of the Act.

BUSINESS BUZZ

"Wouldn't it be easier, Miss Finch, to just retype the letter."