Investment Bankers Association Convention Issue

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Easy Money Policy—The End of An Illusion

By DR. L. ALBERT HAHN

Dr. Hahn maintains that while an easy money policy cuts down the cost of government debt, it creates far greater disadvantages. States since effective anti-inflation fight is impossible without money tightening, governments are forced to resort to price curing measures which are responsible for a variety of other economic evils. Asserts disturbances of balance of payments, emergence of bilateralism and world's division into hard and soft money countries are largely caused by inflationary monetary policies.

Anti-deflationary measures to combat unemployment will hardly be of practical importance in the near future. With the exception perhaps of the United States, where from time to time the imminence of deflation is discussed, it is generally admitted that the world is in the midst of an inflationary boom. Where there is nevertheless unemployment, it is not attributed, even by the most extreme Keynesian, to lack of demand.

Photo: H. N. Rohlen
Dr. L. Albert Hahn

In an inflationary world an easy money policy has other motivations. It is advocated because it seems to make possible a speedy reduction of the interest and debt burden of the government and the balancing of the budget without

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*On the tremendous effect of the domestic monetary policy on the balance of payments, see also my article "Capital Is Made at Home," *Social Research*, May, 1944.

Investment Bankers Association of America Holds 36th Annual Convention

Meets at Hollywood, Fla., Nov. 30 to Dec. 5, inclusive. Hears addresses by President-elect Julien H. Collins; Edward Hopkinson, Jr., retiring President; Dr. John M. Cassels of Commerce Department; Willard L. Thorp, Assistant Secretary of State; Richard W. Courts, and others. Receives reports of committees.

The 36th Annual Convention of the Investment Bankers Association of America was held at the Hollywood Beach Hotel, Hollywood, Fla., from Nov. 30 to Dec. 5, inclusive. The Association elected as President for the forthcoming year Julien H. Collins, of Julien Collins & Co., Chicago, who succeeds Edward Hopkinson, Jr., of Drexel & Co., Philadelphia. The Vice-Presidents elected were Hazen S. Arnold, of Braun, Bosworth & Co., Toledo, O.; Robert W. Baird, the Wisconsin Co., Milwaukee, Wis.; Hal H. Dewar, of Dewar, Robertson & Pancoast, San Antonio, Tex.; Carey S. Hill of Hill, Richards & Co., Los Angeles, Cal., and Laurence M. Marks of Laurence M. Marks & Co., New York City. Robert Stevenson, 3rd, was reelected Secretary and Treasurer.

Julien H. Collins

The principal speakers at the Convention, in addition to Edward Hopkinson, Jr., the retiring President, and Julien H. Collins, the incoming President, were Dr. John M. Cassels, Economist of the U. S. Department of Commerce; Willard L. Thorp, Assistant Secretary of State for Economic Affairs; and Richard W. Courts of Courts & Co. of Atlanta, Ga. The full text of their addresses and the Committee reports can be found in this issue, beginning on page 25.

The new Board of Governors named by the respective regional groups are: Richard P. Dunn, Auchincloss, Parker & Redpath, Washington; Sherman Ellsworth, Wm. P. Harper & Son & Company, Seattle; Sumner B. Emerson, Morgan Stanley & Co., New York City; E. Kenneth Hagemann, G. H. Walker & Co., St. Louis; Francis M. Knight, Continental Illinois National Bank & Trust Company of Chicago; J. Marvin Moreland, Rotan, Mosle and Moreland, Galveston; Joseph L. Morris, The Robinson-Humphrey Company, Atlanta; Henry G. Riter, 3rd, Riter & Co., New York; Joseph A. Thomas, Lehman Brothers, New York; Alfred S. Wiltberger, Blyth & Co., Inc., Chicago; and Edward

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PICTURES taken at IBA Convention and of the new Association officers appear in the PICTORIAL Section. Addresses and committee reports start on page 25.

EDITORIAL

As We See It

Current "Open Mouth" Anti-Inflationary Policies Not Helpful

Apart from demand for fiat powers little, if any, short of those enjoyed during the war, the current anti-inflation policy of the Administration appears to consist of two parts. The first is to shout "wolf! wolf!" in stentorian tones; the second is either to ask for legislative measures which it knows it will not get or to take steps in the money market which give the superficial appearance of great and vigorous activity, but which of themselves are not likely to amount to a great deal. This whole procedure has been dubbed by some of the initiated in Wall Street the "open mouth" policy in contradistinction to an "open market" policy. Except for the fact that the "opposition" has permitted the Administration to do most of the talking, the program which the Republicans have brought forward to replace that of the Administration might about as fittingly be given the same label.

None of this is likely to be in the least helpful. Doubtless it could cause a setback in business volume

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Wages, Prices and Business Outlook

By SUMNER H. SLICHTER*

Lamont University Professor of Economics, Harvard University

Harvard economist discusses inflation trends and proposed remedies, and takes view most effective curb would be to curb spending. Suggests for this purpose larger sale of savings bonds or forced savings levy. Sees continued bottlenecks in production and belittles direct controls on prices and wages, but looks for continued rounds of wage increases under our collective bargaining economy. Warns against extra dividends as inflationary. Sees no reason to expect early recession.

I.

Throughout the last year the demand for goods has been in excess of supply. This is indicated by the steady rise in prices. Since the first of January, the general level of wholesale prices has risen about 13%. In an effort to meet the demand for goods, the economy has increased employment by about 1.8 million in comparison with the corresponding months of 1946. Indeed, in the earlier parts of the year, employment was more than 4 million above 1946. The labor force has expanded so that it will average for the year about 2.8 million more than the Bureau of the Census estimated would be normal for the year 1947. Despite the great increase of employment, or partly perhaps because of it, supply has fallen short of demand.

Prof. S. H. Slichter

*Address by Dr. Slichter before the American Management Association, New York City, Dec. 15, 1947.

What is the outlook for wages and prices during the next few months? Many economists believe that an early recession is in prospect. A poll of 100 economists by the F. W. Dodge Corp. revealed that 75 expect a recession some time in 1948. February and March were most frequently mentioned at the beginning of the recession. Government officials, who during the last two years seem to have been more fearful of deflation than inflation, now appear to be convinced that the immediate danger is inflation. On Nov. 17, President Truman asked for special powers to control rising prices. Mr. Eccles, in a statement before the Joint Committee on the Economic Report on Nov. 25, went beyond Mr. Truman in outlining a program for controlling rising prices. A third round of wage increases has already started and seems destined to continue.

Who is right—the economists who predict an early recession or the government officials who believe that the problem is rising prices? What would be the effect of a third round of wage increases? Would it help sustain the spiral of rising wages and prices or would it narrow profit margins and retard or halt the rise in prices? What should be done? Should events be permitted to run their course, should an effort be made to control the rise of prices should immediate steps be taken to avert a recession? If an attempt is made to halt the rise in prices, what should be the nature of the controls? Could the rise in prices be halted without throwing the economy into a tailspin?

II.

The strong inflationary pressures of the present and of the last year are not surprising. They are explained by three basic facts: (1) The huge quantities of cash and demand deposits. Cash and demand deposits for today are about 3.4 times as large as at the end of 1935. The rise in personal

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The Present Economic Situation

By WESLEY LINDOW*

Economist, Irving Trust Company, New York City

Asserting recession threat still looms, bank economist points out consumer demands, because of increased incomes, still exceeds supply of goods, and says present high level of government purchases will continue for some time. Reviews inflation forces and contends export declines will not be drastic enough to ease inflation pressures. Concludes that, barring a backfire from government anti-inflation efforts, no major depression is at hand, though it may come ultimately.

Ever since the end of the war, we have been hearing predictions of a recession. Such predictions are logical based on historical precedent. We have always had a corrective recession after a war, so I think that predicting a recession is a safe thing—the hard thing to do is to pick the timing.

Wesley Lindow

The immediate problem is one of inflation. The President has proposed a program of inflation controls and the Congress is engaged in arguments pro and con these controls.

But through it all, there still looms the recession threat and one of the reasons some people hesitate to fight inflation too hard is that they fear they might help usher in the recession.

*An address by Dr. Lindow before New York State Canners Association, Buffalo, N. Y., Dec. 11, 1947.

So we have talk of inflation and recession at the same time—almost as though they were the same thing.

Where do we stand today? Is a recession in sight in the near future or is it still holding off in the more distant future?

Current Situation

In trying to answer this question, I would like to refer briefly to the overall supply and demand situation. The current situation may be summarized in three short statements as follows: (1) Supply, as evidenced by production, is apparently close to a ceiling. (2) Demands continue to exceed supply. (3) The price barometer continues to show rising pressure.

While this description of the situation is probably familiar to all of you, it is the place I like to start in looking ahead. We should ask ourselves the question: What is the outlook for the interrelated forces represented by supply and demand? I shall try to highlight the facts as I see them.

As to supply, the facts point pretty clearly to a ceiling at or about present levels of production. The Federal Reserve Index of Industrial Production reached a postwar peak of 190 last March, then fell steadily to 177 in July, and has since recovered to 189 in October. These are seasonally adjusted figures. This index may more slightly higher, but it seems unlikely that it can go much above the 190 level—other than under wartime conditions. This is because so many of the component parts of our economic machine present formidable bottlenecks.

As you know, one of the most important of these bottlenecks is steel. Steel production is setting new records for peacetime. In fact, the output of steel is almost as high as the wartime record. Yet the steel shortage is a major bottleneck in expanding output in

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More on Revealing Dealer's Capital

Provisions of Securities Exchange Act of 1934 dealing with filing of annual reports quoted. Disclosure of contents discretionary with SEC. May be done only in the public interest otherwise an abuse of discretion. As a precaution reports should be accompanied by a request that the contents be kept confidential. Powers of the SEC to conduct these inquisitions should be abridged.

Recently, we called attention to a financial publication that was conducting a circulation campaign in the course of which it held out, as a subscription inducement, that it would issue a complete list of U. S. registered dealers with their invested capital, which list had been compiled from sworn financial statements filed with the Securities and Exchange Commission by each registered dealer.

Such filing is made compulsory by SEC Rule X-17A-5 of the General Rules and Regulations under the Securities Exchange Act of 1934, which provides "(a) **Reports to be made annually:** Every member of a national securities exchange who transacts a business in securities directly with others than members of a national securities exchange, and every broker or dealer who transacts a business in securities through the medium of any such member, and every broker or dealer registered pursuant to Section 15 of the Securities Exchange Act of 1934, as amended, shall file on Form X-17A-5 during each calendar year commencing Jan. 1, 1943, a report of his financial condition as of a date not more than 45 days prior to the filing thereof; * * * The report shall be filed in duplicate with the Regional Office of the Commission for the region in which the member, broker, or dealer, has his principal place of business."

Now that we have the rule, the following pertinent questions quite naturally are in order: "When an annual report is filed by a dealer or broker what is the responsibility of the SEC toward that report? Is there a mandatory obligation to keep it confidential? May the Commission release it, and if so, under what circumstances? Is there anything that the dealer or broker is required to do if he chooses not to have the information released?"

For answers to these questions we take you to the Securities Exchange Act of 1934, under the heading, "Rules and Regulations; Annual Reports," and the subsequent heading, "Information Filed With the Commission."

Under the latter heading, Section 24(b), we find the following:

"Any person filing any such application, report, or document may make written objection to the public disclosure of information contained therein, stating the grounds for such objection, and the Commission is authorized to hear objections in any such case where it deems it advisable. The Commission may, in such cases, make available to the public the information contained in any such application, report, or document only when in its judgment a disclosure of such information is in the public interest; and copies of information so made available may be furnished to any person at such reasonable charge and under such reasonable limitations as the Commission may prescribe."

Under Subdivision (c) there is this injunction concerning the disclosure of information filed:

"It shall be unlawful for any member, officer, or employee of the Commission to disclose to any person other than a member, officer, or employee of the Commission, or to use for personal benefit, any information contained in any application, report, or document filed with the Commission which is not made available to the public pursuant to subsection (b) of this section: *Provided*, that the Commission may make available to the Federal Reserve Board any information requested by the Board for the purpose of enabling it to perform its duties under this title."

Whether the SEC exercises, as of right, the extensive

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A Formula Plan That Always Works

One Tested Price Cycle (Formula) Plan Which Overcomes the Objections Usually Raised Against the Employment of Such Scale Operations.

By GARFIELD A. DREW

Director of Accounts, United Investment Counsel, Boston, Mass.

Mr. Drew, after discussing pros and cons of Formula Plans, explains working of the Burlingame Plan. He contends this system avoids main weakness of other formulas—that the investor may be left out in case of an extraordinary advance in stock prices or possible establishment of a new plateau.

The inception of this article goes back to Mr. A. Wilfred May's criticisms of technical stock market approaches published in the "Chronicle" during October, 1947. His chief argument against Formula Plans was that they required a fundamental forecast or estimate of the market's future upper and lower limits. Hence, it was maintained they would not function well, or even at all, should there happen to be a "permanent new era" for stock prices.

Garfield A. Drew

It was also noteworthy that several subsequent writers took the same view. One, for example, remarked categorically that "Formula timing has the objection that . . . the investor will eventually be out of the market."

That is true—or at least it may be largely true—of the more rigid variable-ratio plans, in which class the Vassar Plan is probably the best known. But, there are Formula Plans and Formula Plans. With some, the objection cited above has no weight whatsoever.

In my letter to the "Chronicle" (published on Oct. 30, 1947) commenting on various aspects of Mr. May's articles, the following statement was included:

"In his formula plan comments, Mr. May is apparently familiar with only a few such plans. He is right on the types he mentions, but the Burlingame Plan, for example, will always function even if there is a 'permanent new era' with a price range of 200 to 1000. A formula plan is not expected to make spectacular profits, but an 8% average return with virtually no risk or work is surely not unattractive."

Plan Described in Author's Book

This caused some readers to ask the "Chronicle" whether I would explain the statement in more detail. It is a relatively simple matter to do so, since—with some slight adaptation for this particular purpose—I can quote from part of the manuscript for the revised edition of my book "New Methods for Profit in the Stock Market," originally published in 1941. This book has been out of print since the second edition in the same year, but the forthcoming 1948 volume will be more complete and entirely up to date. The "Burlingame Plan" was, incidentally, described briefly in the original book, although Formula Plans in general were not treated.

What A Good Formula Plan Will Do

First, I want to explain the last sentence in my letter of Oct. 30 to the "Chronicle." It should be understood at the outset that Formula Plans aim merely to take some advantage of the fact that stock prices fluctuate without attempting to "forecast." Hence, they are not potentially productive of spectacular profits. Reasonably accurate "forecasting" will give much better results, but the proponents of Formula Plans are convinced — or assume — that such "forecasting" is impossible. They feel that there is a certain analogy with Aesop's fable of the race between the tortoise and the hare. The hare could have won easily, but his unreliability caused him to lose. On the other hand, a good Formula Plan—like the tortoise—is slow and plodding, but sure.

In using the phrase "with virtually no risk," I meant that a good Formula Plan will always come out ahead of the game in the end unless stock prices go straight down and stay down permanently. That "risk" exists to be sure, but when and if that may be the case, practically everyone will lose anyway and stocks may just as well be forgotten. It is, however, inherent in the nature of virtually any Formula Plan that there will always be a profit whenever the price travels through any predetermined cycle and comes back to the same point from which it originally started—whether down and then up, or vice versa. Unlike most others, the Burlingame Plan will also make a profit if the initial trend is upward, but never returns to the starting point. This is because it can purchase on a scale up under certain conditions as well as on a scale down, whereas most Formula Plans can do nothing but sell on the upside.

In speaking of "virtually no work," I meant that the effort was largely confined to placing limited price orders with a broker in accordance with fixed rules and tables.

Normal Expectancy of Return

By an "8% average return," I was referring to average experience. Operations in some stocks have resulted in a larger return, but others in less. Over a reasonable period of time, 8% seems to be a normal expectancy with the Burlingame Plan in stocks that conform roughly to the movements of the general market and are not in a long-term declining secular trend of their own. In fact, a study once made of actual results on 57 different issues for the erratic 1939-1944 period showed a return of exactly 8.3%.

The 8% includes the incidental dividends that are received when the Plan happens to be holding some stock on an ex-dividend date. It is, however, a net return after allowing for all brokerage expenses. Neither does it assume the reinvestment of profits. In other words, capital gains and dividends received are considered withdrawn at once.

Operating in Individual Stocks

As implied above, the Burlingame Plan begins with individual stocks rather than using the latter on the basis of some particular Average as do most well-known Formula Plans. There is a definite advantage in this, because, in order to profit from price fluctuations, there must be such fluctuations, and—mathematically speaking—the sum of the movements in the individual stocks making up an average is greater than the sum of the movements in the average itself.

The "Formula"—to call it that—for each stock is, therefore, naturally different, being based on

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Straws in the Economic Winds

By ARTHUR A. SMITH*

Professor of Economics, Southern Methodist University

Holding inertia of World War II with artificial support is carrying forward nation's economy, Professor Smith sees evidence of recession in: (1) falling off of physical sales volume; (2) expansion of consumer credit; (3) slower collections; (4) increase in life insurance loans, and (5) decline in volume of savings. Says backlog of liquid assets is too concentrated to ward off recession, and a dangerous unbalanced condition has developed in our economy because of inequities in national income distribution.

Today's high level of business activity is a continuation of the prosperity generated by the war. Wars have always brought boom periods. The inertia of World War II continues to carry forward in the nation's economy. How long it will be before the inertia spends itself is difficult to determine. But one can find nothing to justify the conclusion that the high level business activity will continue indefinitely. Periods of war-generated prosperity in history have always been succeeded by readjustments. No fundamental changes have taken place in our economy as a result of the recent war that can cause one to conclude that history will not repeat itself.

It is true that the United States might underwrite a vast international relief program which will postpone the evil day. Or we might embark upon a wild orgy of consumer credit expansion which will have the same effect. Or we might find ourselves in a war with Russia. Or the government might allow itself to follow lines of least resistance with respect to the vast Federal debt, thus driving us into further inflation. Any or all of these would ultimately lead to disastrous economic collapse.

One thing seems sure. The end of the war cut from under the inflated economy many of the supports which held it up. Only inertia and artificial supports seem now to keep it going. At the peak from \$90 to \$100 billion of our national production (about 50%) went solely for war purposes. Most of this demand ceased with the war's end. Can we find a permanent demand to replace it? To date there is no indication that we have.

While it cannot be foretold exactly when and how severe the readjustment will be, there are some straws in the economic winds which seem to point in a downward direction.

(1) Physical volume of some categories of retail sales (particularly soft goods) has been falling faster than dollar volume.

(2) Consumer credit is expanding.

(3) Collections on credit accounts are becoming more difficult.

(4) Life insurance companies report increased policy loans.

(5) The volume of savings by the people is declining.

(6) The back-log of liquid assets held by the people is concentrated in the hands of a relatively few. This means that more people are broke than is generally realized. Current incomes are being used up rapidly because of high prices and many people are exhausting their savings.

(7) A dangerous unbalanced condition has developed in our economy because certain segments are getting relatively too much of the national income. This in itself can and will bring recession and perhaps depression. To cite examples:

(a) Strong unions have bargained their wages far out of line with the wages of unorganized workers. Total union membership in the United States is not over 14 millions. That is less than one-fourth of the nation's labor force. The extent to which high union labor costs are reflected in high prices, to that extent are the unorganized workers being squeezed because their wages have not kept pace.

(b) Farm prices under government support programs have gone so high that the consumer is obliged to pay more than twice as much for his food now as in 1939. Here is another squeeze. Again it catches the fellows whose incomes have not kept pace. They are mostly the unorganized. There are so many of them that their purchases have a great influence on business. When they can't buy, business can't sell.

(c) Some businesses are taking abnormally high profits. This contributes to the unbalanced condition in our economy.

(8) There is evidence aplenty that unions are bargaining their wages so high in some industries that management is installing additional labor-saving machinery to escape the high wage costs. This will mean unemployment. Unemployment is bad for business.

All of these straws point downward. Let's hope we climb down and don't fall down.

Most impressive in the news now is the problem of high prices. I should like to make a few comments about this.

Persistence of high food and clothing prices is cutting deeply into the pockets of average income families. This leaves less money for other things.

To buy the groceries and meats that she bought with a 10-dollar bill in August, 1939, the American housewife now has to lay out 21 dollars. And that is more than her mother had to pay in World War I days. Although there may be a variation of a few cents from one community to another, this confronts housewives throughout the nation.

If she is an exceptionally good household manager and buys

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*An address by Prof. Smith at meeting of the Trust Section of the Texas Bankers Association, Fort Worth, Texas, Nov. 23, 1947.

Observations . . . .

By A. WILFRED MAY

A Most Dangerous Red-Herring Is Dragged Across the Inflation Trail

The simile between assuming the possibility of close limitation on socialistic management and "just a little pregnancy" has been stated. Never has its validity been more strikingly exhibited than in the current widespread (and non-partisan) reaction to President Truman's demand for the reimposition of wartime controls on consumer credit. In fact among the proponents of such legislation are such strange bed-fellows as Senators Taft and Tobey.

A. Wilfred May

The public should realize that the proposed action does not represent merely a step of negative importance, or a policy of relative harmlessness. Throwing the curtailment of instalment buying to the public as a politically strategic sop to appease its anger at price-inflation, would constitute an *affirmative* act of great harm.

In the first place—if intended or not— consumer credit is now being used as a red-herring to deflect the public's understanding from the true causes of our inflated condition; as an alibi camouflaging the results of the Administration's *continuing* unwillingness to foresake its policies which actually and inexorably are maintaining the inflation.

The attack on instalment buyers serves to gloss over the government's own long-standing instigation of inflation, through the "anti-deflationary" mechanisms of the 1930s like the FHA, REA, CCC, and HOLC; the Administration's cheap-money manipulations and devotion to consumer purchasing-power theory; and currently: through Federal spending in the enormous total of $36 billion a year, agricultural price subsidies, labor feather-bedding, veterans' bonuses and relief payments—all resulting in an enormously swollen money supply, in a drugged feeling of complacency over the government's rigging of the market for its bonds, and its insulation from a natural interest rate. As Chairman Eccles himself testified before a Joint Congressional Committee, the war financing and our enormous Federal deficits are "the source" of the present inflation; and the easy terms still available on housing loans under the government agencies, creating boom-and-bust demand for materials and labor, constitute possibly the most inflationary present and continuing force in the situation. Merely to provide for the expenses of our government, almost 30% is now being added to the amounts being paid to the nation's producers, according to a study just completed by the Foundation for Economic Education.

To single out one or two *curbs* at a highly superficial level in lieu of these real activating *causes*, would do the body politic an immense disservice.

Unbalancing the Economy

But even more important is the damage which would be directly inflicted on the country's economic structure. Imbalance and distortion will only be accentuated by the resultant removal from the market of the cash and limited-credit would-be buyers not having the wherewithall to pay for goods at current price levels.

The simple fact would seem to be that curtailment of normal consumer credit facilities in the absence of a major reduction in the nation's supply of money or other stabilizer of prices, must arbitrarily eradicate from the market a large segment of consumers. This likewise would unfortunately follow a legally enforced ceiling on wages, or the imposition of tax rates gauged to function as an "anti-inflation" weapon.

Strange it is that CIO union spokesmen have the perspicacity to recognize the harm from such "anti-inflation" attack on wages, while approving it when directed against instalment purchasing by consumers; and with similar inconsistency those labor leaders, while seeking rises in money wages, are simultaneously criticizing consumer credit on the ground that it exaggerates demand without increasing production.

The only way that these bad effects from the removal of credit facilities could be mitigated, would be through a previously accomplished deflation of the money supply or by lowering the price level through some other means—the occurrence of either of which would of course remove the agitation as well as all the justification for the proposal.

No Hurt to the Pauley's

The buying power that would be emasculated by credit restriction is not that of the Ed Pauley's, who have the wherewithal to lay cash on the line for a half-dozen pleasure cars, as well as to protect themselves by "normal, prudent anti-inflationary hedge-purchases" of 500,000 bushels or so of grain. Those actually affected would be the individuals the size of whose available capital is not sufficient to pay for the necessity as the refrigerator or the "post-pre-war" automobile required for transporting the wage-earner to the mill or factory.

The small income groups struggling to maintain themselves

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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

Industrial production on a country-wide basis the past week was sustained at a very high point with output about equal to that of the previous week and moderately above that of a a year ago.

Increased availability of raw materials and manufactured parts chiefly reflected the increase over the similar week of 1946. As for the manpower situation, industrial employment in the week held at peak levels and time lost due to labor conditions proved negligible.

* * *

The steel industry, so vitally important to our economy and upon which virtually all other industries depend, achieved the past week the best record in output since May of 1945.

Production of steel during November also attained a new record, totaling 7,249,523 net tons, the highest for any November in peacetime. This brings the total for the first 11 months of 1947 to 77,434,423 net tons, according to the American Iron and Steel Institute, and is 25,000,000 more tons than were produced in the entire prewar year 1939, and almost 11,000,000 tons above total output in 1946. Revised October production amounted to 7,560,365 net tons.

* * *

Loadings of revenue freight for the week ended Dec. 6 (latest available figures) were 10.9% higher than a week ago. They were highlighted by heavy coal shipments, which amounted to 197,75[illegible] cars, or an increase of 24,666 cars above the week preceding.

* * *

Lumber production, a highly important part of our industrial activities, for the week ended Dec. 6, with 394 mills reporting, was 37.9% above the average corresponding week of 1935-1939. Shipments were 51.6% above and orders 20.5% above the National Lumber Trade Barometer reports. Paperboard output for the week ended Dec. 6 totaled 179,582 tons and compared with 170,175 tons in the previous week, according to the National Paperboard Association.

* * *

The question of tax reduction was again raised the past week when Representative Dingell (D., Mich.) and a member of the House Ways and Means Committee, introduced a bill providing for a cut totaling $5,500,000,000 in income taxes. Mr. Dingell, it may be remembered, fought against the passage of the Republican-sponsored income tax reduction measures vetoed last summer by the President. His bill would: (1) sever $2,000,000 yearly in Federal excise levies from Federal tax revenues; (2) increase personal exemptions on income taxes by $100 and lower surtax rates 1% in each bracket, and (3) allow husbands and wives to split their incomes for tax purposes.

It is worthy to note that prior to the introduction of Representative Dingell's bill, the Republicans on Monday of last week stated that they would submit a bill to the House calling for a cut in individual income levies in 1948 up to $5,300,000,000. It is understood other features would be incorporated in the bill.

* * *

While personal income showed some contraction for the month of October, the decline was not too significant in itself. It was occasioned by a drop in veterans' terminal leave bond cashings below that of September, according to the Commerce Department and, it adds, excluding them, there was a slight rise from September to October, accounted for chiefly by increases in proprietor's income, factory and trade payrolls and dividend payments.

Including bond cash-ins, total personal income in October was at an annual rate of $204,500,000,000, compared with $210,900,000,000 in September. Excluding them, the annual rate was $202,600,000,000 in October, compared with $199,400,000,000 in the earlier month.

Because of the great fluctuation in terminal leave cashings and their independence of general business conditions, the latter comparison, the Commerce Department states, is the more significant one.

The approach of Christmas spurred consumer buying throughout the country last week. Retail volume rose moderately and compared very favorably with the high 1946 levels. While interest in items suitable for gifts rose sharply, the buying of numerous staple goods remained brisk.

A sharp rise in re-order volume in the week sustained wholesale trade at a high level, though slight declines in new order volume occurred in some localities. Total wholesale trade was close to record levels and was considerably above that of a year ago. Requests for quick delivery of seasonal merchandise were numerous. The volume of back orders generally remained large, but deliveries of most goods improved.

STEEL OPERATIONS AT HIGHEST RATE SINCE WEEK OF APRIL 24, 1944.

Administration leaders and others plugging for legislative allocation controls in the steel industry either are unfamiliar with current

(Continued on page 66)

Montgomery, Scott to Admit Talmage, Bradshaw

Edward T. H. Talmadge and Sydney P. Bradshaw, both members of the New York Stock Exchange, will be admitted to partnership in the Exchange firm of Montgomery, Scott & Co., on Jan. 1st. Both new partners, who were previously partners in Clark, Dodge & Co., will make their headquarters at the firm's New York office, 120 Broadway.

Herman K. Grange of Philadelphia, will retire from partnership in Montgomery, Scott & Co. as of Dec. 31.

Collin, Norton Moves New York Office

Collin, Norton & Co., members of the New York Stock Exchange and other leading exchanges, announce the removal of their New York City office to 120 Broadway; telephone will be COrtlandt 7-6132.

NSTA Notes

SECURITY TRADERS ASSOCIATION OF LOS ANGELES

The annual Christmas party of the Security Traders Association of Los Angeles will be held on Dec. 19 at the Elk's Club.

The new officers for 1948 will be installed at a dinner meeting to be held early in January.

LUMINARY OF THE WEEK

Earl M. Scanlan

Introducing as the "Luminary of the Week," Earl M. Scanlan, senior partner of Earl M. Scanlan & Co., Denver, Colo. Mr. Scanlan, active in the affairs of the Bond Club, for years has been training his camera on all the Denver boys, serving as photographer at all the Club affairs. He also runs their "Kentucky Derby" each year—for further details on this event, which is a sensation in Denver, check Earl.

The Way Out

By JUSTIN JACOBS and WILLIAM G. LEON

Economists warn against any increase in swollen national debt from further inflationary hypodermics. Propose legislation to help fixed income groups live within their means, to improve labor-management relations, and to enable us to compete in world markets.

Inflation

Since V-J Day, labor has been warned that higher wages would be offset by increased living costs. This warning has been made good with a vengeance. Certain labor elements emphasize the fact that the war imposed a ceiling on wages. Now that the war is over and we are witnessing a degree of prosperity beyond our fondest hopes, labor is again told that it will not be able to enjoy the fruits of wage increases. Labor complains that it looks like a proposition of "heads you win; tails I lose." Under such circumstances, it is small wonder that a feeling of frustration has spread and we have suffered from epidemics of strikes, slow-downs and bitter denunciations of rising prices and high profits.

Something must be done to mitigate the constant clashing of opposing interests for larger slices of the economic pie.

Profits

Labor's complaints about high profits would be quickly stilled if it obtained a definite share in these profits. On the other hand, business is entitled to receive something in return for any part of its profits that it shares with labor. A valid consideration is one of the important elements of a contract. This *quid pro quo* is the recognition by law of the principle in equity that one should receive money's worth for any rights given up. The matter of this consideration will be discussed in greater detail later in this article under the caption "Benefits to Business."

"Share the Wealth"

It has firmly been established that increased production is a more effective means of creating more wealth for all of us than hare-brained "share the wealth" schemes. Despite the fact that these schemes have been so often and thoroughly discredited, it is surprising to hear outcroppings of them from people who should know better. Not only at home are we plagued with ill-conceived propositions to redistribute the wealth but internationally as well. Mr. Bevin's request for the gold in Fort Knox is an example. While it is true that maldistribution causes a stifling of production, we also know that in taking every means to manufacture more things, we will, by this very act, resist the forces that bring about imbalances.

[Mr. Jacobs is a certified public accountant of New York City. Mr. Leon is security analyst of Stern, Lauer & Co.—The Editor.]

Justin Jacobs

William G. Leon

The Modern Frankenstein

The rising spiral of prices and the threat of new wage demands is bringing us nearer to the modern Frankenstein of state collectivism. Frustration produces stagnation and despair. It is then that the majority of people succumb to the idea that the omnipotent state will solve all problems. The division of society into opposing camps led by the "haves" and "have-nots" leaves the individual with a choice between two evils. This must be avoided by all means. Even an era of searching for a solution is preferable to an absolutism from which there is no escape. We can live with faith and hope and can only die in despair.

What to Do About It

Permissive legislation is more in keeping with the democratic way of life than compulsion. Congress may work constructively by enacting legislation that will permit every business in our land to adopt the following plan:

(1) Pay labor regular rates, instead of premiums for overtime.

(2) Give all employees, including foremen, white-collar workers, and executives, a fixed percentage of pre-tax profits in proportion, up to the first $5,000 of their base pay.

(3) Provide that all overtime and profit-sharing be paid in the form of five-year non-negotiable U. S. stabilization bonds, redeemable at any time at face value, plus interest, but wholly tax-free only if held to maturity.

(4) Allow business to amortize, for tax purposes, new productive facilities over a five-year period under Certificates of Necessity.

(5) Work out a plan, whereby railroads and manufacturers will obtain the most modern and efficient machinery, for existing equipment and export marginal facilities to countries which show an ability to help themselves, and take, in exchange, credits for their exports, against which we will agree to receive goods as, and when, they are produced. A tariff concession for these imports into the U. S. A. should be carefully considered.

(6) It might be well to try to work out a plan whereby the same privileges noted in (4) and (5) above might be offered to farmers, in consideration of a modification of parity payments.

(7) Allow corporations to deduct dividends for income-tax purposes.

(8) Re-install free exchange markets so that world trade can revive.

Who Benefits?

In the following section of this article, we will explore the benefits of this plan to:

(1) Business.
(2) Labor.
(3) Fixed-income groups.
(4) The U. S. A.
(5) Other nations.

Benefits to Business

If we continue the policy of sharing our wealth with other nations, the ultimate result will be that our economy and currency will be dragged down with theirs. Although certain businesses may temporarily profit by being paid for their exports with their country's own money, the end result will be disastrous to business in general, because not only are we depleting our own natural resources without getting anything in return, but we weaken our foreign customers by subsidization and thus inhibit their productivity. Eventually the value of our currency would degenerate and monetary troubles will beset us with tragic consequences.

As long as we share our wealth with other nations, we will become progressively poorer. To the extent that we give them our most modern and efficient machinery and leave our own factories with comparatively antiquated and less efficient machinery, we are working toward an eventual condition whereby our beneficiaries will be able to undersell us in world markets. Everything should be done to keep the big lead that we now have in the world's best productive tools, without which it would

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From Washington Ahead of the News

By CARLISLE BARGERON

Your correspondent has always felt a certain fascination for science and scientists, because it and they are something he doesn't understand. As a kid in school, I couldn't help deferring to the boy who was majoring in science, at the same time pitying him because he was preparing for a racket which didn't make much money.

Carlisle Bargeron

However, a lot of backward people—not the kind Roosevelt used to moan about — but people such as professors, economists and scientists have come to show quite a knack of making money, and while none of the youngsters of my acquaintance who were majoring in science have got their names in the newspapers in connection with the atom bomb, they nevertheless seem to be doing pretty well with industry.

The scientist who completely awes me is Dr. Gallup. He is manifestly not of the retiring school with which we used to associate scientists. He sees no reason why his studies and findings should not be popularly available at popular prices. The way the doctor goes around tapping the popular pulse is, to my mind, one of the most amazing examples of what science can do.

I would not dare challenge his tappings because, as I have said, science, the mystery of it, completely floors me.

But when he reports periodically that Mr. Truman is gaining in favor and would be reelected as of today, that the American people believe 51 to 49 or 48 to 32 with the rest being uncertain, that the Democrats are better capable of handling the world situation, inflation at home, than the Republicans, then I can do my own researching and tapping of the pulse, etc., to ascertain why.

Unquestionably the situation arises from the fact that the American people must love bungling. I had not thought of it before, but one of our most popular comic strips is entitled "The Bungle Family."

You can't escape the conclusion that the reason for Mr. Truman's increasing popularity and the fact that the American people believe his party is more capable of dealing with our domestic and foreign problems, is because of such things as this:

A few weeks ago at a press conference, Mr. Truman referred to the return of price controls as a police state, of which he would have nothing in time of peace. At the time, his tall handsome brain truster, as he is described in the press, Clark Clifford, openly winced. The brain truster's discomfiture was obvious to everybody at the press conference. Who in the name of Heavens Mr. Clark Clifford is and why he should be in the position of brain truster, is one of those crazy things in American polities. But he seems to be that.

Then only a short time afterwards, Mr. Truman sought price controls from Congress. Oh, he wouldn't use them, he said, only in case of necessity. He would try voluntary means first. When the government tells you that if you don't do a certain thing voluntarily you will be made to do it, of course, there is nothing voluntary about it.

The Republicans eventually came forward with a temporary program of their own. It involved relaxing of the anti-trust laws in the matter of industry getting together on allocations. Mr. Truman hit the ceiling and said that while he was in office, there would be no relaxation of the anti-trust laws. It was just like the Republican highbinders, he said, in effect, to try to use our emergency situation to accomplish something just like this.

His attention was called to the fact that his own program called for a relaxation of these laws. Oh yes, he said then, that was a fact and he didn't mean that the anti-trust laws should not be relaxed but that they should only be relaxed by him.

In the meantime, the Republicans, notably Bob Taft, were questioning his Cabinet members and Marriner Eccles and finding out that they, the Administration, frankly had no idea what was wanted. Nothing can be more apparent than that two or three days before Truman sent his message to the extra session of Congress which he had called by way of showing his ability to lead in a "crisis," he had not the slightest intention of asking for controls; indeed, didn't know what he should ask for. Now, some political wiseacres around him sold him on the idea of asking for controls on the understanding the Republicans would not grant them and he would be credited with having acted boldly.

But while his cabinet members were muddling and telling the Congressional committees privately, sometimes openly, that they didn't want the controls, it developed that high figures in the Administration have been speculating in the commodity markets which Mr. Truman, by way of showing strong action, had been denouncing. The names of the culprits are being bandied around Washington freely and in due time, I presume they will be made public.

Another thing that must be responsible for Dr. Gallup's finding of the people's confidence in the Administration is the paradox of Clinton Anderson going around the country and insisting that our wheat exports have been no more than normal, that we are a wheat exporting country and that with our bumper crop, it is a Godsend that we can export, when Mr. Truman is asking us to observe wheat conserving days. We were supposed to do this to get starving Europe over the winter.

Yet this same Clinton Anderson told a Congressional committee that the wheat we intend to send Europe through March has long ago been bought up. Proudly he told the committee that he had anticipated the "crisis" last June and had been on the job. All he wanted now was Congress to appropriate the money which he had already spent through Commodity Credit.

I certainly can't question Dr. Gallup's science but the American people must be nuts.

Business Conditions and the Banks

By WILLIAM L. BENNETT*

Financial Writer, New York Herald-Tribune

Mr. Bennett, in reviewing accomplishments of 1947, predicts a still higher gross national product in 1948. Says increased national income will enhance inflationary trend which will reflect further price rises. Scores failure of Washington to put brake on inflation, and concludes chances of raising physical output to point offsetting inflationary pressures are dim.

Business in 1947 will report the best peacetime year in the history of the country. Despite all complaints about the need for increased production of physical goods and services there can be no doubt that never before have we produced so much save under the urgency of war, and in respect to dollar volume the levels of previous years have been surpassed. Most of the gauges of prosperity and business activity indicate a two and three-fold gain over 1939, the last full year before the start of defense activities, and in addition they show large advances over 1946.

Wm. L. Bennett

So great has our economy become that it presents a problem to anyone who summons up the temerity to analyze the present and predict the future. Usually when attempting to forecast what lies ahead one goes to some similar period in the past to establish a base for comparison and prediction. The current times are out of joint with the past, however, and it is evident that we never had anything like the experiences we are undergoing now.

Some observers go back to that happy era just preceding October, 1929, for purposes of comparison and analysis. It does not require much imagination to realize that the two periods are quite dissimilar, or to know that if the economy returned to 1929 levels it would be a disaster that would bankrupt the government and all of us citizens as well.

Americans have always been accused of boasting that everything in the United States is bigger and better than anywhere else on earth. Probably at some late date one of us here tonight will tell someone outside of the U. S. about 1947 and the story will be dismissed as just another case of Yankee bragging. Actually, when looking at the figures, 1947 seems a little incredible even now. Everyone and everything in the country are busy and they tell me that we are all making money. Even you bankers are not doing too badly, though your industry will reverse the general trend in that earnings will be lower than in 1945-46. Still the banks may take some comfort from the fact that things are looking up for the industry in 1948 which has been indicated by reports of more favorable earnings in the last half of the current year.

What 1947 Has Accomplished

Let us look at some of the figures concerning the accomplishments of business in 1947. As a means of simplification they have reduced to terms affecting each individual of our 140,000,000 population and compared with similar figures for 1939.

Gross national product per person for the year will amount to $1,607 against $643 in 1939. National income will total $1,428 a person compared to $521. Disposable income, or that amount available after payment of taxes, will equal $1,242 a person against $500 in 1939. Wages and salaries paid out during the year will aggregate $864 a person compared to $321. In addition, there is enough money now on deposit to provide $1,000 for everyone in the United States, while if deposits had been distributed in 1939 each of us would have received only half that sum.

This tremendous wave of business activity and prosperity is, of course, an outgrowth of a series of unfortunate circumstances, and unfortunate is meant in the true sense of the word. It required a war to bring these conditions about and in the process we lost more real wealth than can be made up in ten such prosperous years, but, worst of all, we lost valuable lives both now and for the future that can never be called into being. Thus, we have paid a terrible price before the event and certainly we shall be called upon to pay a good deal more in the future unless we are wiser and more fortunate in the handling of our economic and political affairs than in the past.

Reflection of Monetary Inflation

The most important of the circumstances affecting our discussion here tonight is that this facade of good business both covers and reflects a vast monetary inflation of world-wide proportions. In so far as domestic conditions are concerned, this is the result of about $280 billion in deficit financing by the government partly to pay for the New Deal, but mainly to defray the cost of the war. While the Treasury has retired some $25 billion of this debt in the last 20 months, it has hardly scratched the surface and the country is literally soaked with money and credit derived from government financing operations. In addition, we have an almost insatiable demand for practically all we produce, which was created by war shortages and the tremendous expansion in money, the medium of purchase. On top of this must be added foreign requirements for American goods that resulted in a $19 billion export trade in 1947 and a net foreign trade balance in our favor of $11 billion.

It is no wonder, after taking these factors into consideration, that business is excellent and can make a profit even though costs have been multiplied two and three times or that prices of goods, especially food, appear to be headed for the sky.

Nineteen-forty-seven will be over in less than three weeks from tonight and the next order of business is 1948. In my opinion, and without delving into the mystic realm of international politics and the effects of an election year, business should remain at least on a plateau for the next nine to 12 months. There are, it is true, many things in our economy and in developments abroad that show evidence of strain and portend trouble for the future. However, I believe that the forces supporting the boom are strong enough to carry us through 1948. After that I do not know and no one I have talked to seems to be any wiser than I am, save that the subject when it has come up has invariably produced a case of the jitters.

1948 Prospects

Some sticky situations are likely to appear in certain lines during 1948. But I believe that when they do many individuals who have been priced out of the market or who wisely have been awaiting more favorable prices will come in and buy.

Political developments may throw all predictions for 1948 to the wind. Yet, though I agree with Oscar Wilde's definition of a cynic as a contemptible person, "who knows the price of everything and the value of nothing," I am inclined to be cynical about much of the current activity in Washington. The possibility that any measures will be adopted that could effectively put a brake on the inflation seem very remote.

As you all know, the New Deal spent most of its time before the war trying to produce an inflation and now the heirs of the New Deal are wrestling with the Frankenstein left on the postwar doorstep. While most of the original New Dealers are now said to be in exile, their influence politically is not dead and many of the body politic look longingly over their shoulders for a return of the "never-never" philosophy of the "spenders." We must also remember that it is only 11 months to the next Presidential election and thus it is hard to imagine either party seriously trying to produce a deflationary trend of any sizable proportions, along with its concomitant drop in wages and prices and the possibility of a slowing up of business and some unemployment. You don't kill Santa Claus just when you need him most!

Therefore, I predict that gross national product will hit $250 billion in 1948 compared to $225 billion in 1947 and gross national income will probably go to $215 billion or more against $200 billion this year. All other indicators will show commensurate increases as well. These gains will be largely inflationary and will reflect further rises in the price level. There does not appear to be a chance of effectively raising

(Continued on page 68)

*An address by Mr. Bennett before the Northern Anthracite Bankers Association, Scranton, Pa., Dec. 11, 1947.

Public Utility Securities

International Hydro-Electric

Like some other holding companies slated to be dissolved under the Holding Company Act, International Hydro-Electric is suffering from a plethora of plans, which keep the investor and speculator guessing as to the ultimate outcome. Three plans were submitted to the SEC last summer and one of these, the "official plan" prepared by Trustee Bartholomew A. Brickley, has now been amended.

The System's principal assets consist of all the common stock of Eastern New York Power and portions of the stock of Gatineau Power (of Canada) and New England Electric System. Gatineau is traded on the Curb and New England Electric is now on the Stock Exchange, so that market values are available for these issues, but the value of Central New York must be estimated.

The latter, a merger of two small hydro-electric properties, has little or no retail distribution but is engaged mainly in wholesaling power to other utilities, industrial companies and municipalities; some of its plants are leased to International Paper (which formerly controlled International Hydro). Earnings for the 12 months ended June 30 were $2.13 a share. In the current poor market for utility equities it is estimated that the stock might be valued around 20. Gatineau is currently selling around 15 and New England Electric around 12.

Using these values, it is estimated that each International Hydro-Electric Debenture would receive a package of shares worth $545, compared with the $700 face value of the bond (following payment of $300 in cash, already completed). This value would be lower than the recent market price around 64.

The bundle of shares assigned to the preferred stock would have an estimated value of 72, however, as compared with the recent price of 59. Similarly, the three-quarters of a share of Gatineau to be given each share of class "A" stock would be worth about 11, well in excess of the recent price of the "A" stock of 7½. In addition the Class "A" share would receive a non-negotiable receipt for a pro rata share of the remaining assets.

At this writing further details of the amended plan are not yet available. It is understood, however, that the plan is based on the so-called "investment value" bases of assignment. Under this method earnings and dividends records of the securities in each exchange package are compared with similar figures for the security being retired. The SEC and the courts have discussed this method and used it to some extent, although its adoption is so important that it may eventually require examination by the United States Supreme Court. It may reach the high court eventually through the Engineers Public Service case, or some other case involving the question of paying redemption premiums on preferred stocks; or through a test of some "package" plan now before the SEC—such as those of Commonwealth & Southern, United Corp., or International Hydro-Electric.

Judge Healey, well-known SEC Commissioner who died a year or so ago, was a militant defender of the "priority" theory, which tended to support the full claims of senior securities. The present members of the commission appear to be moving away from this theory in the direction of more or less arbitrary assignments to senior securities, based on statistical reasoning with respect to earnings, dividends, past market behavior, etc. In other words current market value, it is assumed, does not necessarily reflect "investment value", which is more long-range in character; and hence current market value is no considered a vital factor in making up an exchange package.

Caffrey Resigns As Chairman of SEC

James J. Caffrey resigned yesterday (Dec. 17) as Chairman of the Securities and Exchange Commission. In a letter to President Truman, Mr. Caffrey stated that his action was occasioned by "family responsibility which I no longer can ignore" and disclosed that he intends to shortly enter private law practice in New York City. Mr. Caffrey was appointed a Commissioner in May 15, 1945, and became Chairman on July 23, 1946. His association with the Commission dates back to 1935 and he was, for nine years, Regional Administrator of the SEC's Boston and New York offices.

James J. Caffrey

As the Chairmanship of the SEC is usually determined by majority vote of the Commissioners, Mr. Caffrey, a Democrat, will be succeeded by either Robert K. McConnaughey or Edmond M. Hanrahan, both Democrats. The remaining Commissioner is Richard B. McEntire, who is a Republican.

Joins Dean Witter Staff

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—John D. Armstrong is with Dean Witter & Co., First National Bank Building.

Schram Again Scores Margin Restrictions

President of New York Stock Exchange supports contention of J. M. Mehl, Administrator of the Commodity Exchange Authority that discriminating credit restrictions on listed securities has diverted trading into commodities. Says speculation is inherent in our economy.

Emil Schram, President of the New York Stock Exchange, released on Dec. 16 a statement in which he upheld the testimony before the House Banking and Currency Committee on Dec. 9 of Joseph M. Mehl, Administrator of the Commodity Exchange Authority. In his testimony Mr. Mehl argued that margin restrictions on trading in listed securities had diverted trading into commodities, especially grain, and that speculation was not primary cause of higher grain prices. The statement of Mr. Schram follows:

Emil Schram

"Mr. Mehl, Administrator of the Commodity Exchange Authority, has performed a public service by bringing out in his annual report, the little-realized fact that the Federal Reserve Board's arbitrarily high and discriminatory credit restrictions on listed securities has diverted trading into commodities, such as grains, etc.

"As long ago as Sept. 30, 1946, I reminded the Federal Reserve Board that the undue restrictions on the use of credit in the purchase and carrying of listed securities was not only unsound and discriminatory, but had caused the transfer of investment funds into speculation in commodities, farm lands and real estate. Repeatedly, I have warned Marriner Eccles, Chairman of the Board of Governors of the Federal Reserve System, of this fact.

"Moreover, I have pointed out, again and again, that the Reserve Board's ill-advised use of its credit authority apparently as a price control measure, has contributed to unsatisfactory conditions in the securities markets with the result that many of our best corporations are finding it difficult to raise capital through the sale of equity securities at a time when there is a greater need for such capital than ever before. Almost daily we hear of such companies having abandoned or postponed announced plans for equity financing or having been forced to resort to debt financing, which can have highly inflationary effects.

"There is a great deal of loose talk these days about speculation. Risk-taking which contributes to the liquidity of markets and to the ability of our securities markets to supply capital is constructive and should be encouraged. Speculation is inherent in our capitalistic economy. We can best encourage the useful employment of surplus funds by a realistic revision of the tax structure and by adjusting, to a common-sense basis, the onerous credit restrictions now being applied to listed securities. In my opinion, such a basis would be not less than 50%."

Dealer-Broker Investment Recommendations and Literature

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

Deflated Insurance Stocks—Reprints of address by George Geyer before joint meeting of the Rocky Mountain Group of the Investment Bankers Association and the Denver Bond Club—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

Inflation and the Utilities—Memorandum—C. D. Robbins & Co., 810 Broad Street, Newark 2, N. J.

Natural Gas Industry—Review of the industry and the present position of some of the representative equities—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.—$1.00 per copy.

Also available is an investment appraisal of the **Ohio Oil Co.**

Public Utility Stock Guide—Comparative figures on public utility preferred and common stocks—G. A. Saxton & Co., Inc., 70 Pine 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 Candidates for Absorption—Memorandum—Joseph Faroll & Co., 29 Broadway, New York 6, N. Y.

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

* * *

Algoma Central and Hudson Bay Railway Co.—Circular on appreciation possibilities — Draper Dobie & Co, 330 Bay Street, Toronto, Ont., Canada.

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

Also available is a special report on **Diebold.**

Atlanta Gas Light Co.—Detailed analysis—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Central Coal & Coke Corp.—Memorandum available to investment dealers—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

Chicago, Rock Island & Pacific —Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

Also available is a memorandum of **Railroad Developments of the Week.**

Ducommon Metals & Supply Co. —Circular—Maxwell, Marshall & Co., 647 South Spring Street, Los Angeles 14, Calif.

Empire Millwork Corp.—Statistical analysis—Frank C. Masterson & Co., 64 Wall Street, New York 5, N. Y.

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

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

Muter Company—Bulletin—Hicks & Price, 231 South La Salle Street, Chicago 4, Ill.

Panhandle Producing & Refining Co.—Analysis—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

Portland General Electric Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

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

Also available is late information on **Gruen Watch Co. and Buffalo Bolt Co.**

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

Dec. 19, 1947 (Detroit, Mich.)
Bond Club of Detroit 31st Annual Christmas Party at the Savoyard Club.

Dec. 19, 1947 (Los Angeles, Calif.)
Security Traders Association of Los Angeles Annual Christmas Party at the Elk's Club.

Dec. 22, 1947 (New York City)
Toppers Annual Christmas Party at the Hotel St. George, Brooklyn.

Dec. 24, 1947 (Toronto, Ont., Can.)
Annual Buffet Luncheon Toronto Bond Traders Association at the King Edward Hotel.

Jan. 14, 1948 (Detroit, Mich.)
Annual Dinner of the Detroit Stock Exchange at the Hotel Statler.

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

Halsey, Stuart Group Offers Central Equips.

A group headed by Halsey, Stuart & Co. Inc. was successful bidder Dec. 17 for $12,800,000 New York Central RR. equipment trust certificates, naming a price of 99.301 and a rate of 2⅝%.

Reoffering is being made at prices to yield from 1.50% to 2.95%, according to maturity.

Europe Can Be Put on Self Sustaining Basis

By CAMILLE GUTT*

Managing Director, International Monetary Fund

Mr. Gutt portrays critical European economic and political affairs, but contends the picture is not all dark. Says there has been some recovery, and implementation of Marshall Plan will greatly help. Sees prime need of currency stabilization, which can be accomplished by budget balancing and financial and economic reforms, facilitated by Marshall Plan. Points out International Monetary Fund awaits currency stabilization and concludes there is reasonable basis for Europe to put itself on self-sustaining basis.

Introduction

The European economic situation is at a critical point in world affairs. It is critical in a very real sense, for the measures that are taken to enable Europe to meet its urgent requirements for minimum consumption and reconstruction will determine the kind of world economy we shall have. With aid from the United States to maintain tolerable living standards in Europe and a prospect for rebuilding the European economy on a self-sustaining basis there is a good chance of having a world economy in which countries trade with each other on a business basis and for their mutual advantage. Without such aid Europe will inevitably be driven to extremist solutions involving severe restrictions and far-reaching modifications in the economic and political structure. It is in this sense that the present payments problem of Europe is critical.

Camille Gutt

Dark Clouds

It is not easy to explain why two years after the war an area embracing the oldest industrial countries and some of the most progressive in economic and political institutions should be suffering from a payments crisis. Of course the direct and indirect war damages account for it to a great extent. But in large part, too, I believe the present economic difficulties arise from unsettled political conditions. The hope that was so widely held for the prompt restoration of peace has not been realized. The political differences among the great powers, manifested in the present strained relations, contribute to internal political divisions and impinge directly on economic conditions.

The failure to make peace requires countries to spend considerable resources in meeting political commitments overseas. You can judge for yourself how important this can be from the fact that of the aggregate balance of payments deficit of Britain, last year, three-quarters is represented by overseas expenditure of the government. And this does not include the full value of the resources of manpower and equipment sent abroad which could be used for production at home.

The failure to make peace disrupts the economy of Europe. Without Germany the European economy cannot function efficiently. Before the war Italy, Netherlands, Denmark and other countries depended to a very large extent on German markets. In turn, Germany was a big provider of machines, tools, coal and other raw materials to Europe. The loss of this trade to and from Germany has placed a serious economic burden upon Western Europe.

Apart from these political factors there have been unfortunate economic conditions which have delayed European recovery. Of greatest importance is the bad weather. A cold winter, a wet spring and a dry summer have resulted in the poorest crops in Western Europe in many generations. In France alone, the deficiency in wheat will necessitate additional imports on the order of $300 million for the crop year 1947-48. In Denmark and the Netherlands the reduction in food and fodder crops will necessitate a big curtailment of livestock which will impair their capacity to produce meat and dairy products for three years or more.

Of almost equal importance has been the extreme difficulty of getting normal supplies of coal. Before the war European coal supplies were met from local production and imports from Britain and Germany. Except in France, coal production is less than before the war in every coal producing country of Western Europe. A reduction of about 20% in British output has cut off entirely any supply of British coal to the continent. With the disruption of German coal production, German coal exports have fallen to a small fraction of the prewar volume. To make good the desperate deficiency, there has been a substantial import of coal from the United States.

Insted of having access to the cheap coal of Germany and England, Western Europe has had to import from the United States at a high cost in dollars for coal and freight. If European coal were available it could be purchased for about $10 a ton and payment could be made with ordinary exports to Germany and England. As it is, coal must be imported from the United States at a cost of $20 to $25 a ton, including freight, and payment must be made in dollars.

This is, too, an indirect consequence of the war, and of the social effervescence which every war of that kind gives rise to. Miners are much more difficult to recruit than before. Forty years ago, the mining profession was a familial one. Sons were taking the place of their old fathers, quasi-automatically. Today, they try to find another occupation. Of course, to appreciate that, one must realize that mines in Europe are very different from mines in this country and much more difficult to work. In Belgium, for instance, there are many mines 3,000 feet deep, where the miner is obliged to work in very narrow shafts with only a minimum of mechanical devices, and before the war, the average output was 1,706 pounds 6 ounces per miner, compared with nearly five tons for bituminous coal in this country. But, whatever the reason, the fact is that much is being done to entice the miners back to the mine, but, in the meantime, Europe is in dire need of coal.

A third economic factor in the slow recovery of Europe has been the scarcity of dollar exchange with which to purchase essential raw materials and equipment in the Western Hemisphere. High prices have reduced the purchasing power of aid they have had from the United States and impaired their limited reserves. Restrictions have been placed on imports ordinarily regarded as indispensable. As a consequence, European industrial production has been seriously interrupted by the inadequate and irregular flow of raw materials. This has been true not only of countries like France and Italy, but also of Netherlands and Britain.

Silver Lining

The picture, however, is not all dark. Western Europe has made an excellent start toward reconstruction. Industrial production is near or above the 1938 level in Belgium, Denmark, France, Norway and the United Kingdom. It is within 90% of the prewar level in the Netherlands. And even in Italy, industrial production is about 70 to 75% prewar. In all of these countries a very large part of industrial production has been devoted to investment for reconstruction and modernization. In fact, so eager have they been to place their economies on a strong and efficient basis that they have probably devoted too much of their resources to investment and have kept the consumption standards of their people too low.

Special efforts have been made by these countries to restore their export trade. In the first 8 months of this year British exports have been at, or slightly above, the prewar volume. In Belgium and France they have been just below the prewar volume, although French exports have been falling off rapidly in the past three months. In Norway, exports have been about 90% of the prewar volume. In Denmark, Netherlands and Italy exports have been at approximately 75% of prewar.

While some measure of success has been achieved in rebuilding European production and restoring trade, the progress of the past two years has about come to a halt. What has already been done has involved not only great sacrifice at home but the use of aid and credits from the United States, and many large reserves, which have about been exhausted. As a consequence, a serious payments crisis has emerged. In order to conserve their remaining foreign exchange resources for food and fuel severe restrictions have been placed by almost all European countries on current imports of anything that can be remotely classified as dispensable.

* * *

Marshall Plan

Without additional aid the progress of recovery in Europe would be interrupted and there is serious danger that the gains already achieved would be lost. No doubt, Europe would manage to survive, but only at the cost of intolerable restrictions and increased regimentation. The aid of the United States is essential if Europe is to keep reconstruction and to take its place as a major element in a functioning world economy.

In his famous speech at Harvard, Secretary of State Marshall said that the United States was prepared to help complete European reconstruction, if these countries would make special efforts to help themselves and cooperate to mobilize the resources of Europe for reconstruction. The Committee for European Economic Cooperation which met in Paris has presented quite a good program for self-help and for effective use of aid that may be forthcoming from the United States.

Self-Help

I want to stress the fact that Europe has done a good deal to help itself. In every Western country special efforts have been made to rebuild the national economy on a more efficient basis. Consumption has been held down to levels far below prewar. Real wages are everywhere distinctly below prewar, in some countries like France considerably below. The European countries have also done a good deal to help each other. Inter-European trade has recovered to the prewar level very largely because, through their payments agreements, they have been extending credit to each other on a relatively large scale.

These payments agreements had their origin in the Dutch-Belgian Agreement of 1943 which I negotiated for Belgium. Under this agreement, Belgium undertook to provide the Netherlands with Belgian francs to make payments for imports from Belgium and the Netherlands undertook to provide Dutch guilders for imports from the Netherlands. The net credit is limited in amount and payments in excess of the stipulated credit have to be made by the transfer of gold and dollars. This Belgian-Dutch Agreement became the model for 129 European payments agreements involving aggregate credit margins of $950 million. Now, the near-exhaustion of these credits in many cases has become a handicap to the continued expansion of inter-European trade.

The Marshall Plan looks to the expansion of European production as a principal means of maintaining consumption and completing reconstruction in Europe. If the European countries are to offer each other the maximum help of which they are capable, the flow of goods in inter-European trade must be continued and increased. In general, the European countries are not in a position to give each other much more financial assistance. Some other means will have to be found to assure the flow of essential goods in inter-European trade.

Currency

One of the big factors that has retarded recovery in Europe has been the unstable financial situation in a number of European countries. The full use of European productive power in its most effective form will not be possible until the problem of financial stability has been solved. This has been recognized in the Paris Report. It was the subject of full and frank discussion in the financial committee of the Paris Conference, which I was invited to attend.

There is no doubt that European countries realize the necessity for monetary reform to assure stability and to encourage production. So long as the people have no confidence in the currency, they will refuse to produce and sell their goods. Businessmen hold on to inventories for fear they will not be able to replace their raw materials. They undertake new investment which is not immediately productive, using scarce resources, in order to have some alternative to holding cash.

Even in agriculture the lack of confidence in the currency and the inability to purchase consumer goods leads to great waste in production. Let me give you an illustration. In France, and in other European countries, too much land is kept in pasture; and farmers grow fodder rather than wheat. The fodder is fed to livestock during the winter. The weight put on during the summer and fall is lost during the winter, so the farmers start the new year with older cattle and a complete waste of land and fodder. But they avoid selling their cattle and holding currency. To the community all this means a real loss in foodstuffs, necessitating larger imports at the cost of precious exchange.

The same which happens within a country takes place between different countries. One is not going to accept the currency of another because it cannot make use of such currency to make its own payments. In other words the currency is not a convertible one.

If currency stability could be restored, if people could once more have confidence in their currency, production would be increased, its usefulness for consumption and investment would be greater and the international economic position of the countries could be strengthened. That's why I believe that stabilization must be given emphasis in any program for rebuilding a self-sustaining Europe. But stabilization cannot take place as long as inflation goes on.

Inflation

There are two big sources of inflation—budget and credit policy. These sources of inflation must be shut off before the currency can be stabilized and confidence restored. Beyond that, efforts must be made to see that expenditure on consumption and on investment is limited to the volume of goods that are available for these purposes at constant prices.

1. So long as Europe is short of consumer goods, there will be pressure for higher wages in the hope that somehow workers will be able to buy more food. But the effect is only to raise prices and not to increase consumption. For this reason incomes cannot be permitted to rise unless there is an increase in the supply of consumer goods.

2. At the same time, the volume of resources devoted to investment must for the time being be limited. Otherwise resources will be diverted to distant investment purposes and the community deprived of goods needed for current use. To assure that the volume of investment is not excessive, the creation of new credits and the issue of new securities must be strictly limited.

3. The third source of excessive demand is the expenditure of the government itself. At a time when countries are desperately short of goods, the use of large resources for government purposes may represent a diversion from more urgent to less urgent uses. Governments must in every sense re-

(Continued on page 74)

*An address by Mr. Gutt at the Curtis Hotel, Minneapolis, Minn., Dec. 15, 1947.

Connecticut Brevities

The annual report of The Plastic Wire & Cable Corporation for the fiscal year ended Sept. 30, 1947, showed net income of $133,032, or earnings of $1.34 a share compared with $85,253, or 85¢ a share for the preceding fiscal year. All of this year's earnings were reinvested in the business—approximately half being used for plant and equipment and the balance is reflected in an increased net working capital position. Net sales for the 1946-47 fiscal year were $3,046,086 compared with $2,205,248 for the preceding fiscal year.

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In the "Chronicle" of Nov. 20, page 10, it was erroneously stated that The Bullard Co. of Bridgeport had reported to the SEC sales of $13,593,271 for the quarter ended Sept. 30, 1947, and nine months' sales of $41,370,557. In calling our attention to this inaccuracy, G. L. Todd, Vice-President and Comptroller of the company, points out that the correct figures as reported to the SEC are as follows: Sales for the quarter ended Sept. 30, 1947, $1,626,760; sales for the nine months ended Sept. 30, 1947, $6,630,147.

* * *

Bush Manufacturing Co., for the fiscal year ended Sept. 30, 1947, reported net earnings of $134,364 or $1.46 a share on the common, after taxes and preferred dividends, compared with $96,844 or 95¢ a share the previous year. Sales for the year were $3,893,422 compared with $3,468,801.

* * *

Francis B. Cooley has been elected a director of the Aetna Life Insurance Co., Aetna Casualty & Surety Co., and Automobile Insurance Co., to replace the late John J. McKeon.

For the month of November, Connecticut Light & Power Co. reported sales of 93,753,000 kilowatt hours compared with 91,562,000 kilowatt-hours for the corresponding month in 1946, or a gain of 2.4%. Output for the week ended Dec. 6 established an all-time record for the company. The new figure is 30,784,182 kilowatt-hours, topping by 749,177 kilowatt-hours a previous record set for the week ended Dec. 21, 1946.

* * *

Stockholders of the Hartford-Empire Co., glass-making machinery producers, have authorized the purchase of Standard-Knapp Corp. of Portland, Conn. The latter company makes machinery for container manufacturers. Hartford-Empire will buy the 10,000 outstanding shares of common stock of Standard-Knapp for $4,000,000. The purchase contract provides for an initial payment of $1,000,000 upon transfer of ownership. The $3,000,000 balance will be paid by serial collateral trust notes held by the Bank of Manhattan, which mature through 1952. The Standard-Knapp Corp. was incorporated in 1931 as successor to the Standard Sealing Equipment Corp. The company has a modern plant with a floor space of 70,000 square feet, and employs 500 people. The current backlog of orders is approximately $6,000,000. In 1947 sales were $5,500,000.

* * *

The SEC has approved a plan filed jointly by United Gas Improvement Co. and its public utility holding company, Connecticut Gas & Coke Securities Co., for the dissolution of the latter company.

* * *

On Dec. 8, the ICC announced it had granted the New York, New Haven & Hartford Railroad a 15% increase in passenger fares. This raise would increase the coach rate from 2½¢ to 2⅞¢ per mile and would result in an estimated annual additional revenue of $5,300,000.

Freight carloadings at 14 Connecticut cities totaled 8,530 for the month of November against 9,164 for November of 1946.

* * *

Peter Paul, Inc., recently announced that the company would begin operations at their new plant in Dallas, Texas, shortly after the first of the year.

* * *

For the month of October 1947, Southern New England Telephone reported total telephone revenue of $3,542,604 against $3,253,782 in October a year ago, or an increase of 8.9%. Income available for fixed charges was $226,425 against $345,703, while net profit available for dividends was $145,070 against $283,667. Total telephones in service increased 9.6% over a year ago. The decline in net available for fixed charges and net available for dividends was due to employee pay increases earlier in the year.

* * *

On Dec. 2, the Town of Fairfield, Conn., sold $725,000 Elementary School bonds to Lehman Brothers for a bid of 100.18 for 1.30s. The bonds were dated Dec. 1, 1947 and mature $73,000 annually 1948 through 1952 inclusive, and $72,000 annually, 1953 through 1957 inclusive. The issue was reoffered on a scale ranging from a .75% basis to a 1.30% basis.

Also, on Dec. 2, the City of New Britain awarded $175,000 School Bonds, and $500,000 Veterans Temporary Housing bonds to Harriman Ripley & Co. at 100.31 for 1½s. The school bonds mature $10,000 a year, 1949 to 1965 inclusive, and $5,000 in 1966; and the Veterans Housing bonds mature from 1949 through 1966 inclusive. The issues were reoffered on a scale ranging from a .85% basis to a 1.75% basis.

* * *

On Dec. 11, there were three municipal issues offered: $660,000 City of Norwalk, various purposes, maturing from 1949 to 1968, were awarded to Coffin & Burr at 100.395 for 1.80s. These were reoffered at bases ranging from .90% to 1.90%.

The City of New Haven sold $421,000 General Public Improvement bonds to Halsey, Stuart & Co. and the First of Michigan Corp. for 100.777 for 1½s. The bonds mature from 1949 through 1957 and were reoffered on a scale ranging from .90% to 1.40%.

The Town of Wallingford sold $350,000 Elementary School bonds to the Harris Trust & Savings at 100.55 for 1½s. These bonds matured from 1948 to 1957 and were scaled from a .85% basis to a 1.45% basis.

Southern California Economists' Recommendations On Curbing Inflation

Send memorandum to Joint Committee on President's Economic Report recommending an over balanced budget with use of surplus to retire government debt. Propose raising bank legal reserve ratios and placing restrictions on new bank credit. Suggest new savings bond issue which will give low income holders some relief from tax liability, along with measures to stimulate production and imports.

A group of 19 economists connected with colleges and universities in Southern California have subscribed to a memorandum sent to the Joint Congressional Committee on the President's Economic Report regarding the causes and the remedies of the current inflation. The full text of the memorandum follows:

Introduction

The causes of today's price inflation are primarily the responsibility of the Federal government. Some fiscal policies have been unwise; some economic legislation unsound. Other errors have been those of omission, failure to take anti-inflation steps in time. Superficially the responsibility for these policies lies at both ends of Pennsylvania Avenue. However the fundamental difficulty is ignorance of economic principles. The public—and some of its elected representatives—is not sufficiently aware of the upward pressure upon prices of new demands backed by new income and money. Only this can explain such paradoxes as simultaneously demanding lower taxes and lower consumer goods prices.

Remedies for the present high cost of living must be applied from Washington. It is Federal actions of the past and present which have done most to raise prices. The problem of inflation is not regional but national, not private as much as public.

The subscribers of this Memorandum have attempted herein (a) to analyze the causes and effects of inflation, (b) to recommend measures to prevent its further advance, and (c) to indicate the dangers of certain proposed policies which might be adopted through ignorance of economic principles.

Inflation Defined

Inflation as we see it today is a situation in which the demand for goods and services has increased more rapidly than their supply.

The market demand has increased because the public has larger incomes with more dollars to spend and has had to defer the purchase of many durable goods during the war. The total of demand deposits and legal tender in circulation is much greater now than in 1939. And the economy's money stock has risen because the Federal government financed a large fraction of the war with new money.

Supply expansion, on the other hand, has been slowed by material and skilled labor shortages, apprehension regarding the future profitability of long-term investment in productive equipment, etc. In a few cases—e.g. recent crop failures — supply has been physically reduced. Production in most lines is now above the prewar figure, however, with more units being made, sold, and used than before, but this rising rate of output is often outpaced by the increasing demand.

Rising prices are a symptom and not the essence of inflation. When demand outpaces supply, eager buyers bid against each other, and many sellers are able to raise their asking prices. Such behavior is altogether traditional in both commodity and labor markets. Rising prices serve to ration goods when the supply is inadequate to meet the demand. All but the very poor probably prefer rationing by price to distribution according to coupons, sellers' favoritism, or arbitrary allocation rules.

If high prices are the result of demand outpacing supply, and the increased demand is largely a result of an increased stock of money in the economy, direct legal action against high prices does not make much sense. The price level merely provides a rough measure of the extent to which new money has enabled demand to outpace supply. Pushing back a speedometer needle with one's hand does not slow down an automobile and legislating lower prices does not lessen inflation.

Do High Prices Really Matter?

A general increase in prices would not matter if the money incomes of each and every person in the nation rose by exactly the same percentage and rate. A doubling of the price level would then leave everyone with precisely the same real income as before. Everyone would have twice as much money to spend, everything would cost twice as much, and each person would be able to buy the same quantity of goods and services as hitherto. Unfortunately the money incomes of different people do not behave in this way but move upwards by different amounts and at different times. Some groups are organized to have their income increased a lot and at once. Others may eventually secure increases in monetary income, but only after a long period of paying higher prices from an unchanged income. A few persons, on fixed incomes, are never able to adjust, and so suffer a permanent reduction in real income. The relative position of the various groups is then altered according to bargaining power rather than according to the economic contribution of each. In practice, an inflation, and the general price level rise which accompanies it, always results in marked inequities due to the differential adjustment of personal money incomes. Hence inflation is socially unjust and the actions or inactions which cause it should be controlled or offset. Deflation would also be unjust by reverse reasoning.

Changes in Relative Status of Different Groups

The increase in money incomes and prices since 1939 has benefited some groups more than others, and occasionally the gain of certain economic groups has been at the expense of others.

Table One traces the changes in money and real income of three politically vociferous groups: workers, small farmers, and security owners receiving interest and dividends. An examination of the Table shows certain changes in the economic position of these three groups. Workers as a whole gained ground during the war, but have been losing it again since V-J Day. Part of the gains secured in newly negotiated union contracts are now seen to be illusory even though workers are better off in real terms compared with 1939. The farmers have been the greatest beneficiaries of the war and reconstruction period. They also improved their position in 1946 as compared with 1945. The incomes of security owners are considerably higher in money terms than before the war but, with higher living costs, they needed nearly all their extra dollars in 1946 in order to live at former standards.

Unfortunately, there are some defects in the statistics which require some slight modification of the simple arithmetic conclusions. For instance, the "workers" series includes all wages and salaries, and so does not exclude the incomes of professional persons who are not commonly considered working class people. Also the cost of living series is probably an understatement of recent increases. Rents, which have a weight of 18% in the index, have certainly advanced more than the index shows, probably because landlords and others are not willing to report violations of federal rent controls. Many goods deteriorated in quality during the war and this of course constituted a hidden increase in the cost of living. It follows that, if the rise in the cost of living is understated in 1945 and 1946, the increases in real income shown in the Table

(Continued on page 57)

Michigan Brevities

Watling, Lerchen & Co. of Detroit, on Nov. 18 participated in the public offering of an issue of 125,000 shares of $2 par value common stock of American-Marietta Co. (Ill.) at $15 per share and of 150,000 shares of $1 par value common stock of The Rowe Co. at $8.75 per share. On Dec. 10, they also participated, together with other investment bankers, in the public offering of 800,000 shares of Southern California Edison Co. 4.88% cumulative preferred stock (par $25) at $26.25 per share and accrued dividends.

* * *

The Detroit Edison Co. on Dec. 12 registered with the Securities and Exchange Commission 450,000 shares of its $20 par value capital stock, all of which are owned by the American Light & Traction Co., to be offered under competitive bidding conditions. The latter company was recently ordered by the Commission to dispose of its holdings in Detroit Edison Co. in compliance with the Public Utility Holding Company Act.

Parke, Davis & Co., Detroit, early this month arranged a $10,000,000 three-year revolving credit with the National Bank of Detroit and others, and intends to use the proceeds to increase facilities and provide for domestic and foreign expansion. The Detroit Bank, Manufacturers National Bank of Detroit, National City Bank of New York, Bankers Trust Co. and the Guaranty Trust Co. of New York also participated in this loan, which carries an annual interest rate of 1¾%.

The General Motors Corporation announces that in November it produced in the United States and Canada 174,034 passenger cars and trucks, compared with 184,688 units in October, 1947, and 174,181 units in November, 1946. Of the total vehicles produced in November, this year, 126,542 were passenger cars and 47,492 were trucks.

For the 11 months ended Nov. 30, 1947, the corporation turned out a total of 1,731,381 passenger cars and trucks in the United States and Canada, as against 1,011,568 units in the corresponding period last year.

* * *

Dudley H. Waters & Co., Grand Rapids, participated in the public offering on Nov. 25 of 90,000 shares of 75-cent cumulative convertible preferred stock, par $10, of Liberty Loan Corp. of Chicago, Ill.

* * *

Trading in Howell Electric Motors Co. common stock commenced on the Detroit Stock Exchange on Dec. 10, at which time registration of the 199,236 shares of $1 par value became effective. This company was incorporated in Michigan in 1915 and manufacturers "Howell Red Band Motors."

* * *

Included among the investment bankers which on Nov. 25 publicly offered an issue of 41,270 shares of common stock (no par value) of Keystone Steel & Wire Co. of Peoria, Ill., at $45.87½ per share for account of National Lock Co., a subsidiary of Keystone, was Wm. C. Roney & Co. of Detroit.

* * *

Acme Broach Corp. of Ann Arbor on Dec. 2 filed a letter of notification with the Securities and Exchange Commission for 40,000 shares of common stock to be offered at par ($5 per share) by Dean W. Titus & Co. of Ann Arbor. The net proceeds are to be used to build a factory, pay obligations and for working capital.

* * *

On Dec. 3, First of Michigan Corp. participated to the extent of 1,000 shares in an offering of 150,000 shares of no par value common stock of Mack Trucks, Inc. at $51.25 per share. The issue was oversubscribed.

* * *

The Detroit Stock Exchange reports that trading volume in November, 1947 totaled 239,173 shares having a market value of $2,760,209.37. This compares with October volume of 432,444 shares valued at $4,754,957.36, which represented the largest volume since September, 1946, when 467,856 shares were traded.

The 10 most active stocks on the Detroit Stock Exchange during November, 1947 were Aeronautical Products Co., Detroit Edison Co., Electromaster, Inc., Friars Ale Brewing Co., Gerity-Michigan Corp., Kaiser-Frazer Corp., Lansing Stamping Co., McClanahan Oil Co., Peninsular Metal Products Co. and Sheller Manufacturing Co.

* * *

Trenton Chemical Co. of Trenton, according to an announcement made on Dec. 12, registered with the Securities and Exchange Commission 250,000 shares of its convertible preference stock, which were sold last summer to the public at par ($1 per share) under Regulation "A" by Carr & Co., Detroit, as principal underwriter. The proceeds were added to working capital.

* * *

The stockholders of United States Graphite Co. of Saginaw on Dec. 13 approved a proposal to merge that company into The Wickes Corp. on the basis of three shares of Wickes Corp. stock for each share of Graphite stock held. Holders of 100% of the outstanding stock of Wickes Brothers of Flint and The Wickes Boiler Co. of Saginaw had previously accepted an offer to receive in exchange for each share held two shares of Wickes Corp. stock. The 770,200 shares of $5 par stock of the latter will be listed on the New York Stock Exchange.

* * *

For the year ended Aug. 31, 1947, The Murray Corp. of America reported that the volume of goods sold amounted to $64,992,697, which exceeded the sales of any previous peacetime year. Net profits after taxes totaled $2,915,578, equal to $2.84 per common share after providing for preferred dividends. In the preceding year, the company reported a loss of $447,746.

* * *

The Belding, Mich., plant of the Spring Division of Murray Corp. of America, which has over 100,000 square feet of floor space, has been sold to Gibson Refrigerator Co., Greenville, Mich. The new facilities will be used to increase production of refrigerators and electric ranges.

* * *

Detroit Stock Exch. Annual Dinner in Jan.

DETROIT, MICH.—Milton A. Manley, of M. A. Manley & Co., President of the Detroit Stock Exchange, has announced that the Annual Dinner of the Exchange will be held at the Hotel Statler on Wednesday, Jan. 14, 1948.

Paul I. Moreland, of Moreland & Co., will be General Chairman, with Dan Byrne, Paine, Webber, Jackson & Curtis; Edward T. Bennett, Jr., M. A. Manley & Co.; Charles B. Crouse, Crouse & Co.; Ralf A. Crookston, Hornblower & Weeks; Clyde L. Hagerman, Wm. C. Roney & Co.; and William Moore, McDonald, Moore & Co., heading the various committees working with him.

This annual function, resumed last year after interruption during the war years, has always been one of the outstanding social events of the financial district, attended by Exchange members and others from the brokerage and investment industry, bankers, and representatives of all corporations whose stocks are listed on the local board.

Laurence F. Whittemore, President of the Federal Reserve Bank of Boston, will be the speaker. Guests of the Exchange at the dinner will include representatives of corporations, financial institutions, Securities Commissions, and other Stock Exchanges.

Cuban Bonds Drawn For Redemption

Republic of Cuba, through Reinaldo Fernandez Rebull, Consul General of Cuba, is notifying holders of its external loan 30-year sinking fund 5½% gold bonds issued under loan contract dated Jan. 26, 1923, that $1,516,700 principal amount of the bonds have been drawn by lot for redemption on Jan. 15, 1948, out of moneys in the sinking fund, at 100% of their par value and accrued interest to the redemption date. The announcement adds that the bonds drawn for redemption will be paid at the office of the fiscal agents, J. P. Morgan & Co. Inc., on or after Jan. 15, 1948, after which date interest on the drawn bonds will cease. On Dec. 9, 1947, the notice also states, $493,500 principal amount of these bonds previously drawn for redemption had not been presented for payment.

Missouri Brevities

Dempsey-Tegeler & Co. on Nov. 18 participated in the public offering of 80,000 shares of Speer Carbon Co. no par value common stock at $14 per share. Of the total, 33,766 shares are for the account of the Speer company, which expects to use the net proceeds to finance in part the purchase of a plant at Punxsutawney Pa., now leased by it. The other 46,234 shares are for the account of a stockholder.

* * *

In an offering on Nov. 18 of 150,000 shares of $1 par common stock of The Rowe Corp., at $8.75 per share for account of selling stockholders, Reinholdt & Gardner of St. Louis participated to the extent of 5,000 shares.

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In view of anticipated requirements for expansion during the next several years, the directors of Falstaff Brewing Corp. have recommended to stockholders an increase in the authorized capital stock from 675,000 shares to 2,000,000 shares and a payment of 100% stock on the 450,189 shares now outstanding. The stockholders will meet Dec. 22 to vote on the proposals.

* * *

Stern Brothers & Co., Kansas City, and Reinholdt & Gardner on Dec. 10 participated to the extent of a total of 8,000 shares in the public offering of 800,000 shares of Southern California Edison Co. 4/88% cumulative preferred stock (par $25) at $26.25 per share and accrued dividends.

* * *

On Dec. 11, Stern Brothers & Co. also participated in the public offering of an issue of $20,000,000 first mortgage bonds, 3% series due 1982, of the Cleveland Electric Illuminating Co. at 101.08 and interest.

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The Monsanto Chemical Co. on Dec. 9 postponed the offering of 250,000 shares of 4% preference stock, series B, because of unsatisfactory market conditions.

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Edward D. Jones & Co. and A. G. Edwards & Sons, both of St. Louis, were among the group of investment bankers which on Nov. 25 offered publicly an issue of 90,000 shares of 75-cent cumulative convertible preferred stock, par $10, of Liberty Loan Corp., Chicago, Ill., at $15 per share.

* * *

The stockholders of Clinton Industries, Inc. at a special meeting to be held on Dec. 23 will consider entering into an agreement with stockholders of Obear-Nester Glass Co. for the issuance of shares of authorized but unissued capital stock of Clinton Industries in exchange for at least 80% of the 300,000 shares of stock of Obear-Nester, at the rate of seven-tenths of a share of Clinton Industries for each share held.

* * *

Scherck, Richter Co. and Taussig, Day & Co., Inc., both of St. Louis, on Nov. 25 participated in the public offering, for the account of selling stockholders, of 50,000 shares of 5% cumulative convertible preferred stock at par ($10 per share) and of 100,000 shares of $1 par common stock at $5.62½ per share of Munising Wood Products Co., Inc., whose plants are located at Marquette and Munising, Mich.

* * *

Brown Shoe Co., Inc. for the year ended Oct. 31, 1947 reports consolidated net sales of $76,020,630, as against $54,966,265 for the preceding year. This does not include intra-company sales. Net income amounted to $2,607,068, or $4.97 per common share, after charges and Federal and State income taxes, as compared with $2,513,889, or $4.86 per common share, for the year ended Oct. 31, 1946. Working capital at the close of Oct. 31, 1947 totaled $20,613,805, against $18,585,609 a year before.

Brown Shoe Co., St. Louis, has declared an extra dividend of 80 cents a share on the common stock, the same as declared a year ago, payable Jan. 2, 1948 to holders of record Dec. 15, 1947. Regular quarterly payments of 30 cents each are also being paid on this issue.

* * *

Among the underwriters which publicly offered on Nov. 25 an issue of 41,270 shares of common stock of Keystone Steel & Wire Co. of Peoria, Ill, at $45.87½ per share, was Newnard, Cook & Co., St. Louis.

* * *

The International Shoe Co., St. Louis, on Dec. 11 reported that its net sales for the fiscal year ended Nov. 30, 1947 amounted to approximately $212,000,000, the greatest annual dollar volume in its history. It represented an increase of $77,000,000, or about 57% over the previous fiscal year. The company's factories manufactured about 54,000,000 pairs of shoes during the 1947 fiscal year, a gain of 14% over the 12 months' period.

The International Shoe Co. recently declared a dividend of 75 cents per share on the capital stock, payable Jan. 1 to holders of record Dec. 15. Previously, it paid 60 cents per share each quarter.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Investment income of fire insurance companies should show rather substantial increases in 1947 over 1946. There are two reasons for assuming this: (1) a larger amount of funds available for investment due to increased premium volume; (2) higher dividend payments by a substantial number of industrial and other corporations.

In the September issue of Best's "Insurance News—Fire and Casualty Edition," aggregate operating results of a group of 70 stocks fire companies for the first six months of 1947 were shown, compared with the first six months of 1946. Net premiums written totaled 30% above the 1946 period, and net investment income totaled 7.8% higher.

With regard to dividend payments by corporations, an interesting compilation appeared in the October 1947 issue of "The Exchange," published by the New York Stock Exchange. Aggregate dividends paid on common stocks listed on the New York Stock Exchange amounted to $2,152,265,000 for the first nine months of 1947, compared with $1,771,371,000 in the first nine months of 1946, an increase of 21.5%. It is pertinent to remark that many additional increases are being reported in the final quarter of the year.

The effect of these increased dividends on the investment income of companies will obviously vary, depending mainly upon the relative composition of their investment portfolios. Companies relatively light in equities and heavy in fixed income securities will benefit less than those companies which are relatively heavy in equities and light in fixed income securities. Furthermore, it should not be overlooked that 85% of dividend income is non-taxable, whereas substantially all bond interest is subject to Federal income taxes.

COMPANIES WITH FIXED INCOME SECURITIES ABOVE 50%

	Net Investment Income Per Share 1946	Estimated 1947	Annual Div. Rate	Asked Price 12-13-47
Aetna Insurance	$2.90	*$2.31	$1.80	45
Agricultural Insurance	5.02	5.32	3.50	60
Fire Association	4.01	4.25	2.50	50
Franklin Fire	1.49	1.58	1.00	19
Hanover	1.88	2.00	1.20	26
Hartford	4.84	5.13	2.50	108½
National Fire	3.37	3.57	2.00	43
New Hampshire	2.52	2.67	2.00	44
North River	1.25	1.33	1.00	23
Prov. Washington	2.13	*1.61	1.40	32½
Security	2.23	2.36	1.40	26
Springfield F. & M.	2.72	*2.17	1.90	40
U. S. Fire	2.85	3.02	2.00	46

*Adjusted for increase in capital shares.

COMPANIES WITH FIXED INCOME SECURITIES BELOW 50%

	Net Investment Income Per Share 1946	Estimated 1947	Annual Div. Rate	Asked Price 12-13-47
Boston	$3.29	$3.62	$2.40	67
Continental	3.07	3.38	2.00	51½
Fidelity-Phenix	3.54	3.89	2.20	56¼
Great American	1.96	2.16	1.20	26½
Home Insurance	1.81	1.99	1.20	24¼
Ins. Co. of No. America	5.13	5.64	3.00	97
Phoenix	4.28	4.71	3.00	79
St. Paul F. & M.	3.70	4.07	2.00	69

It may be interesting to consider the net investment income prospects for 1947, compared with 1946, of a selected list of 21 fire insurance companies. In the accompanying tabulation they are divided into two groups: (a) companies whose holdings of fixed income securities exceed 50% of invested assets; (b) companies whose holdings of fixed income securities are less than 50% of invested assets. As of Dec. 31, 1946 the average proportioning of their 21 investment portfolios was as follows:

	%
Bonds	39.8
Prefferred Stocks	12.0
Total fixed income	51.8
Bank & Insurance Stocks	30.0
Other Common stocks	15.6
	45.6
Mortgages, etc.	2.6
TOTAL	100.0

With the first group of 13 stocks a flat increase of 6% has been assumed. However, in the case of Aetna, Providence Washington and Springfield, adjustment has been made for capital increases of 33.3%, 40% and 33.3% respectively, which reduces the estimated net investment income per share below the figures for 1946. In the second group of eight companies, a flat increase of 10% has been assumed.

It is fully realized that the method is somewhat arbitrary and mechanical, but not without logic. All figures are before Federal income taxes, and are on a consolidated basis except for Franklin, North River and U. S. Fire, since these companies have no subsidiaries.

Dividends are amply protected by investment income in all cases.

With A. C. Allyn & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Fred M. Johnson, Jr. has become connected with A. C. Allyn and Company, 100 West Monroe Street.

Canada's Need for Manpower

By W. M. NEAL, C. B. E.*

Chairman and President, Canadian Pacific Railway Co.

Leading Canadian rail executive points out his country's vast resources and potential development. Advocates enlarged immigration program both as a means of economic development and as aid to European recovery. Cites influence of transportation facilities in Canada's progress, and decries Governments rigid control of railroad revenues. Sees urgent need for higher railroad rates.

Despite her great potential, Canada is still a nation of sparse population and a correspondingly meagre labor supply to cope with the development which must take place. During the war a tremendous expansion took place in industry which increased our urban and semi-urban concentrations of manpower and drained the supply of labor for raw material production past the danger point.

W. M. Neal

We are naturally anxious to maintain the industrial position which we have established, and to expand it still further, for therein lies a great part of our future prosperity. To do this, however, we must have more agricultural workers, more woodsmen more miners, and men who are willing to go out beyond our present limited frontiers in the north and northwest to capitalize upon the vast wealth which lies there, and without which our existing industries cannot continue to progress.

In plain words, we must have a fresh supply of hard-working men and women, ready to face some early hardships in new sections of the country, in the certain promise of high reward. Naturally, there are many of our own youth, and some of the older men too, who have already turned their eyes toward opportunity far from the urban areas, but their numbers are necessarily small, and the balance of urban and outdoor labor supply is heavily loaded against the latter field.

Last summer I covered some 10,000 miles of Canadian territory, by rail, steamship and air through wheat, fruit and garden lands, in mine and forest areas close to existing transportation facilities, and potential farming, mining, fishing and forestry fields in the far north, where transportation is still inadequate for full production.

In the territory north of Edmonton, down the great Mackenzie River, in the Great Slave Lake country, Great Bear, even on the rim of the Arctic Ocean, there lie mineral and other resources so rich that with exploration in its present stages, they defy complete computation.

Water transport which has served this great area well in the past has in more recent years been augmented by air services of considerable dimensions. That the air lines are efficiently operated I say with all due modesty, in that so great a part of this service is provided by my own company. However, they do not, and cannot, cope with the traffic which anyone with a modicum of imagination can foresee for the North Country of the future. Obviously the railroads, back-bone of the nation's founding and of her progress through the decades, must eventually find their way to the north, and here alone is a project calling for the employment of countless numbers of strong and adventurous men.

It is a mere truism to say that where there is wealth, there, eventually, men will go to seek it. If you will accept my estimate of the possibilities of Canada's sub-arctic region, and I believe that they are tremendous it becomes obvious that the process of filling the empty spaces only awaits the supply of manpower which Canada lacks at the present time.

Manpower and Material Advancement

Given that man-power, consequent development with the world's markets before us, I firmly believe that the next 50 years will see as great a program of material advancement in the northwest as faced the now settled parts of the prairie and coastal west five decades ago, or before the turn of the present century.

You may say, and properly so, that a certain amount of self-interest must lie behind the desire of any transportation man such as myself, to see a sound and steady increase in the settled population of the nation. Any transport concern exists primarily to carry the goods, chattels, produce and actual persons of the people. The point is, however, that in carrying this commerce, the carrier puts back into the country far more than it takes out, by reason of employment consumption of national products, and in the vast enhancement in value of the territories which it serves.

What I have just said, I have said specifically of the northwest, but it applies equally as forcibly to every outlying section of Canada, and some that are not so far, in actual point of distance, from present civilization.

Equally fascinating possibilities of mineral and other development are abundant in the north country of Manitoba, Quebec and Ontario and in the Maritime Provinces. The marginal farm lands of the three prairie provinces require only clearing to present to the intending settler as rich an agricultural area as exists in the now well-defined grain belt of the southern sections. The Peace River country of Alberta is already a granary of no mean dimensions, and could be expanded tremendously given the men to work the rich arable lands there which lie in abundance of wooded and clear slopes and valleys.

British Columbia, rapid as its interior development has been, still presents millions of acres of forest, stream, farm and mineral productivity. for, despite its enviable position in the commerce and economy of Canada, the exigencies of production for the nation have limited its exploitation. On the Pacific Coast keen businessmen are envisioning a tremendous program of expansion for their province and many long-range plans are ready for the day when man-power can bring realization out of promise.

Progress in Immediate Future

In trying to reach an estimate of what Canada may reasonably expect in the way of national progress in the immediate future, one great and growing industry should not be forgotten, and that is the sale, or should I say loan, of our scenery to millions of tourists from all over the world.

In terms of manpower this industry is already presenting simultaneously opportunity and a problem to our people. The experiences of the past two years, well known to you all, have proven that the evident popularity of Canada as a vacation land has taxed our facilities to the limit to take care of the tourists, after they get here. Obviously the industry will absorb more and more of the labor available within the borders of Canada, not only in the existing resorts, developed over a period of years by the country's various transportation interests, and by the Federal and provincial authorities, but in many a town and hamlet.

The highway system of the country must equally obviously, be extended and improved far beyond its present standards and limitations, and a huge program of construction lies on the horizon in that respect. It has been a common, and sometimes annoying, fallacious belief among some of the people, that the railways have been opposed to a good roads policy for Canada and that they have attempted to halt the march of progress in this respect. Nothing could be further from the truth.

Throughout the history of the world, since first the wheel began to bring the peoples of the earth together, and expedite the life-giving principle of trade between the nations, the road has been a symbol of civilization and consequently of prosperity. That is as true today as it was in the times of the early Romans, roadbuilders extraordinary. We must have good roads. If they are good for the country, they are good for the railways. And, I may say, vice versa.

Any of you who have some knowledge of labor conditions today, and who agree with me in my little thesis on the need for roads in this country, might well look quickly into those conditions and ask yourselves the question, "Who is going to build them?"

I could go on and cite to you many more concrete reasons why I advocate a policy of early and continued immigration for Canada. The principle of careful selectivity in any such policy is, of course, too obviously essential to labor that point. However, I am convinced by my own investigations in Europe and my knowledge of the machinery which Canada can command in that respect, that no fears need be entertained that this principle would be violated.

The cold fact of the matter is that, while in the past Canada was faced with heavy competition from the United States as a point of destination for those who could be induced to come to these shores, today it is in effect a buyer's market. At no time in the world's history have there been so many people in other countries so anxious to come to North America, and it has become a relatively easy matter to select those who have the best possible chances, not only to succeed on their own account, but to offer the contribution to their new home of adoption which we must demand.

Nor can I see any threat to existing institutions or ways of living in this country by seeking in other lands the population which we must have. The present framework of our national economy, as well as its core, is a strong, vital organism, not to be easily shaken by the natural growing pains that must be endured

(Continued on page 71)

*From an address by Mr. Neal before the Canadian Railway Club, Montreal, Can., Dec. 8, 1947.

Fighting Inflation at the Source

By THOMAS I. PARKINSON*

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

Insurance executive proposes, instead of seeking to control inflation by price controls and the like, that measures be taken: (1) to cut government expenditures; (2) to apply $5 billions per year budgetary surplus to debt reduction; (3) to repeal 1933 emergency provision authorizing F. R. Bank to discount practically any asset held by member banks; (4) to discontinue F. R. buying of bank-held government bonds; (5) to take Federal Government out of lending business; and (6) to divorce activities of Federal Reserve and Treasury.

President Truman in his address to Congress on aid to Western Europe emphasized, as had been expected, the importance of keeping this country strong if it is to provide leadership to others. Our chief danger, he said, lies in the economic field and is the danger of inflation. The recognition of these two facts by our responsible government officials has been long delayed. If we are to be influential, we must remain strong. We cannot remain strong if inflation of our currency brings economic chaos and the political confusion which always follow.

T. I. Parkinson

Defends Installment Credit

The President referred to the rise in prices and in wages as the result of the inflation which we have already experienced, and he suggested some ways of avoiding its further development. He referred to bank credit as a source of inflation. It is clear that he meant only the bank credit which finances installment sales. Certainly bank credit is the source of most of our inflation but not the bank credit which finances installment sales. There is some good in the system of installment buying. It is, indeed, the way that the salaried man is able to get for himself and his family many things which he would not otherwise be able to acquire. The contribution to inflation made by installment buying is comparatively small; it is the expansion of bank credit for other purposes which has taken place in the past few years and which is currently taking place, that provides the real inflation of our currency and the pressure on prices and wages.

The President also suggests some other controls on spending and encouragement of saving as desirable to check the inflationary trend. His summary of an anti-inflationary program includes legislative action "to restrain the creation of inflationary bank credit." Unfortunately, the message indicates that there is no clear understanding in the minds of those responsible for the President's program of the real cause of the inflationary trend which he condemns.

The Real Inflation

The real inflation in this country is the inflation of our currency—the inflation of our money supply—from approximately $[illegible]0 billions to $165 billions. It is this increase which has put pressure on prices and resulted in the demand for higher wages to meet higher living costs. If the Administration wants a real program to restrain what the President calls an "alarming degree of inflation," here it is:

(1) Cut government expenditures which are now, even after eliminating the $5 billion annual charge of interest on the public debt, more than six times their average in the years immediately preceding World War II. If details be called for, there are many agencies developed or expanded during the war which should be dispensed with.

(2) Apply at least $5 billion a year out of budgetary surplus to the redemption of government debt held by the banks. If the budget surplus is not sufficient to pay off five billions annually, then some other method, and there are other methods, should be developed to reduce the bank-held government debt by at least five billions annually.

Curb Reserve Board Powers

(3) Repeal Section 10b of the Federal Reserve Act which was enacted in 1933 as an emergency measure and which authorizes member banks to discount with the Federal Reserve banks practically any asset held by the member bank. Prior to this amendment, members could borrow from the Federal Reserve only on government bonds and short-term commercial paper. The amendment was justifiable because it increased the liquidity of bank assets which were at the time badly frozen. The result of continuing this amendment is to relieve the banks of concern over liquidity and to encourage them to make long-term loans and buy corporate and other bonds. To make these loans and purchases they create new bank deposits and thereby add to the already excessive money supply.

(4) Discontinue the Federal Reserve Board rule made during the war which requires Federal Reserve banks to buy from member banks any government bonds offered by such member banks to the Reserve bank. It is this rule which is used to sustain the price of government bonds and to maintain an artificially low interest rate on government borrowings. It is this rule which enables the member banks to continue to expand the money supply for no purpose except to add to bank earnings by long-term loans and purchase of corporate and other bonds. Newly created bank deposits ought not to be available for long-term loans or the expansion of a bank's portfolio of earning assets.

The ending of this rule is the kernel of the whole matter. If the trend toward greater inflation is to be stopped, the rule must be ended and the matter turned back to the Federal Reserve banks where it belongs. This may for a time weaken the market for government bonds; but it will tighten the money market and reduce bank creation of additional "bank credit," which means bank deposits that can be spent as "money."

This is *the* vital anti-inflation action; yet no one mentions it. The banks don't because of its effects on their earnings. The government officials keep away from it because it will end so-called easy money and low interest rates. But that must happen if prices are to be controlled.

(5) Take the government and the government agencies out of the lending business, and leave it to the banks under the supervision of the Federal Reserve banks.

(6) Recognize the difference between the Federal Reserve Board—created as a Supreme Court of Finance—and the Treasury—the greatest borrower of money; and recognize the difference between the Federal Reserve Board and the Federal Reserve banks.

Stop Printing Dollars

As President Dodge of the American Bankers Association said a few days ago, it is idle to rail against inflation in general and high prices and high wages in particular if the monetary policy of our Government permits or urges our banks to create more and more deposits increasing the supply of dollars available to our people. The greater the number of dollars the higher the price of goods, and the higher the price of goods the higher the cost of living and the necessity for higher wages. It is useless to try to control prices or wages by production or rationing when the printing of money goes on uncontrolled. It is, said President Dodge, fighting the fire with one hand and pouring on additional fuel with the other. That gets you nowhere with fire and inflation has many of the qualities of fire.

Stop Inflation At Source

If the economic strength of this country for which the President pleads is to be preserved in aid of our influence on the future of other nations and particularly Western Europe, we must, as the President says, tackle this job of restraining inflation. But if we are to tackle it with practical results we must get after the increase in our bank deposits, the adulteration of our money supply, which is the source of our most serious inflation, and its consequences. It is clear that public officials dependent on the voters will not take the initiative of unpopular action. It is equally clear to me that those officials, including the members of Congress, will get behind a program sponsored by bankers and businessmen to stop the inflationary trend. This is one area in which if we fail the blame will rest more heavily on the banking and business world than on politicians and public officers.

*A statement by Mr. Parkinson distributed by the Continental Press Syndicate, Brightwaters, New York.

Nationwide Home Stock Offered by Rosenfeld

An issue of 100,000 shares of capital stock, par value $1, of the Nationwide Home Equipment Corp. is being offered by Henry P. Rosenfeld Co., New York. The stock is being offered at $2.625 per share.

The present corporation was incorporated in Delaware July 10, 1947 and acquired as of Aug. 16 the partnership business of Nationwide Home Equipment Co., doing business in New Haven, Conn. The company is engaged in the business of selling at retail from its places of operations and through house-to-house canvassing, for cash and on an instalment plan basis, various items of furniture, household appliances, radios, mattresses, rugs, electric washing machines and refrigerators. It also sells in the same manner, watches, some jewelry, and other miscellaneous items. The company has three retail stores, two in New Haven and one in Ansonia, Conn., and a warehouse in New Haven.

The net proceeds of the issue will be used for working capital, to expand the business into new lines and new territories, to engage in further advertising programs suitable to company's business in the areas in which it is operating and other corporate purposes.

For the period from Aug. 18, 1947 to Nov. 22, 1947 company reported net sales of $94,9[illegible]9 and a net profit, after provision for income taxes, of $6,823.

Newburger & Co. to Be Formed as of Jan. 1st

PHILADELPHIA, PA.—As of Dec. 31 the firm of Newburger & Hano will be dissolved, and on Jan. 1st the new firm of Newburger & Co. will be formed with offices at 1342 Walnut Street. Partners of the new firm, which will hold membership in the New York and Philadelphia Stock Exchanges, and the New York Curb Exchange, will be Leonard B. Geis, Frank L. Newburger, Jr., Richard L. Newburger, Irvin L. Stone, Herman P. Liberman, Robert S. Thanhauser, S. Nathan Snellenburg, general partners; and Peter Morgenstern, member of the New York Stock Exchange, limited partner.

Railroad Securities

One of the more disappointing market performances in the rail field has been that of the common stock of Southern Railway, in the face of good earnings and a liberal dividend return. In the middle 30s, the stock returns more than 8.5% on the basis of the well protected $3 dividend rate, and is selling some 30% below the high established early in the year. The laggard action is particularly highlighted by the stock's price relationship to Southern Pacific. At the early 1947 peaks Southern common was selling a few points above Southern Pacific. In recent markets the Southern common has been selling about 10 points lower than Southern Pacific.

It has been suggested in some quarters that management statements and press releases may have been at least partially responsible for this divergence in trends. Generally speaking the western roads have kept pretty quiet throughout the fight for increased rates. Thus, the public has not been confronted periodically by ominous forecasts as to the future solvency of these particular properties. As a matter of fact, in the light of the present earnings of a vast majority of western carriers, the less said about them in a rate case the better it will be for all concerned. Southern Railway, on the other hand, has been in the forefront in the rate fight. As a consequence considerable publicity has been given to the pessimistic picture of the future. As has been pointed out many times before, it is unfortunate but true that nothing short of a picture of complete collapse seems capable of producing rate relief.

Analysts favorably disposed toward Southern Railway point to a number of favorable developments that have not found any reflection in the market action of the stock. To a certain extent Southern has been handicapped in its financial improvement by the fact that virtually all of the system debt is non-callable, and the average interest rate is high. Thus, little in the way of refunding has been possible and debt retirement has been confined to a considerable degree to open market purchases and retirements. Nevertheless, fixed charges have been reduced fairly substantially. They are now approximately $12,800,000, compared with about $16,800,000 in 1939. The saving in charges is equivalent, before Federal income taxes, to more than $1.50 a share on the common. Moreover, with the decline in prices for the road's bonds over the past few months it seems likely that purchases may be resumed.

A second favorable aspect of the Southern Railway picture is the character of the service area. Southern literally covers the south. It has therefore been a major beneficiary of the growth in that area. The Birmingham area has become an important steel center. The paper industry has become a major economic factor in the area. The development of plastics and synthetics has added materially to the wealth of the territory. Finally, over a period of years there have been new cash crops brought into the south reducing the traditional dependence of the agricultural communities on cotton and tobacco. All of these factors have contributed to the building up of new traffic sources for the Southern. Moreover, the trend of expansion has not as yet run its full course.

Over the past ten years earnings available for the common stock, without adjusting for any savings in fixed charges, amounted to $8.34 a share. This included two years, 1937 and 1938, in which requirements ahead of the common were not covered in full. The peak earnings during that period were $23.41 a share in 1942, and last year they amounted to $4.82. Incidentally, the 1946 results were after a net debit for Federal income taxes rather than a credit such as supported earnings of roads like Southern Pacific and Great Northern. For the first ten months of the current year share earnings ran about $2 above a year ago and for the full year at least $6 a share should be realized.

It is difficult to time speculator and investor psychology. Nevertheless, it seems reasonable to assume that in the not too distant future the favorable factors in the Southern picture will begin to get public recognition. This is particularly true inasmuch as the rate hearings have now been completed, and this should mark the end of the unfortunate, but necessary, adverse publicity as to future prospects.

Abbe & Van Tuyl to Form Own Inv. Firm

On Dec. 31 the firm of Van Tuyl & Abbe will be dissolved and on Jan. 1 the new firms of Van Tuyl & George, and Richard F. Abbe & Co. will be formed, both with offices at 72 Wall Street, New York City.

E. Everett Van Tuyl Richard F. Abbe

Principals of Van Tuyl & George will be E. Everett Van Tuyl, Kenneth B. George, and Catherine M. Lovrich.

Mr. Abbe will be proprietor of Richard F. Abbe & Co., and associated with him as Manager of the trading department will be Herbert J. Lacy.

Milton Meyer to Be Shufro, Rose Partner

Milton S. Meyer, manager of the trading department, will be admitted to partnership in Shufro, Rose & Co., 1 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1st.

Financial Health of Railroads

By RAYMOND J. MORFA*

Chairman of the Board, Missouri-Kansas-Texas Railroad

The railroad industry, as all of you know, has been given a good workout in the past several years, during the heavy traffic war period and continuing into the postwar construction era, during which time all of you industrial traffic men have had your problems getting box cars, gondolas, and other equipment in which to load your products, and in securing the service to which you feel you are — and to which you are — entitled. The railroads are now trying in every way they can to improve their service, and are adding to their equipment and facilities as fast as they can. On Oct. 1, for example, they had on order more than 116,000 freight cars—twice as many as a year ago, and they are buying many new passenger cars, new locomotives and installing other improvements as the materials can be made available and as the builders can produce the equipment.

Raymond J. Morfa

The railroads have, however, been beset with demands for substantial wage increases, which have already been granted, totaling millions of dollars. Negotiations are still being conducted with some of the brotherhood organizations. Concurrent with the wage increases, the prices we must pay for the supplies we use in producing transportation have gone up to tremendous heights—increases as much as 220%—I repeat that figure—220%—which is the amount of increase that has taken place in the cost of fuel oil, the greatest single items of expense, next to wages, incurred by the oil burning railroads of the Southwest. The costs of other items have increased enormously—we now must pay up to 120% more for nearly every item in our materials and supply stockrooms, which have brought the cost of doing business—producing transportation — to the highest level in history.

Rates Not Adequate

In contrast to the great increases in prices of commodities produced in almost all other industry, the price of railroad transportation has remained practically unchanged, until only recently, since the end of the first World War. An indication of the money's worth received by the public in rail transportation is the average freight rate per ton-mile, which in 1946 was less than 1 cent for hauling a ton of freight one mile, substantially the same as in 1939, and one-fourth below the 1921 level. These trends are in marked contrast with the trend of the national economic levels of production and commodities costs, and rail transportation in the United States remains, by great odds, the cheapest transportation service in the world.

The railroads have been in an almost continuous three-way squeeze from rising costs, regulated rates and the competitive desire to render the most economical and efficient service, since before World War I, and it has only been by remarkable improvements in the efficiency of equipment and operation that it has been possible to make ends meet as well as has been done.

After the series of wage increases granted to railroad workers last year, you all recall that the railroads were authorized by the Interstate Commerce Commission to increase their rates on Jan. 1, 1947. On Sept. 1, this year, wages of non-operating railroad employes were again increased 15½ cents per hour, and just last month the same increase was granted to a part of the operating workers. To partially offset these increases, a 10% temporary rate increase was granted by the I.C.C. on last Oct. 13. There is, as you also know, now pending before the I.C.C. the railroads' application for a rate increase of 17% additional, which, if granted, will still be below the amount needed to meet the wage increases and advances in the cost of materials and supplies.

Operating Efficiency

I could give you a lot of statistics about the operating efficiency of the railroad industry, and about the Katy and other southwestern railroads particularly, but, as I promised, I will not burden you with these facts, which I am sure all of you know. As Chairman of the board, I am, however, especially concerned with the financial health of the railroad industry—and our railroad particularly. I am vitally concerned with the securing of the capital needs of our expansion and improvement programs; with the credit standing of our railroad, and the attitude of the investor, who is expected to put his money into railroad securities, with a reasonable hope of an adequate return.

The railroads were supposed to have earned large—even fabulous—profits during the war years. All of us have heard and read of these groups of people—and I am sorry to say, a disheartening large number of assuredly well-informed citizens—who stated they believed the railroads earned 20% or more return on their investment in 1946. Actually in 1946 the railroads earned 2¾% on their net investment—and over the past 25 years, the average return on net investment, before the payment of interest and other charges on indebtedness, was only 3⅔% a year. This is a return on investment considerably below the return that is considered by the Interstate Commerce Commission to be fair and equitable. And, mind you, please—these earnings do not constitute clear profits—for out of them the railroads had to pay interest, rentals and other fixed charges on the money loaned to help create the facilities which go to make up the efficient railroad plant we have today.

Even with these slim returns, the railroads have devoted a substantial part of their earnings to improving their financial structures, until today they are in a more favorable financial situation than for many years. From a peak of $12,800,000,000 in 1932, the unmatured debt of the railroads was cut to $9,100,000,000 in 1946. This has resulted in a reduction of more than $200 million in the annual fixed charges of the railroads, which reached the low point of $471 million in 1946.

The railroads' financial prospects for the future must be such that will attract the necessary capital to carry on the ambitious plans which involve reconstruction and improvements in the interest of efficiency and safety, and the use of new equipment and the inventions science has made available which are not yet in use. These things cannot be done without money. As a regulated industry, the railroads have never been permitted to enjoy large earnings so in order to attract the necessary capital to do the things wanted and expected by the public they serve, their earnings must be steady and reliable. Much of the needed capital could be furnished from life insurance funds, if railroad income could reasonably justify such investment.

The railroads are asking for only a modest increase in rates—and it is modest, indeed, when compared with the great percentages of increase that have taken place in the costs for wages, materials and supplies. What they are asking for in the way of increased rates will mean only about 1% of the value of freight transported.

Improving Financial Structures

The railroads are not asking for public funds—they want only the chance to continue to finance themselves from private investment sources, and in order to do this they must have a return that is adequate to attract new investors. They are asking, too, for fairer treatment and relief from subsidized forms of competing transportation. In this connection, it is interesting to note that during the past 25 years, more public funds have been invested in other forms of transportation—airways, highways, waterways — than was invested in railroads throughout more than a century—yet it was privately built railroads which provided the adequate, dependable, economical service without which the nation could not have achieved its prodigious production, and could not have won the war.

The point I wish to make is the fact that the future of private enterprise in this country depends to a very great extent upon the treatment given the railroad industry. If the railroads are not properly compensated for the services they perform they will not be able to maintain the vigor to resist the encroachment of socialization that is a real threat confronting us today. It is incredible to think that the public seems not fully aware of this great danger, even though we are now witnessing the socialization of the railroads and other public utilities in Great Britain. Nationalization of any industry is alien to the democratic principles which have made our country the greatest and strongest in the world, and we all know that nationalization of the railroad industry would be only the first step to nationalization of other basic industries, and such a tragedy is not a remote and mythical threat for some time in the far distant future—it is here upon us, and there is need for definite and positive action.

If there is anyone among you who might be of the opinion that socialization of the railroads is a logical answer, I have only to tell you of the experience of government operation of the railroads in the first World War. The result was that taxpayers had to make up a deficit of nearly $2 million a day in operating costs. On the other hand, in the second World War, the railroads continued under private operation—and they paid nearly $4 million a day in taxes—a difference of $6 million a day to the taxpayers.

Therefore, it behooves all you men who are so closely related to the railroad industry to help to solve the dire problems confronting the railroad industry. We must have support in our efforts to improve and modernize our plant and facilities; we must be assured of adequate earnings, through adequate rates, in return for which the railroad management will continue the technical advance and prudent leadership that have given the greatest, most efficient and cheapest rail transportation that exists any place in the world.

*An address by Mr. Morfa before the Wichita Traffic Club, Wichita, Kans., Dec. 11, 1947.

Eccles Explains "Special Reserve" Proposal

Tells Joint Committee on Economic Report it is misunderstood and is only a part of anti-inflationary program. Stresses need of supporting Government bond market, and denies special reserve proposal means more bank regimentation, is unnecessarily drastic, or will unduly restrict bank loans. Decries fear of proposal causing higher commercial interest rates.

Appearing on Dec. 10 for the second time before the Joint Congressional Committee on the Economic Report, Chairman Marriner S. Eccles of the Board of Governors of the Federal Reserve System, defended his proposal for a compulsory "special reserve" to be maintained by banks as an anti-inflationary measure in his statement to the Committee. Chairman Eccles said:

Marriner S. Eccles

In my initial testimony before the Committee, I explicitly stated and want to emphasize that the proposed special reserve is only a part, though a necessary part, of any effective anti-inflationary program, and that the need for this authority would be less to the extent that appropriate action is taken on other fronts. By far the most important action is a continuing, vigorous fiscal policy. Because of that policy there is likely to be little need for the special reserve requirement during the next four months. In that period Treasury surplus funds, taken from the market through taxes, will be available to retire a substantial amount of bank-held public debt. However, after that period we may be exposed to an unbridled expansion of bank credit because the Reserve System's existing powers, in the face of its newly-acquired responsibilities for the government security market and in the face of a continued inflow of gold, are insufficient to restrain further bank credit expansion. Considered in this light, our proposal is a precautionary measure to guard against possible disaster later.

Must Support Government Bond Market

Many bankers and certainly the Federal Reserve people are agreed that the government bond market must be supported and stabilized There is agreement that the present program of the Federal Open Market Committee and the Treasury should be vigorously prosecuted. There is agreement that supervisory policy and moral suasion on the bankers to avoid loans for non-productive purposes should be agressively pursued. There is agreement on fiscal policy and the need for maintaining as large a surplus in the Treasury's cash budget as possible in order to pay off bank-held debt There is agreement as to the need for strengthening the savings bond program of the Treasury. These are important areas of agreement and they ought to be kept in the foreground of any further discussions of the use of monetary and credit policy as a brake upon further inflation. At the same time, we should not fail to keep in mind the fundamental issue: Bank credit is still expanding, mainly because of loans, gold is flowing into the country, the money supply is still growing, inflation is continuing. The question is: What is the next step, if any is required, in doing something about it?

Banking leaders who have already had some opportunity to study the proposed special reserve plan and have arrived at opinions adverse to its adoption, voice this opposition along two lines of argument. On the one hand, they contend that the plan is impractical, socialistic, and unnecessarily drastic. On the other hand, they assert that the plan is not strong enough to accomplish its expressed objectives. The contrast between these two lines of argument is striking. Both cannot be correct.

First, does the proposal mean regimentation of the banks; will it unduly interfere with the operation of their business, and will it be a step toward socialization?—In the Board's judgment, the type of authority proposed is neither novel nor revolutionary. The authority provided by the Banking Act of 1935 to raise reserve requirements of member banks to twice the then prevailing statutory level was similar. Except for a small margin applicable only to New York and Chicago banks this authority to increase member bank required reserves has already been exhausted.

In late December, 1940 the Reserve Board, the Presidents of the Federal Reserve Banks, and the Federal Advisory Council unanimously joined in a special report to the Congress pointing out the inflationary dangers for the national economy inherent in the defense effort. This special report recognizing that the authority of the Federal Reserve System was wholly inadequate to deal with the potential excess reserve problem of the banks, recommended that Congress—

"(a) Increase the statutory reserve requirements for demand deposits in banks in central reserve cities to 26%; for demand deposits in banks in reserve cities to 20%; for demand deposits in country banks to 14%: and for time deposits in all banks to 6%.

"(b) Empower the Federal Open Market Committee to make further increases of reserve requirements sufficient to absorb excess reserves, subject to the limitation that reserve requirements shall not be increased to more than double the respective percentages specified in paragraph (a).

"(c) Authorize the Federal Open Market Committee to change reserve requirements for central reserve city banks, or for reserve city banks, or for country banks, or for any combination of these three classes.

"(d) Make reserve requirements applicable to all banks receiving demand deposits regardless of whether or not they are members of the Federal Reserve System."

In addition to these major recommendations, the special report urged that the defense program be financed as far as possible from existing deposits and from tax revenues rather than from inflationary borrowing from the banks. I submit for the record a copy of this special report, because it called for far more onerous and drastic powers than the special reserve plan.

The special reserve plan, however, is identical in purpose with an outright increase in regular reserve requirements. The plan, in fact, is no more than an adaptation of this familiar method of dealing with the volume of bank credit. The plan now proposed by the Board would enable the banks to retain the same volume of earning assets they now have, in place of making them reduce earning assets, as would an increase in

(Continued on page 22)

An Insolvent Europe Should Shun Marx and Keynes: Rukeyser

Publicist maintains restoration of sound economic policies abroad would attract return flow of "smart money," lessening demand for our gigantic intervention.

Warning of the futility of trying to save western Europe from insolvency without reversing the prevailing trouble-making economic policies, Merryle Stanley Rukeyser, economic commentator for the Hearst newsapapers, in a coast to coast broadcast today discussed alternatives to the $19,000,000,000 Marshall Plan.

Merryle S. Rukeyser

"The objectives of the Marshall Plan," Mr. Rukeyser declared, "could be achieved only if, through self-help and through elimination of schemes of Socialism and money manipulation, Europe abandoned the trouble-making policies." Mr. Rukeyser spoke over the network of the National Broadcasting Company on "The Author Meets the Critics" program on Nov. 30.

Mr. Rukeyser stated: "If sound procedures and common honesty were restored, such gigantic intervention on a financial scale by the United States Government would be unnecessary. Restoration of sound economic policies in Europe would attract a return flow of European smart money, which migrated for a haven to the United States and elsewhere, and would also promote new savings in Europe which would create the needed capital. Similarly, a turning away from the fallacies of Karl Marx, on the one hand, and of the late Lord Keynes, on the other, would attract private lending by American investors and by established institutions such as the International Bank for Recontsruction and Development.

"In his new book, with the provocative title, 'Will Dollars Save the World?', Henry Hazlitt makes a scientific approach to the problem of attaining a better world. His contribution is to make crystal clear that there can be no effective remedy of Europe's economic malady without a competent diagnosis. Then Mr. Hazlitt uses irrefutable logic to make clear that the proposed theraputics must be closely related to the findings of the diagnosis.

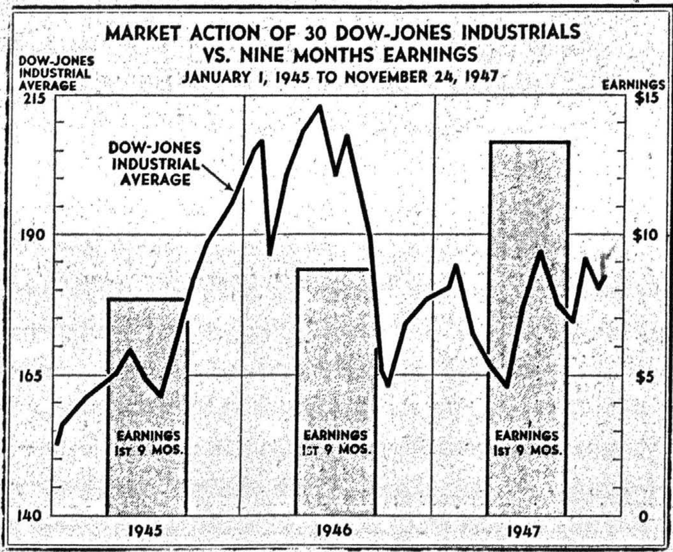
"On the eve of Congressional debate on longer term financial aid to Europe, Mr. Hazlitt presents a clear cut alternative to the scheme to find salvation through subsidies. He outlines a 17-point program for undoing the work of frustration and destruction wrought by the Marxian destroyers of incentive and the Keynesian destroyers of honest money."

Mutual Funds

By HENRY HUNT

Earnings on the "Dow" Up 53%; Prices Down 15%!

"If an investor in the spring of 1946 had had the power to foresee accurately earnings of the 30 Dow-Jones Industrials a year and



Reprinted from "National Notes No. 437," issued by National Securities & Research Corporation

a half ahead, he probably would have rushed to buy equities. If he had known that earnings for the first nine months of 1947 would run 53% ahead of the same period in 1946, he might well have pawned the family jewels to take advantage of a 'sure thing.' It is axiomatic that stock prices advance during a period of improving earnings and decline during a period of falling business activity. Yet even with his advance information he would have lost money. Current levels of the 'Dow' are some 15% below its May 1946 level and many stocks are selling today for less than half their 1946 highs.

"Thus, the stock market has proved a false barometer of business and earnings trends during the past year and a half. But what about the future? What shall I do now? asks the investor.

"Frankly, we would hesitate to predict that 1948 earnings will exceed the banner showing of 1947, but we do believe that 1948 profits will be more than satisfactory for business as a whole and that 1948 dividends will approximate the record payments witnessed this year.

"We also believe that even with a sideways earnings trend over the next few months we will see higher stock prices during the coming year. Were the Dow-Jones Industrials to sell at a 'normal price-earnings ratio today, a level of 260 or higher for the 'Dow would result."—Quoted from **National Notes No. 437,** issued by **National Securities & Research Corporation.**

The above coincides with this column's opinion of the outlook for 1948. We also agree with H. J. Nelson, who writes "The Trader" column for "Barron's," in his contention that there is little justification for the present wide spread between yields available on high grade bonds and leading common stocks. In previous periods of prosperity, common stock yields have verged close to or even been less than those on high grade bonds. Today they are equal to almost twice that of AAA bonds.

Definition of an After Dinner Speaker

One who is inebriated with the exuberance of his own verbosity.

Largest Bond Fund

Hugh W. Long's Manhattan Bond Fund, now in its 10th year, ranks today as the largest of its kind in existence with total assets of approximately $26,500,000. During the past 12 months, 2,708 new shareholders were admitted to the Fund, the largest increase in any annual period in its history.

In its Annual Report, the President comments on the bond market as follows:

"This has been a year of adjustments in the bond market. Because of rising price levels and active business, industry needed additional capital for inventories and for plant modernization and expansion. Ordinarily, business managements would have sought part of their capital needs through sale of additional stock, but the condition of the stock market for the past year was not conducive to such financing. Thus the bond market had to bear the brunt of somewhat unusual demands for new capital. At the same time revival of building construction again enabled institutional investors to employ large amounts of their funds in mortgage loans; this reduced the amount of capital they could use for purchasing new bonds. "During the year, the abnormally narrow yield 'spread between long-term government bonds and best grade corporate bonds was widened from about 0.45% to about 0.60%, by a moderate decline in high grade bond prices. In addition, interest rates on one-year government notes were adjusted by the U. S. Treasury from 7/8% to 1 1/8%, partially correcting the abnormal 'spread' between short- and long-term government issues.

"These developments created some hesitancy in the bond markets. One of the consequences was the deferment of plans for refinancing, on better terms, the existing bonds of many companies The combination of moderately declining bond prices and the deferment of redemption of outstanding bonds was the reverse of the situation that had prevailed in immediately preceding years, when bond prices had been rising and outstanding issues were being refinanced by call and issue of new, lower rate securities. However, there is evidence that the adjustment in the high grade bond market is largely completed."

Suffer From Insomnia?

Try going to bed early on Monday nights and listen to a drama called "Quiet, Please" on WOR, 10 p.m., starring Ernest Chappell. His rich, soothing voice is more effective than sleeping pills. We have yet to hear the end of this half-hour program, but it generally starts out in quite an interesting manner.

No Delegation of Authority

The New York "Herald Tribune" recently noted: "The investment trust community has observed with satisfaction a Massachusetts court decision last week which found, in effect, that the purchase of investment company shares by trustees did not constitute 'a delegation of authority,' a previous point of issue. A probate judge in Ohio voiced a similar legal opinion recently. From these two decisions, the current issue of **'Brevits,'** published by **Vance, Sanders & Co.,** conclude 'that trustees may properly invest in such shares in states which follow the "prudent man" or Massachusetts rule,' against the states with a designated 'legal list.' At any rate, the use of investment company shares in certain heretofore restricted areas seems to be progressing."

Notes

Calvin Bullock's Dividend Shares reported net assets on Oct. 31, of $57,442,000. Security holdings costing $46,660,000 had a market value on that day of $53,460,000.

Incorporated Investors has declared a year-end dividend of 65¢ a share of which 25¢ was derived from net security profits and the balance from investment income.

Special Xmas Edition of Investm't Trust "Bible"

Due to popular demand an extra run of the 1947 Edition of "Investment Companies" by Arthur Wiesenberger of Arthur Wiesenberger & Co., 61 Broadway, New York City, has just been announced. This well-known reference book which is identical with the original edition published last July at $12.50 per copy is available to dealers and brokers in quantities of three or more copies at $5 per copy.

An indispensable sales tool for dealers selling trust shares, it is a veritable storehouse of basic statistical information on the investment trust industry. For banks and other fiduciaries who are required to pass on the merits of these securities, it offers a valuable source of comparative data and tells the whole story of investment trust operations; and it is especially helpful to junior executives who are desirous of getting a working knowledge of the investment trust business with the most comprehensive collection of data on this field.

Britain and Marshall Plan

By PAUL EINZIG

Dr. Einzig reports release of last $400 million of American loan to Britain interpreted as indication Congress will approve Marshall Plan. Points out, however, general acceptance of British Government's austerity program is indication of uncertainty of implementing Marshall Plan and of opposition of Left Wing groups to American interference in British nationalization plans.

LONDON, ENGLAND—The preliminary skirmishes in Congress that precede the main battle of the Marshall Plan are followed in Britain with considerable interest. For it is now realized that unless American aid is received by about the middle of 1948 the gold reserve will become exhausted and rations will have to be cut well below what is regarded as the subsistence level. There appears to be very little hope for finding an alternative solution, either through covering import requirements in countries willing to accept sterling or British goods in payment, or through increasing Britain's earnings of hard currencies. While in the long run both solutions could be applied with success, it would be little short of miracle if a fundamental change in the situation occurred within the next six months. Thus, even though Britain's position is much less unfavorable than that of France or Italy, the failure of the Marshall Plan to materialize by the middle of 1948 would entail very grave consequences.

Dr. Paul Einzig

The release of the balance of the loan of $400,000,000 is a welcome event, not only for its own sake but also because it is interpreted here as a favorable indication regarding the prospects of the Marshall Plan. In itself $400,000,000 will not go very far; it only covers the deficit for about six weeks at the present rate. Even so, together with the gold loan of £80,000,000 granted by the Union of South Africa, it tends to check for a little while the outflow of gold which has been causing grave concern. It will be a relief if no sales of gold will have to be announced for December, after the big losses during the previous three months.

What is considered to be more important, however, is that Mr. Snyder, after having sounded Congressional opinion, has considered it advisable to release the $400,000,000. This is regarded here as a sign that the Administration takes a hopeful view about the attitude of Congress towards aid to Europe. The response of Congress to the interim aid project is interpreted in the same sense, even though the attitude of the House of Representatives in insisting on reducing the amount of the aid is causing concern.

Generally speaking the reports of British officials, business men, and others returning recently from visits to the United States are none too hopeful, however. They bring back the impression that the assistance, apart from the interim aid, is not likely to be forthcoming until about the middle of 1948, and that the amount will fall considerably short of the figure demanded by the Administration. Indeed some Britons returning from lecture tours are decidedly pessimistic about the prospects of the adoption of the plan. British opinion in general alternates between hope and fear. Some people regard the news of political and industrial unrest in France and Italy as a threat to the Marshall Plan, while others believe that bad news from Western Europe might be helpful, as it tends to show that Mr. Walter Lippman was hopelessly wrong in assuming that the Communist menace there was subsiding.

As for the Government, while it is hoping for the best, it is preparing for the worst. The announced cut of £180,000,000 in capital investment is only the first instalment of the effort to divert all productive effort towards branches of production working for export and for the satisfaction of essential consumers' requirements. The fact that the Government has not yet lost a single seat through recent by-elections shows that the country is prepared to put up with austerity. Within the next few months its endurance will be put to further severe test. From this point of view the uncertainty of the prospects of the Marshall Plan is in reality a blessing in disguise, for it enables the Government to induce the country to accept sacrifices which would otherwise be unacceptable. There are growing signs that the workmen are at last prepared to make a real effort.

An interesting change has taken place in the attitude of British Communists. Until recently they had caused much trouble in many industries, especially in the coalfields. While they are still pressing for higher wages, they now appear to be in favor of increased output. This is indicated among others by the attitude of Mr. Arthur Horner, the Communist secretary of the Miners' Federation, who is now wholeheartedly supporting the Government's drive for higher coal output aiming at a resumption of coal exports. The explanation is that the British Communists have arrived at the conclusion that, unless Britain succeeds in working out her own salvation she will become increasingly dependent on American aid for her existence; and this would tend to reinforce Mr. Bevin's pro-American and anti-Russian foreign policy. It is felt among Communis's and Left-wing Socialists that an increase of production might enable Britain to refuse to sign on the dotted line if the granting of American aid under the Marshall Plan should be made subject to political and politico-economic conditions. Any such conditions would cause widespread resentment even among Conservatives. For instance, should the United States Government insist on calling a halt to nationalizations, such external interference might induce even the anti-Socialists to rally round the Government in an effort to enable the country to do without American aid.

With Marache, Sims & Speer

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Joe C. Ritter has been added to the staff of Marache, Sims & Speer, 458 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Sutro & Co.

With Pasadena Corporation

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Philip H. Collins has been added to the staff of the Pasadena Corporation, 234 East Colorado Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Do not expect immediate 180 obstacles to hinder advance too long. Major industry stocks continue indicating higher prices.

It's gratifying to see the market go up so quickly. I might even use this advance as an excuse to pat myself on the back and remind you what a wonderful chap I am. But after all is said and done the end result would be, "Never mind about yesterday; what about tomorrow?" And that's as it should be.

* * *

The big question is how far will this market go before it meets enough selling to stop it and turn it down. It's a simple question. Very simple. To answer it, is not so simple. There are all kinds of things happening all over the world and all of them will have some sort of repercussion on our stock market. Our problem is to guage this repercussion and determine how much of an effect it will have on prices. Now that I posed this problem, you can start answering it. Because I don't know the answer. All I know is that certain stocks taken as a group act in a certain manner indicating one of three things—a rally, a decline or a stalemate.

* * *

At this point it would be comfortable to drag in the Dow Theory and blame everything on it. But I don't want to get caught between A. Wilfred May or any of his correspondents. Besides I ignore the Dow Theory as often as I follow it, so I would be a poor example for any side to hold up as a shining example. So I'll leave market theories alone, for the time being anyway, and stick to what I have been doing for—well—a lot of years.

* * *

Last week I said the market was going up. Before the week was over it went up. Sure, there's been tax selling. It wasn't any secret. Everybody knew it was coming just as everybody knows when it will be over. But tax selling, or some other kind of selling, the indications last week (this is written usually on Mondays) were for higher prices. And at this writing the indications haven't changed.

* * *

The obvious immediate obstacle is 180 or so in the familiar averages. But because it's so obvious I think you can disregard it for the time being. I do think that the market will give a token recognition to this obstacle by either getting dull or by reacting from it. But I don't think the reaction will go far or last long. This means that I believe stocks are going still higher. This would be the ideal time for me to start blabbering about earnings, dividends and fundamentals. Actually I'd be whistling in the dark because I don't care too much about such things. I'd rather be long of a stock with poor fundamentals and be in the black than have one with an impressive record and be in the red. I know this isn't orthodox, but I'm interested in profits not theories.

* * *

Last week I advised buying steels, oils and coppers. I now advise holding.

* * *

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.]

Fewel & Co. Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Kenneth D. Russell is now with Fewel & Co., 453 South Spring Street. He was previously with Merrill Lynch, Pierce, Fenner & Beane.

With First California

(Special to THE FINANCIAL CHRONICLE)

GLENDALE, CALIF.—Walter F. Benthin has been added to the staff of First California Company, 107 East Broadway.

Marshall Explains Four-Power Conference Collapse

In final statement, he lays blame on attitude of Soviet Union, particularly in its demand for reparations from Germany. Says under Russian plan, a new regime in Germany would be powerless.

Secretary of State George C. Marshall, the U. S. representative at the Four Power Conference in London, which has been deliberating for 17 days, without coming to any substantial agreement on any point in connection with compiling peace treaties with Germany and Austria, and which, at the instance of Secretary Marshall adjourned for an indefinite period, issued the following statement made at the final session of the conference on Dec. 15:

George C. Marshall

We have reached quite evidently a fundamental difference regarding the question of reparations. Mr. Molotov's last statement seemed to me a repetition of statements which we largely felt were without foundation. Now, at the expense of some repetition of the views Mr. Bevin has just stated, I would like to review the situation as it is seen by the United States delegation.

The United States hoped there would emerge from this conference the beginnings of a united and self-respecting Germany which could find its way back to peace and freedom and achieve its own well-being and redemption through cooperative effort with other European countries.

The United States had even higher hopes for an Austrian settlement.

It will be useful, I think, at this point to see just where we are.

We have failed to reach agreement on a treaty for Austria because the Soviet Union has demanded for itself properties and special privileges in Austria in an amount and to an extent which far exceed any rightful claims and which far exceed what a free Austria can afford. If Soviet claims were admitted, it would be at the price of Austrian independence and in violation of past agreements.

At Moscow the United States, the United Kingdom and France, although differing in some details, found a common basis for agreement on the essential unagreed article in the Austrian treaty—the problem of German assets. The Soviet Union was in disagreement. To resolve our differences we appointed a treaty commission, which for five months conferred in Vienna last summer. Again three delegations found a common approach. Again the Soviet Union was in disagreement. At the present meeting the French delegation presented a new proposal for a concrete settlement which sought to avoid the problems that had prevented agreement. To three delegations that proposal appeared to present a practical basis for settlement. On Dec. 4 it was rejected by Mr. Molotov, who added that he had no new proposals to make on the subject. Thus the Soviet delegation has persistently blocked agreement by reason of its unjustified demands on Austria.

No Agreement On German Frontiers

As regards Germany, taking first the subject of frontier, we have been unable to agree on what we mean by Germany. Three delegations are in accord that the Saar territory should be detached from Germany and economically integrated with France. The Soviet Union does not agree.

With respect to the eastern boundary of Germany, the Potsdam protocol clearly provided that the "final delineation of the western frontier of Poland should await the peace settlement."

The United States believes that an effort should be made to establish a frontier which, while it would compensate Poland, would not become a formidable economic barrier preventing German access to food and raw materials from this eastern area upon which it has heavily depended.

Three of the delegations agree that boundary commissions be at once established to examine all frontier questions. The Soviet Union rejects this proposal. We neither agree on what Germany is to be nor do we agree on establishing commissions to study these vital boundary problems.

In examining the discussions on economic principles, we have progressed only in agreeing to procedures without substance.

We have failed to reach agreement on sharing of the financial burdens. An ostensible agreement on the equitable distribution of indigenous resources is deprived of all meaning by the Soviet demand for continuation of present Soviet withdrawals of current German production for reparations.

Soviet Refused Information

The Soviet Union has refused to furnish vitally necessary information with respect to reparations removals. Thus, we have been asked to reach agreement while information essential to such agreement is withheld by the Soviet representatives.

The Soviet delegation has refused to agree to the relinquishment of property interests in Germany unilaterally seized under the guise of reparations. As matters now stand, a large share of the produce of the eastern zone of Germany is drawn off for the Soviet account. An important part of its industry has been placed in a gigantic Soviet trust which enjoys special privilege and which is put above German law, presumably in perpetuity.

These Soviet practices in Eastern Germany have prevented Germany from playing its part in the recovery of Europe. In fact, they have greatly increased the necessity for the outside aid provided by the United States and the United Kingdom to enable Western Germany to live. Nevertheless, the Soviet representatives have chosen to charge that this aid has as its purpose to use Western Germany as a "strategic base against the democratic states of Europe" and to advance "expansionist aims." Apart from the complete absurdity of these charges, to discontinue this aid to some 40,000,000 Germans in the United States and United Kingdom zones until they have become self-supporting would doom them to mass starvation.

Soviet Demand for Reparations

The Soviet Union demands reparations for itself and Poland of $10,000,000,000 at 1938 values, which is at least $15,000,000,000 today. These reparations payments, to an undisclosed degree, would take the form of current production over 20 years. This demand is not in accordance with the Potsdam Agreement. It is utterly impossible of achievement on practical economic grounds. It implies the establishment of an economic power so comprehensive that it would be in reality a power of life and death over any German government.

It was accepted by all at Moscow that full agreement on economic principles was essential to the establishment of political unification. We are unable to agree on what shall be the area of German economy; we cannot agree how to make German resources available to Germany as a whole, a condition prerequisite to the revival of German economy; we are confronted with a demand for reparations in excess of the Potsdam Agreement which would make a German government subservient to its reparations creditor. It is therefore clear that agreement can be reached only under conditions which would not only enslave the German people but would seriously retard the recovery of all Europe.

If real economic unity could have been established, the United States would have been ready for the German people to be immediately accorded, under agreed controls, self-government with the authority, responsibility and initiative this entails. But free government cannot succeed under conditions of economic serfdom. True political and economic unity would require a free movement of goods, persons and ideas throughout Germany, and the establishment of a rule of law and political freedom, which the occupying powers themselves would respect.

A German government of any type established to function in present conditions and under the supervision of a Control Council reflecting these basic disagreements would be powerless. In such circumstances a German government would be only a facade and its establishment would subtract from rather than add to a real union of the German people. It is useless to debate the characteristics of a German government when actual governmental power would be elsewhere.

The simple fact is the present division of Germany has been caused by the policies and practices of the occupying powers themselves. Only the occupying powers can create German unity in the present circumstances. That is why the United States has consistently pressed for certain fundamental decisions by the occupying powers themselves as the absolutely essential first step for the achievement of a unified Germany.

Three delegations at this conference have registered their willingness to take these decisions here and now. The Soviet Union alone refused to agree.

In view of these facts, it seems impossible at this time to make practical progress. Therefore I reluctantly conclude that no useful purpose would be served by a debate on the other points on our agenda and I suggest that the Council of Foreign Ministers might now consider adjournment of this session.

Lays Inflation to Higher Pay and Less Production

C. H. Carlisle, at Annual Meeting of Dominion Bank of Canada, sees as additional cause the losses due to strikes. Robert Rae, Bank's General Manager, reports progress of last year.

Higher pay and less production are largely responsible for present inflation, C. H. Carlisle, President of the Dominion Bank, said at the bank's annual meeting on Dec. 10. Both of these factors, he added, are illogical, uneconomical and adversely affect the welfare of all of our people. Mr. Carlisle warned that moderation and self-restraint in this sphere is absolutely essential.

Clifton H. Carlisle

Robert Rae

Mr. Carlisle said that "it is encouraging to note that labor organizations are purging themselves of a radical, disturbing and destructive element." This accomplished, he said, organized labor can be a powerful influence in increasing production and reducing costs, thereby aiding in extending both domestic and foreign markets.

The purchasing value of the Canadian dollar, he said, compared with the average value for the years 1935 to 1939 on general wholesale commodities and Canadian farm products, has depreciated 45%. This decline, he stated, is due largely to insufficient volume of production and higher costs of production.

Another cause of the depreciation of the dollar, he said, is the unnecessary loss due to strikes. "It is difficult to comprehend why such losses should exist," he said, "as out of industry and production the employee draws his pay, the company its profits, the shareholder his dividends, the government its taxes and the people their maintenance."

Robert Rae, General Manager, presented figures showing the bank's progress during the past twelve months.

Jackson Cherry Joins Dempsey-Tegeler & Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Jackson Cherry has become associated with Dempsey-Tegeler & Co., 210 West Seventh Street. He was formerly Vice-President of Francis V. Nixon & Co. and prior thereto was with Thomas Kemp & Co., Bankamerica Co. and William R. Staats Co. In the past he was with First Cleveland Corp. and Otis & Co. in Cleveland.

Johnson With Schwabacher

(Special to The Financial Chronicle)

CARMEL, CALIF.—Cyrus B. Johnson has become associated with Schwabacher & Co. He was formerly Carmel representative for Dean Witter & Co. with which he was affiliated for many years.

Hall With Fairman Co.

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Frank T. Hall has become affiliated with Fairman & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange. He was formerly Ventura representative for First California Company.

With Trowbridge & Co.

(Special to The Financial Chronicle)

BATTLE CREEK, MICH.—Edward J. Woodlock is now with Trowbridge & Company, Michigan National Bank Building.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Government security prices are so steady that changes of even a thirty-second may soon be looked upon as a major price adjustment. . . . Quotations are "on the hook" because of the support by the monetary authorities. . . . Shifting of positions still goes on with the trend from longs into shorts continuing as banks and non-bank investors put their portfolios in condition to meet impending developments such as heavy debt retirements, increased reserve requirements, or enlarged demands for loanable funds. . . . As a result the Central Banks as well as Government Trust Accounts are rapidly building up their holdings of long-term Treasury obligations. . . .

Although there is still considerable "bearishness" in the government market, it is not as pronounced now as in the recent past, because the financial district is gradually accepting the "pegged price level" as the stopping point of the decline. . . . The power of the monetary authorities is being recognized and with the passage of time and prices still being held at current levels, there will no doubt be some change in psychology. . . . Even now some year-end buying is going on. . . . Dealers, however, do not like the "pegged market" because it has sharply curtailed their volume of business, except for those that carry on transactions with Federal. . . .

REDISCOUNT RATE

The indicated change in the rediscount rate had been expected as soon as the certificate rate went to 1⅛%. . . . This will most likely take place with the refunding of the Jan. 1 certificates, so that an upping of the rediscount rate to 1¼% is looked for in order to precede or coincide with the higher certificate rate. . . . This would be a normal procedure since the rediscount rate should be a penalty or punitive rate in order to make borrowing on short-term eligible collateral unprofitable. . . . This rate should be in line with the general pattern of rates because if it is set too high it would discourage borrowing and result in the sale of government securities. . . . The effect of a higher rediscount rate would be largely psychological but since prices are being supported by the money managers it should have no important bearing on the government market. . . .

GOLD REQUIREMENTS PLAN

Increased gold requirements, against Federal Reserve notes and deposits, seems to be important enough to be given consideration, although there are no assurances that this plan will eventually be adopted. . . . It is proposed to increase gold reserves behind Federal Reserve notes and deposits from 25% to 35% against deposits and 40% against notes. . . .

It would work as follows:

Present Gold Requirements 25%

Gold Holdings Federal Reserve Banks, Dec. 10, 1947	$21,500,000,000
Federal Reserve notes outstanding	24,700,000,000
Deposits, Federal Reserve Banks	19,100,000,000
Total Notes and Deposits	$43,800,000,000
Required Gold Reserve against notes and deposits at 25%	$11,000,000,000
Free Gold	$10,500,000,000

The free gold of $10,500,000,000 would support an expansion in Federal Reserve notes or deposits of $42,000,000,000, based upon present gold requirements of 25%. . . . These funds could be used to buy government securities in order to support the market for Treasury obligations if there be such need, which is not very likely. . . .

35% Gold Against Deposits and 40% Gold Against Notes

Reserves needed in gold against Federal Reserve notes and deposits	$16,600,000,000
Free Gold	$4,900,000,000

With larger gold reserve against Federal Reserve notes and deposits, free gold of about $4,900,000,000 would be considerably less than under the present 25% gold requirement but still could support an expansion of $12,200,000,000 of Federal Reserve notes and deposits. . . While $12 billion is substantially smaller than $42 billion, it is still enough to provide all the support that will be needed to keep the government market on an even keel. . . .

An increase in gold reserve requirements against Federal Reserve notes and deposits would nevertheless take away some of the flexibility of the system to meet extraordinary monetary conditions. . . . On the other hand, it does not solve the gold problem because it does not prevent the gold inflow and does not sterilize the gold after it gets here. . . . It is not anti-inflationary because it has no effect upon the member banks since it does not decrease their deposits or reserves. . . .

DEBT RETIREMENT

Debt retirement seems to hold the spotlight now, as Chairman Eccles of the Federal Reserve Board has indicated that $7 billion of debt will be extinguished by March 1, 1948. . . . This would be a very heavy reduction in Treasury obligations for such a short period of time and the way in which it is done will indicate the extent of the deflation in the monetary system. . . . Likewise the course that is followed by the member banks to meet reserve requirements under such a large debt reduction will have a bearing on the outcome. . . . If the member banks continue to sell government obligations in order to meet the credit pinch, this will offset to some extent the deflationary effects of large-scale debt reduction. . . .

Undoubtedly Treasury bills and certificates will be the ones that will be affected most by the debt reduction because these are the issues that come due in the indicated period. . . . Also these securities are held in large amounts by the Central Banks. . . . Will there be a stepping up of redemptions in bill holdings of the Federal Reserve Banks? . . . Will the certificates that are owned by the Central Banks be turned in for cash payment as they mature? . . . Latest figures show that Federal owned about $780,000,000 of the Jan. 1 certificates, $1,792,000,000 of the Feb. 1 issue and $468,000,000 of the March 1 obligations. . . . Cash repayment of these Central Bank-held certificates would be very deflationary. . . . Increased reserve requirements in New York and Chicago as well as the transfer of income tax payments in January and March to War Loan Accounts would help to tighten the money markets. . . . It could affect the loan trend, but it won't mean much to the government bond market as long as prices are "pegged."

Coggeshall Becomes Pres. First Boston Corp.

John R. Macomber, Chairman of the Board of Directors of The First Boston Corporation, 100 Broadway, New York City, and Allan M. Pope, President, will retire on Dec. 31, 1947, in accordance with the Corporation's existing retirement plan, it was announced Dec. 11 following a meeting of the Board of Directors. Mr. Macomber and Col. Pope, who have held their respective positions during the entire life of the present First Boston Corporation — over 13 years—will continue as directors of the Corporation.

Harry M. Addinsell

Jas. Coggeshall, Jr.

George D. Woods

Effective, January 1, 1948:

Harry M. Addinsell, Chairman of the Executive Committee since The First Boston Corporation was organized in 1934, has been elected Chairman of the Board to succeed Mr. Macomber.

James Coggeshall, Jr., Executive Vice President, has been elected President to fill the vacancy created by the retirement of Col. Pope.

George D. Woods, Executive Vice President of the Corporation, has been elected Chairman of the Executive Committee, to fill the vacancy created by the promotion of Mr. Addinsell.

Duncan R. Linsley and Aubrey G. Lanston, Vice Presidents in New York, and William H. Potter, Jr., Vice President in Boston, have been elected Executive Vice Presidents.

The Executive Committee will consist of the foregoing six officers and the three senior vice presidents, Messrs. Nevil Ford, Eugene I. Cowell and R. Parker Kuhn.

Mr. Addinsell joined The First Boston Corporation when it was organized, having been President of the Chase Harris Forbes Corporation for three years and, prior to that, Vice President of Harris, Forbes & Co.

Both Mr. Coggeshall and Mr. Woods have been associated with The First Boston Corporation or its predecessors since first entering the investment banking business. Mr. Coggeshall, after being graduated from Harvard, joined The First National Corporation, a predecessor company, in 1919 within a few months after its creation by The First National Bank of Boston. Within two years he went to Chicago to open an office for that corporation, later returning as a Vice President and Manager of the Boston office, transferring to the New York office in 1930 when he became Vice President in charge of sales. He is a Director and Member of the Executive Committee. He became Executive Vice President in 1946.

Mr. Woods originally became associated with Harris, Forbes & Co. in 1918 and served with that organization until its merger with the Chase Securities Corporation, when he became Vice President of the merged Chase Harris Forbes Corporation. He became Vice President and Director of The First Boston Corporation when it was organized in 1934. His duties have been primarily in the buying department. He was elected Executive Vice President in 1946. During the war Mr. Woods served as Colonel on the Staff of the Commanding General, Army Service Forces.

The First Boston Corporation maintains offices in Boston, New York, Pittsburgh, Buffalo, Chicago, Cleveland, Hartford, Philadelphia, San Francisco, Springfield, Mass., and Washington, D.C.

Wilson, McMaster & Co. Formed in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Wilson McMaster & Co. has been formed with offices at 134 South La Salle Street, to engage in the securities business. Officers of the new firm are William F. Wilson, President; Perry S. Patterson, Vice-President; James R. McMaster, Secretary-Treasurer; and Edward J. Gesick, Assistant Secretary-Treasurer. Directors, in addition to the officers, are Theodore J. Weppner, Bernard T. Brennan, and Irving Rudolph.

Mr. McMaster was previously a partner in Robert F. McMaster & Co., and later was with F. S. Moseley & Co. with which Mr. Wilson was also associated.

Lazard Freres to Admit Adams

Lazard Freres & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, will admit James S. Adams to partnership in the firm on Jan. 1. Louis N. Singer will retire from the firm as of Dec. 31.

With Braun, Bosworth

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Neville Walker is now affiliated with Braun, Bosworth & Co., Inc., Penobscot Building. He was previously with the Manufacturers National Bank.

News About Banks and Bankers

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

A new branch in Frankfurt-Main, Germany of the **Chase National Bank of New York** was opened for business on Dec. 15 for the convenience of Americans, according to word received at the bank's head office in New York. Established with the approval of authorities in Washington and the U. S. Military Government in Germany, the branch will offer limited banking services to U. S. military and authorized personnel, including those of Allied countries, in the American zone. Heretofore Americans in Germany have had no personal banking facilities except those provided by the Army. Personal checking and compound interest accounts will be accepted, travelers cheques will be sold, and money transfers to this country will be effected by mail and cable. Hermann P. Volz, formerly an Assistant Manager of the foreign department of the Chase in New York, is manager of the new branch, which occupies a part of a large centrally-located building at 11 Taunusanlage known as the "America House".

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The Chemical Bank & Trust Co. of New York has more than doubled the floor space of its Rockefeller Center office to meet the increasing banking demands in the area, it was announced on Dec. 11 by C. D. Duncan, Vice-President in charge of the office. The newly expanded office officially opened to the public Dec. 16. On Dec. 11, members of the press attended a special preview. Before the expansion, Mr. Duncan explained, the Rockefeller Center office consisted of a two-story building fronting on 51st Street, with basement, and providing 13,396 square feet of banking facilities. Now it has a total of 30,275 square feet of facilities, including the addition of two floors to the original building and an expansion of the main banking floor from 51st through to 52nd Street. A personal trust department has been installed to enable the bank's customers to conduct all their business in the Rockefeller Center office. Facilities of the foreign department have been further augmented by an increase in personnel in this division.

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Promotions and appointments on the official staff of **The Chase National Bank of New York** were announced on Dec. 11 by the bank as follows: Thomas M. Ritchie, as Vice-President in the Public Utilities Department; L. Allan Bucher, as Second Vice-President in the Foreign Department; John T. McMahon, as Second Vice-President and Manager of 11 Broad Street Branch; Henry E. Arning, Joseph C. Broadus, Willard L. Burbank, Joseph Harsch, William J. Lamneck, Robert R. C. Pape and Otto A. Stenman, as Assistant Cashiers of the bank.

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John H. Millikin has been elected Vice-President of **Bankers Trust Company of New York** by the board of directors it is announced by S. Sloan Colt, President. At the same time, G. F. Taylor was made an Assistant Vice-President, and eight others were elected to official positions. Mr. Millikin, who was previously an Assistant Vice-President, is in charge of administration in the bank's Corporate Trust Department. Others elected are: H. P. Allen, Assistant Treasurer; R. L. Buquet, Assistant Treasurer: G. R. Byam, Assistant Trust Officer; H. J. Cochran, Jr., Assistant Trust Officer; E. H. Eckfeldt, Jr., Assistant Secretary; J. W. Fiske, Jr., Assistant Treasurer; C. L. Maurer, Assistant Treasurer; J. C. Swayze, Assistant Secretary.

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At a meeting of the Board of Directors of **The National City Bank of New York**, on Dec. 16, Ross A. Budge, Robert L. Hoguet, Jr., and James MacN. Thompson were appointed Vice-Presidents. Mr. Budge, a native westerner from Pocatello, Idaho, joined The National City Bank of New York in August, 1937. He was appointed an Assistant Cashier in October, 1940 and an Assistant Vice-President in July four years later. Mr. Hoguet, born in New York City, came to the National City in February, 1936, was appointed Assistant Cashier in 1939 and Assistant Vice-President in October, 1945. Mr. Thompson, originally from Albany, N. Y., joined National City in September, 1929. He was appointed Assistant Cashier in October, 1941 and Assistant Vice-President in December, 1944.

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Employees of **United States Trust Company of New York** were guests at a Christmas party given on Dec. 16 by Williamson Pell, Chairman, and Benjamin Strong, President, at the Wall Street Club, 40 Wall Street.

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Gordon R. Ball, recently appointed General Manager of the **Bank of Montreal**, has been succeeded as head of the bank's **New York Agency** by Cecil T. Aulph, who has been second-in-charge o the office since 1945. Mr. Ball was appointed General Manager of the bank following the 130th annual meeting on Dec. 1. Albert St. C. Nichol, Manager of the bank's Chicago office and formerly the Bank of Montreal's third agent in New York, replaces Mr. Aulph as second New York agent. Mr. Aulph is a banker of 34 years' experience in Canada and the United States. In 1929, after a number of years' service at various Ontario branches, he went to Chicago as special representative for the Bank of Montreal. Appointed Assistant Manager of the bank's office there the next year, he came to New York in 1935 as accountant at the agency. Four years later Mr. Aulph returned to Canada, where he was successively Assistant Manager of the bank's Toronto and Winnipeg main offices and Assistant Superintendent of branches in the Ontario district. The newly-appointed second agent, Mr. Nichol, also has seen many years' service with the Bank of Montreal in both Canada and the United States. Mr. Nichol first came to New York four years ago, when he was named third agent at the bank's local agency. From May, 1946, until his present appointment, he has been Manager of the Bank of Montreal's Chicago office. Mr. Ball's appointment as General Manager of the bank, was noted in our Dec. 4 issue, page 2284.

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Seventy-nine veterans of World War II who are employees of the **Bowery Savings Bank of New York**, and their wives, were guests of bank trustees and officers at a reception and luncheon at Hotel Plaza on Dec. 13. The speakers were the Rev. Robert I. Gannon, President of Fordham University, and George S. Van Schaick, trustee of the Bowery Savings Bank.

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The New York State Banking Department reports that on Dec. 2 approval was given the **Royal Industrial Bank of New York**, at 1134 Broadway, to a certificate of increase of capital stock from $385,000, consisting of 38,500 shares of stock of the par value of $10 each, to $435,000, consisting of 43,500 shares of stock of the par value of $10 each.

* * *

At 3rd Avenue and 72nd Street, **The Bank for Savings of New York** opened on Dec. 15 new banking quarters for its branch, formerly at 3rd Avenue and 70th Street. In its new location the bank is housed in its own garden apartment building. Commenting on this step, DeCoursey Fales, President of the bank, said: "Our bank is community-minded and this project was not undertaken merely to provide needed space for our banking requirements but as a neighborhood improvement as well." The building housing the bank was remodeled from a row of empty tenements and old-style stores and three brownstones covering a plot of 130 feet square. Housing is provided for 45 GI families in apartments overlooking a small interior garden with an entrance on 72nd Street. The exterior of the building is brick, the design inspired by Colonial Williamsburgh. The Bank for Savings is the oldest savings bank in New York State and has over 50,000 savers in the community this branch will serve. The main office is at 4th Avenue and 22nd Street.

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The board of directors of the **Central National Bank of Yonkers, N. Y.**, announces the completion of the bank's enlarged and modernized quarters at 3 South Broadway. Inspection of the new quarters on Dec. 18 has been invited.

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The election of Jack A. Ahern and Norman H. Drosendahl as Vice-Presidents of the **Manufacturers & Traders Trust Co. of Buffalo, N. Y.**, was made known in the Buffalo "Evening News" of Dec. 10. From that paper we also quote:

"Mr. Ahern, who is with the business extension department, began his banking career in 1926. Mr. Drosendahl became associated with the bank in 1919 and has served in the trust department since 1921."

* * *

Lloyd DeWitt Brace was named the President of the **First National Bank of Boston, Mass.**, on Dec. 11, succeeding Charles E. Spencer, Jr., who has become Chairman of the board, after serving as President since 1939.

Mr. Brace, who was born in Lincoln, Neb., in 1903, was a Vice-President since 1932 and a director since 1942. He is a nephew of the late Daniel G. Wing, who was President of the bank from 1903 to 1926 and Chairman from 1926 until his retirement in 1935. The directors on Dec. 11 also announced that Robert G. Emerson, W. Latimer Gray, Serge Semenenko and John R. Toulmin had been named Senior Vice-Presidents.

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The directors of the **Peoples Bank & Trust Co. of Passaic, N. J.**, announced on Dec. 8 that Cowles Andrus, a Vice-President of the **Passaic National Bank & Trust Co. of Passaic**, would resign to become President of the Peoples Bank. The Newark "Evening News," indicating this, said that Mr. Andrus will succeed Henry C. Whitehead, who will become Chairman of the Board.

* * *

The stockholders of the **Union County Trust Co. of Elizabeth, N. J.**, on Dec. 9 approved the proposed merger with the **Elizabeth Trust Co.**, also of Elizabeth. The merger is to become effective Dec. 31, said the Newark "Evening News" in advices from its staff correspondent at Elizabeth, the account therein adding:

"Stockholders were asked to vote on two propositions, one the merger itself, and the second, authorization to bank officials to seek to increase the 120,000 common stock certificates by 5,000 to accommodate Elizabeth Trust stockholders wishing to trade in their equity for shares in the new bank.

"The Reconstruction Finance Corporation, holding all 700,000 shares of preferred stock, voted all of it in favor of the merger."

An item bearing on the merger plans appeared in our issue of Nov. 20, page 2065.

* * *

The board of directors of the **Corn Exchange National Bank and Trust Company of Philadelphia** has made the following promotions in the official staff of the bank, effective Jan. 1: J. G. Krattenmaker, Vice-President, and John A. Mullican, Assistant Vice-President. Mr. Krattenmaker was formerly Assistant Vice-President.

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A split-up of the capital stock of **The National Central Bank of Baltimore, Md.**, on a 5-for-1 basis will be considered by stockholders at the annual meeting on Jan. 13, according to John J. Ghingher, President of the Bank.

We quote from the Baltimore "Sun" of Dec. 10, which further said in part:

"The split-up would be accomplished by reducing the par value from $100 to $20 a share, each shareholder receiving five shares of the new stock for one share of the old. The plan has been recommended by the board of directors. At present the capital of the bank is $400,000 represented by 4,000 shares of $100 par each. By reducing the par value the number of shares will be increased to 20,000 without changing the total capital of $400,000."

Four Assistant Vice-Presidents of the **Safe Deposit and Trust Co. of Baltimore** were elected at a meeting of the board of directors on Dec. 11, it was stated in the Baltimore "Sun" of Dec. 12, the items also saying in part:

"The officers promoted to this newly created position were J. William Eccleston, Jack S. Ewing, Robert K. Frey and John E. Motz. All four of them are connected with the investment department of the company, and the promotions were authorized by directors in recognition of their ability, Thomas B. Butler, President, stated."

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In the financial column of the Washington, D. C., "Post" of Dec. 11, S. Oliver Goodman reported that the directors of the **Union Trust Co. of Washington** have declared an extra dividend of 2½%, or 25 cents a share, in addition to the semi-annual dividend of 5%, or 50 cents, a share on capital stock, according to an announcement on Dec. 10 by President S. William Miller.

The "Post" also stated that "allowing for the 5-for-1 stock split-up earlier this year when Citizens National Bank was acquired, this makes total dividends this year of $6.25 on the old $50 par stock as compared with $4 dividends in 1946."

It may be noted that the stock was split 5-for-1 on Dec. 23, 1946, and the par value was changed from $50 to $10. The initial dividend of 50 cents on the $10 par stock was paid by the Union Trust on July 15, 1946.

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Under the name of the **Shirlington Trust Company**, a new institution in Arlington, Va., is expect to open in January. It will have a capitalization of $300,000, of which $250,000 represents capital and $50,000 surplus. The Washington, D. C., "Post" of Nov. 30 stated that the "shares of the present value of $10 are being sold at $12 per share; $10 of the subscription is credited to capital and $2 to surplus."

The same paper also said:

"Joseph Cherner, President of the Shirlington Corp., is also President of the Shirlington Trust Co. Frank L. Ball, Arlington attorney, and former Virginia State Senator, is Vice-President and general counsel. Other officers are George F. Hohein, Executive Vice-President and Treasurer, and George F. Hatzes, general agent of the Fidelity Mutual Life Insurance Co., in Washington, Secretary.

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The Board of Governors of the Federal Reserve System announced on Nov. 29 that the **Fifth Third Union Trust Co. of Cincinnati, Ohio,** absorbed on Nov. 24 The Reading Bank, Reading, Ohio, both State members. In connection with the absorption, a branch was established at Reading.

* * *

William B. Bell, Assistant Comptroller of **Northwest Bancorporation of Minneapolis, Minn.,** died on Dec. 8. Mr. Bell, who was 58 years of age, became Auditor with the Northwest Bancorporation in 1932 and was advanced to Assistant Comptroller last January, according to the Minneapolis "Star." He served in the Signal Corps in World War I.

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George W. Strake, oil operator and philanthropist of Houston, Texas, was elected to the board of directors of the **Mercantile-Commerce Bank and Trust Co. of St. Louis,** it was announced on Dec. 4 by Gale F. Johnston, President. Mr. Strake was born in St. Louis, but has lived in Houston since 1927, where he is Chairman of the board and President of the Aluminum Products Co. In 1931 he discovered and developed the Conroe Oil Field in Montgomery County, Texas., and since that time has discovered other fields in Texas and Louisiana. Mr. Strake attended St. Louis preparatory schools and St. Louis University and served in the Army Air Corps during World War I. From 1919 to 1925 he engaged in the oil business in the Republic of Mexico, resided in Havana, Cuba, for the next two years, and in 1927 moved to Houston to establish permanent residence.

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City National Bank & Trust Co., of Kansas City, Mo., has added Guy S. Hadsell to its staff of field men for its correspondent banking department. Mr. Hadsell has had 10 years' banking experience in Kansas, including nearly two years with the Kansas Banking Department as examiner. His territory for City National will be Kansas and Nebraska. Mr. Hadsell began his banking career in 1929 with the **Citizens State Bank of Clifton** and has worked for the **First National Bank in Logan,** the **State Bank of Winfield** and the **McPherson & Citizens State Bank of McPherson,** where he was Assistant Vice-President until October of this year. He was with the State Banking Department of Kansas from 1939 to 1941.

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Mills B. Lane, Jr., President of the **Citizens and Southern National Bank of Atlanta, Ga.,** announced on Dec. 9 the promotion of several officers of the bank, it is learned from the "Atlanta Constitution" of Dec. 9, which indicated the changes as follows:

"J. Franklin Frazier of Savannah, Assistant Cashier, was named Assistant Vice-President; Albert Kline, Savannah, Vice-President and Cashier, was elevated to Vice-President; N. Rountree Youmans was promoted from Assistant Cashier to Cashier; Henry G. Garwes, Vice-President, was made an Executive Vice-President, as were T. I. Denmark of Macon; Robert V. Watterson of Athens; James Sartor of Augusta, and A. F. Winn of Valdosta."

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Through the sale of $100,000 of new stock, the **First National Bank of Lafayette, La.** has increased its capital from $200,000 to $300,000. The enlarged capital became effective Nov. 17.

* * *

Fred F. Florence, President of the **Republic National Bank of Dallas, Texas,** announced recently the election of Cliff Wood of Memphis, Tenn., as a Vice-President of the bank, effective Jan. 1. The Dallas "News" of Nov. 24 stated that Mr. Wood will join the correspondent bank and general operations division of Republic. It adds that he has resigned as Vice-President and head of the correspondent bank department of the **First National Bank of Memphis.** The proposed resignation of Mr. Wood from the Memphis bank was indicated in our issue of Dec. 4, page 2284.

* * *

Directors of **California Bank of Los Angeles** elected three Vice-Presidents and eight Assistant Vice-Presidents at their regular monthly meeting on Dec. 9. Elected Vice-Presidents were: G. M. Chelew, personal director of the bank; J. Magoffin, head of the bank's Sixth and Grand office, and R. A. Reid, in charge of the Long Beach office.

The newly elected Assistant Vice-Presidents are: Francis Bowen, investment department; H. G. Bunjes, Comptroller's department; Glenn B. Gossett, Bell office; Arthur G. Kane, investment department; W. E. Palmer, Beverly Hills office; Claude M. Sebring, San Pedro office; Leo E. Smith, Atlantic-Whittier office, and J. B. Thompson, Santa Monica office.

* * *

Plans to increase the capital of the **Security-First National Bank of Los Angeles, Cal.** by $6,000,000 raising it from $24,000,000 to $30,000,000 will be acted upon by the stockholders at their annual meeting on January 13. The Los Angeles "Times" of Dec. 3 indicating this, said:

"The increase will be effected by an increase in the par value of the present 1,200,000 capital shares from $20 to $25 a share. This will be accomplished, the official stated, by the transfer of $6,000,000 from undivided profits and earnings to capital. At the same time an additional $4,000,000 will be transferred from undivided profit to surplus."

The present surplus, now $26,000,000, will thus be increased to the same amount at the proposed capital, viz. $30,000,000.

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The Oregon State Banking Board on Nov. 25 reelected A. A. Rogers as State Superintendent of Banks it was made known in the Portland "Oregonian" of Nov. 26 which also had the following to say: His present term expires Nov. 30. Mr. Rogers originally was elected during the administration of ex-Governor Charles A. Sprague and is now serving his second term.

Governor John H. Hall is Board Chairman. Banking board members other than Governor Hall are Secretary of State Earl T. Newbry and State Treasurer Leslie M. Scott.

* * *

Charles H. Stewart, President of the **Portland Trust & Savings Bank of Portland, Ore.** has been re-elected to a three-year term as a class A director of the **Federal Reserve of San Francisco,** according to advices received from San Francisco, Nov. 28. The Portland "Oregonian" in reporting this added:

"Mr. Stewart, who was elected to fill the unexpired term of Richard Shore Smith of Eugene, will complete approximately two years on the board on Dec. 31. Mr. Smith, former President of the **First National Bank of Eugene,** resigned from the Reserve Bank directorate when he retired at the time the Eugene bank was purchased by Transamerica. Prior to his election on the San Francisco bank's directorate Mr. Stewart had served a part term as a director of the Portland branch of that bank.

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The **Chartered Bank of India, Australia & China** announce that Sir Henry Richardson has joined their Board.

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Cable advices received by the New York agent of **Barclays Bank (Dominion Colonial and Overseas),** state that the Bank has declared final dividends of 4% actual, making a total of 8% for the year on the A stock and on the B shares, less income tax in each case at the standard rate of 9/- in the pound and payable on Dec. 22, 1947. These dividends are for the period April 1, 1947 to Sept. 30, 1947. Barclays Bank (Dominion, Colonial and Overseas) which is affiliated to **Barclays Bank Limited, London,** maintains branches overseas in South, East and West Africa, Egypt and the Sudan, Mediterranean, Palestine, the British West Indies, and also in Eritrea, Libya and Somalia.

Lloyd Made President of Phila. Bond Club

PHILADELPHIA, PA. — H. Gates Lloyd, partner of Drexel & Co., was elected President of the Bond Club of Philadelphia at the club's annual meeting Monday, Dec. 15 at the Union League. Loring Dam, of Eastman, Dillon & Co., was elected Vice President; John F. Bunn, Jr., of Bioren & Co., was elected Secretary; and William Z. Suplee, of Suplee, Yeatman & Co., was elected Treasurer. William R. Barclay, Jr., of Stein Bros. & Boyce, retiring President, was elected to the Board of Governors for the term expiring in 1948, and Walter W. Buckley, of Buckley Bros. and Wallace M. McCurdy, of Thayer, Baker & Co., were elected for terms expiring in 1950.

With Bateman, Eichler & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William S. Bryan has been added to the staff of Bateman, Eichler & Co., 453 South Spring Street, members of the Los Angeles Stock Exchange.

More on Revealing Dealer's Capita

(Continued from page 3)

inquisitorial system which it has installed by rule, is not free from doubt.

We have on prior occasions expressed our belief that many of the SEC rules constitute legislation by an administrative body and that Congress was without power to delegate such duties.

We have also been careful to point out that the enforcement of many of these rules places a heavy and unwarranted burden upon the securities industry and interferes with the free flow of its business.

Be all this as it may, one thing is clear, that in the instant case the authority to make available to the public the information in question is strictly limited only to circumstances which, in the judgment of the Commission, require such release in the public interest.

It will be difficult to satisfy a reasoning person that stimulating the circulation of a financial publication constitutes such an instance.

It is not hard to visualize the unscrupulous use to which the revelation of financial status may be put by a competitor's sales help under specific instructions.

Of course, it is axiomatic that one's honesty is not in direct ratio to one's means.

To the credit of many of the larger firms in the securities business, be it said that they are unalterably opposed to the policy of the Commission which makes possible the wholesale publication of the capital of dealers.

These firms are wise enough to recognize that oppression is a respecter of neither wealth nor person, that abuses are not limited to small dealers and brokers alone and that the best remedy is united opposition of all against every abuse.

Irrespective of any arguments that the Commission might advance to justify its rule compelling dealers and brokers to file financial statements, a general release on a wholesale scale for publication purposes, in our opinion, is an utter abuse of discretion and entirely contrary to the public interest.

There are several things which every dealer can and should do. He should have each report which he files accompanied with a request that the information therein be not disclosed, that it be kept confidential; and finally, he owes himself the duty of being the spearhead in his own immediate circle of a movement to shear the Commission of many of its inquisitorial powers.

Every dealer association in the investment field, too, should file an official protest with the SEC against the proposed dissemination of information which, according to both the spirit and letter of the law, the Commission should hold in strictest confidence.

"Reduce Government 'Take,' or Else Freedom Is Finished"

F. A. Harper states average American spends almost four months out of year working for government, with taxes equaling consumer's total food, housing, and household expenses.

IRVINGTON, N. Y., Dec. 17.—The average American spends three and three-quarter months out of the year working for the government. This corresponds to the 31 cents taken out of each dollar of 1946 income by federal, state, and local government, according to F. A. Harper in a report released today by The Foundation for Economic Education. This amount is equal to the consumer's total food, housing, and household expenses.

F. A. Harper

Harper points out in his report, titled "31 cents," that only about one-third of the amount taken by government is conspicuous as direct personal taxes, such as income taxes and property taxes. The other two-thirds is mostly in forms concealed from view, attached to items and services bought from private producers. Most people are not aware that taxes have assumed such large proportions.

"For instance," he continues, "out of the 23 cents of the average consumer's income dollar that is paid for food, only 18 cents goes to private producers for the jobs they have done in producing it, and making it available in the store and in the restaurant. The 5-cent difference is the amount of taxes, added in one way or another to the price as a charge for the expenses of government."

Progressively more and more of people's incomes have been taken by government, particularly over the last two decades. Prior to the Civil War, government took less than a nickel from each dollar of personal income. From the Civil War to World War I, the government deduction was nine cents. In 1930 began the first sizable peacetime increase in our history, which ran the figure up to about 25 cents.

The 1946 figure of 31 cents includes only those forms of control over individuals represented by direct government expenditures. In addition, Harper asserts, government exercises other forms of control over some of the remaining 69 cents. All told, the people of this nation have now lost control of nearly half their incomes; this includes the 31 cents actually taken and spent by government, plus the part where government determines the prices that people must pay for the goods and services of private industry.

Alarmed at the rapid growth of government, Harper concludes that it is doubtful if a nation of "free" people can long prevail in this situation. He calls for a reduction of at least half in the government's "take" from each dollar of personal income. Even such a reduction would leave the spending of individual incomes more restricted than in the decade following World War I.

Eccles Explains "Special Reserve" Proposal

(Continued from page 15)

regular reserve requirements, with adverse effects upon bank earnings.

Is the Board's proposal unnecessarily drastic?—In pointing out the inflationary dangers that exist when the supply of money in the hands of people who seek to spend it greatly exceeds the volume of goods and services available, the Board in its Annual Report for 1945 indicated that there were three alternative methods for dealing with the monetary aspects of the postwar inflationary problem: First, a limitation on the government bond holdings of banks; second, an increase in their regular reserve requirements; and, third, the holding of short-term government securities or cash under a special reserve requirement. Our study of the problem led us to select the special reserve method as the least onerous, the most equitable, and the most practicable method.

These specifications for the proposal call for the immobilization, even at the maximum, of only a part of existing large holdings by commercial banks of government securities. Less than half of the $70 billion of government securities held by the banks could be immobilized even if the entire authority were used. The special reserve could be imposed only gradually, and if inflationary bank credit expansion can be otherwise brought under check, the requirement would not be imposed at all. Under the plan suggested, the individual banker would be left in the same competitive position he is in today. Contrary to what has been stated by a recent National City Bank Letter, among others, banks would not be under legal compulsion to buy government bonds; the holding of government securities in lieu of cash or balances with other banks to meet the special reserve requirement would be entirely optional with the individual bank.

The special reserve plan is a middle-of-the-road proposal for helping to deal with the credit and monetary aspects of the difficult and complex inflationary situation. The board feels, however, that the purpose of restraining further inflationary expansion of bank credit can be adequately accomplished by the specifications it has drawn for the plan, if its use is accompanied by appropriate fiscal and other policies. It would seem that bankers would prefer this proposal to an increase in regular reserve requirements which they recommended in 1940 in anticipation of inflationary developments.

Are existing powers adequate?—The argument that the board's proposal is unnecessarily drastic implies that the suggested special reserve requirement is not needed because the System's existing powers are adequate to restrain credit expansion if the System would use them.

Existing powers are being and will continue to be used to the fullest extent consistent with maintaining the market for government securities. Under present conditions, however, any further absorption of bank reserves is entirely dependent upon a continued surplus in the Federal budget that can be used to retire public debt held by banks. There will be little or no surplus in 1948 after March. Any subsequent surplus will depend on appropriations and tax legislation yet to be adopted.

Sales of some of the large volume of government securities held by the Federal Reserve System would, of course, absorb bank reserves, but such sales, particularly when banks are selling securities to expand other credit, would demoralize the market and cause a sharp break in government bond prices.

The discount rate should be kept high enough to discourage borrowing from the Federal Reserve Banks, but its effectiveness is limited as long as banks can obtain reserves by selling short-term government securities.

The only remaining power we have is to raise regular reserve requirements at New York City and Chicago banks, as I have indicated. This would be restrictive to a small degree, but would be met by sales of short-term securities by those banks to the Reserve System. These particular banks, moreover, have shown relatively much less credit expansion than have other banks.

For some months the Reserve System and the Treasury have been carrying out a program combining monetary, fiscal and debt-management restraint on current inflationary bank credit expansion. Some moderate, corrective rise has been permitted in wartime levels of interest rates on short-term government securities, together with some adjustment in yields on long-term issues from very low levels. In addition, excess funds in Treasury balances arising from current budget surpluses have been applied to the retirement of maturing bank-held government securities.

The System has also urged all banks to maintain conservative standards in the extension of consumer instalment credit and has joined with other Federal and State bank supervisory agencies in recommending that all banks pursue conservative lending policies.

This program of restraint has helped to reverse the processes that contributed so strongly to the wartime expansion of bank credit and will be carried on as the proposed special reserve plan is not a substitute for this program, but may be necessary to supplement and reinforce it.

Despite the pressures of fiscal policy during September and October, which drew upon bank deposits and permitted retirement of over one billion dollars of government securities held by the banking system, deposits of businesses and individuals at commercial banks increased by $2.5 billion, reflecting largely extension of bank loans to businesses, consumers and owners of real estate. Current reports indicate that the expansion of credit to these groups of bank customers continues to be at an unduly rapid rate.

Will the special reserve plan unduly restrict bank loans for productive purposes, handicap production in catching up with demand and thereby defeat its anti-inflationary purpose?—The present situation, as the board emphasized in its annual reports for 1945 and 1946 and has been re-emphasized time and again in the Federal Reserve Bulletin, is one of effective demand in excess of available supplies of goods and of effective demand being continuously fed by still further expansion of bank credit. There can be considerable reduction in the volume of demand without bringing it below available supplies of goods and upsetting production. Such a contraction of demand is essential to avoid further price increases. When a situation is finally reached where supply exceeds demand, that will be the proper time to encourage credit expansion. The board's proposal is not a one-way street.

It would not prevent banks from making essential loans. It is designed, rather, to encourage banks to make loans out of the existing supply of loanable funds, replacing one loan with another or selling securities which the public or other banks will purchase. It would accept the present volume of outstanding bank loans, amounting to nearly $37 billion, as a huge revolving credit pool for the financing of necessary production and permit banks to sell off other assets to make loans if this pool proved inadequate. What it would not do is to permit banks to go on expanding the total volume of their loans by selling securities which only the Federal Reserve will buy, thereby creating additional reserves which can be expanded by the banking system into loans and investments amounting to six or more times their amount.

Some would argue that bank loans at this time which are accompanied by increased production are not inflationary or are even anti-inflationary. This argument is of dubious validity because the money once created by loans and spent by the borrower finds subsequent uses which are beyond the control of the banker or the borrower and are highly inflationary in character. In describing the recent loan expansion and its inflationary effects, the November issue of the Federal Reserve Bulletin states: ". . . to the extent that the loans have not facilitated increased production, loan expansion has accelerated inflation. In addition, the deposit funds created in the first instance by loans, whether for production, consumption, or speculation purposes, have found many inflationary uses in subsequent transfers among holders."

What the plan cannot do is to reduce the existing volume of bank deposits. The only way this total can be reduced is by paying off in the aggregate the public and private debt held by the banks as assets against these deposits. This is inevitably a slow process at best.

Could the special reserve plan be applied without resulting in a violent upset in the government securities market?—There is no reason why the transition could not be accomplished in an entirely orderly manner. The introduction of the proposal would be gradual. Any bank that might not be able to meet the proposed special reserve requirement introduced in this gradual way on the basis of their present holdings of short-term government securities should get into a more liquid position.

I should like to submit for the record a table showing for each major group of insured banks the relation of available special reserve assets on June 30, 1947, to selected levels for the proposed special reserve requirement. The table also shows the percentage holdings of short-term government bonds which these groups of banks held at mid-year which were available for sale in the market to obtain eligible assets. This table makes clear the feasibility of the plan from an operating standpoint. Of course, statistics for individual banks would show wider variations in holdings of eligible assets than are indicated by the table for groups of banks inasmuch as aggregates conceal individual bank variations. However, the table should allay fears that the plan would have disruptive effects.

Would the imposition of the plan perhaps lead to deflation and depression?—A fear expressed by some bankers who have discussed this board's plan publicly—and they include those who are prepared to renounce the use of monetary and credit controls for anti-inflation purposes—is that the use of this plan might upset the present state of high production and over-full employment and induce severe deflation and depression. The object of the plan is not to bring on deflation, but to minimize the deflation that is inevitable if we follow a let-nature-take-its-course policy.

The board recognizes that the proposal is no panacea and that there would be some risks in its use. But it would be an important restraint available to be used, and to be used only in the event of continued inflationary banking developments. Any anti-inflationary program involves some risk of precipitating a downturn and readjustment in business conditions. It would have been better to have had the power available for use earlier. Had the Reserve System been given the additional power that was recommended in the special report in 1940, it would no doubt have used it in view of developments during and since the war.

There is some feeling within the Reserve System that it will be held responsible for deflation if even the mildest use of this requirement should happen to coincide with a deflationary readjustment. It is because of this possibility that the board is not eager to have the grave responsibility for using the authority. Nevertheless, the board feels that the System should not shrink from bearing its share of responsibility for restraint on further inflationary developments in the credit field.

Is the special reserve plan strong enough to accomplish its expressed purposes?—We have been at pains to draw a plan that would be moderate and equitable and at the same time capable, when applied in conjunction with other monetary and fiscal policies, of accomplishing the purpose of restraining further inflationary expansion of bank credit. This is the sole objective of the plan. We think the authority would prove adequate for the purpose in view.

It would immobilize, at the maximum, about one-half of the wartime growth in bank holdings of government securities which in turn equals about one-half of the total deposits of commercial banks. Since the immobilization of this volume of government securities would greatly reduce the banks' available secondary reserves which they now feel free to draw upon, the plan would certainly make many banks more cautious about seeking or making new loans. It would end aggressive solicitation of new loan business in which a great many banks are actively engaged.

Another source of pressure on the banks that would result from the plan is that most of the banks would have to sell higher-rate issues from their holdings of government securities in order to expand loans and at the same time maintain reserve positions. This would be even more effective, from the standpoint of restraining banks, than would a rise in the discount rate.

It would have this effect without causing a rise in interest rates on short-term government securities. Thus, the proposed measure would be another step in a program of keeping the banks under constant pressure to restrain further credit expansion. It would not force liquidation or reduction in total bank credit outstanding. It would discourage expansion.

Can the plan be effective without permitting or encouraging a rise in interest rates?—Some bankers and others seem to believe that the only effective mechanism for the restraint of inflationary bank credit is a rise in the general level of interest rates. We doubt whether a reasonable rise in short-term interest rates under present conditions of business profitability would deter borrowers. We do not believe it would effectively deter lenders. Our plan places the restraint primarily on the lender. However, to the extent that the interest-rate mechanism can have some effect, the board's plan would not interfere with it. Any increased cost resulting from the plan would be borne by private borrowers who are increasing their indebtedness and not by the government which is reducing its indebtedness. This is the only reasonable solution to the interest rate problem. A general rise in interest rates high enough to halt the current inflationary expansion of bank credit would not only entail large added costs to the government, but would have a disastrous effect upon the government bond market.

Business Man's Bookshelf

Present Day Banking 1947-1948—A Ready Reference Book on Business and Banking—American Bankers Association, 12 East 36th Street, New York 16, N. Y.—cloth—$5.00.

Control of Consumer Credit—Proceedings of the Conference under the auspices of the Wharton School & Finance and Commerce of the University of Pennsylvania, March 26, 1947—University of Pennsylvania Press, 3446 Walnut Street, Philadelphia 4, Pa.—paper—$1.00.

Thirty-One Cents — Report on the amount taken out of each dollar of 1946 income by Federal, State, and local government—F. A. Harper—Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y.—paper—no charge for single copies; eight copies, $1.00; 50 copies $5.00; lower rates on larger quantities.

Keller With Morgan & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Thos. H. Keller has become associated with Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly in the trading department of Bingham, Walter & Hurry.

Inflationary Spiral Discussed

Round table group, sponsored by Investors Syndicate of Minneapolis, holds upward prices are likely to continue but denounces imposition of drastic controls. Galen Vanmeter, Vice-Chairman of Investors Syndicate, pleads for higher production.

MINNEAPOLIS, MINN.—The inflationary spiral is likely to continue, with higher prices for commodities, housing and other living cost items, and is now beginning to affect interest rates, nationally known economists agreed in an all-day panel discusson on Dec. 11 sponsored by Investors Syndicate of Minneapolis.

There is little evidence that natural forces will stop inflation for some time, nor is there evidence that strong action will be taken to put the curbs on, in the opinion of the roundtable participants. But there was also general agreement that it would be tragic if drastic controls were indicated which would restrict the free enterprise system which has built America to its present great strength.

Brought here for the discussion of fiscal policies of Investors Syndicate, were Dr. Harold A. Laswell, Professor of Law at Yale University and frequent consultant to the State Department on economic matters; Jack F. Chrysler, member of the Chrysler automobile family and an authority on investment; Webster R. Robinson of Princeton, N. J., former Professor of Economics at the University of California and a consultant on financial matters; James F. Twohey, formerly a member of the Federal Home Loan Board; and Charles R. Martin investment adviser of Wilmington.

Joining in the discussions were leading bankers of Minneapolis and other leaders in the financial world, invited to the sessions by E. E. Crabb, President of Investors Syndicate.

The conclusions reached by the 50 members who participated in the session were that:

The indications are for continued high employment and reasonably high production through 1948, particularly if the Marshall Plan is put into effect.

Primary factor in the situation ahead in the next few months is the inflationary spiral, which shows no sign of changing. Prices have been rising faster than consumers' income, but full employment, expansion of consumer credit and the backlog of savings are factors in assuring a continued demand for goods.

Labor supply is the big item in future production possibilities, and is particularly true with reference to construction. Some types of construction are likely to drop off in 1948, while others will increase. Residential construction may well increase and there should be only a slight increase in the cost of home building. There is still such a backlog of demand for goods that it will continue to influence business during the next year.

In spotted sections, interest rates on mortgages and other investments are already showing an unward trend and a long-term trend in interest rates now is definitely upward, ending a 15-year movement in the other direction.

The "dynamic potential," Galen Van Meter, Vice-Chairman of the Board of Investors Syndicate, told the conference, is higher production. If government and private financial forces and production groups would really give maximum production, the nation could hope for many years of unprecedented prosperity.

William R. Staats Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Andrew C. Heilman has been added to the staff of William R. Staats Co., 640 South Spring St., members of the Los Angeles Stock Exchange.

Sherwood With Needham

(Special to THE FINANCIAL CHRONICLE)

PALO ALTO, CALIF.—C. Raimond Sherwood has become connected with Needham & Co., 470 Ramona Street. He was with Richie & Baikey in the past.

New Italian Bonds Registered with SEC

Three separate issues, aggregating $131,971,700, to be exchanged for various outstanding Italian dollar issues. SEC to withdraw request that brokers and dealers refrain from dealing in outstanding Italian securities.

The Securities and Exchange Commission announced on Dec. 15 that the Italian Republic, the (Italian) Credit Consortium of Public Works and the (Italian) Public Utility Credit Institute had registered with it three new dollar bond issues to the aggregate of approximately $140,000,000. The new bonds are to be dated Jan. 1, 1947 and are to be the direct or guaranteed obligations of the Italian Republic. All are to be exchanged for certain outstanding Italian dollar issues which were issued in the United States before the war and on which interest has not been paid since 1940. The Securities and Exchange Commission also announced that it would withdraw its request previously made that dealers and brokers refrain from making transactions in outstanding Italian dollar issues. As a result of this decision, The New York Stock Exchange has authorized the readmission to dealings of the listed dollar bonds of the Italian Government, the Italian Credit Consortium, and Italian Public Utility Credit Institute, and of the Italian municipalities and corporations which were suspended from dealings on the Exchange in 1941. The Exchange has also authorized the listing of the new Italian Republic, Italian Credit Consortium, and Italian Public Utility Credit Institute bonds which are to be offered by the Italian authorities in exchange for certain outstanding dollar bonds. The date of readmission to dealings of the old issues and admission to dealings of the new issues will be the effective date of the registration of the new bonds, under The Securities Act of 1933.

Following is a list of the old issues of bonds which were suspended in 1941, with an indication of the amounts reported by the Italian authorities as being currently outstanding, exclusive of bonds cancelled and repartriated:

Kingdom of Italy—$27,714,900 Ext. Loan S.F. 7% Gold Bonds, due 1951.

Italian Credit Consortium for Public Works — $2,708,000 Ext. Loan S.F. 7% Sec. Gold Bonds, Series B, due 1947.

Italian Public Utility Credit Institute—$7,909,500 Ext. 7% Sec. S.F. Gold Bonds, due 1952.

City of Milan—$13,146,900 Ext. Loan of 1927, S.F. 6½% Bonds, due 1952.

City of Rome—$9,926,800 Ext. Loan of 1927, S.F. 6½% Gold Bonds, due 1952.

Mortgage Bank of Venetian Provinces — $572,500 25-year 7% Ext. Sec. S.F. Gold Bonds, Series A, due 1952.

Adriatic Electric Co.—$2,085,500 25-year 7% Ext. S.F. Gold Bonds, due 1952.

Ernesto Breda Company—$934,000 1st Mtge. 7% S.F. Bonds, due 1954.

Lombard Electric Co.—$2,888,000 1st Mtge. 7% Ext. S.F. Gold Bonds, Series A, due 1952.

The new Italian issues which have been authorized for listing, as described in the listing application, are as follows:

Italian Republic — $39,651,900 30-year Ext. S.F. Bonds of 1947, due Jan. 1, 1977.

(Italian) Credit Consortium for Public Works — $37,243,200 30-year Gtd. Ext. S.F. Bonds of 1947, due Jan. 1, 1977.

(Italian) Public Utility Credit Institute—$55,076,600 30-year Gtd. Ext. S.F. Bonds of 1947, due Jan. 1, 1977.

According to the prospectus of the new bonds, an exchange is to be made for certain outstanding issues of Italian dollar bonds. The new bonds of the Italian Republic are to be exchanged for the outstanding dollar bonds of the Kingdom of Italy, while the new bonds of the Credit Consortium will be offered in exchange for outstanding bonds of the cities of Rome and Milan. The bonds of the Utility Credit Institute will be exchanged for this organization's outstanding bonds and also for bonds of certain Italian corporations.

Holders of old bonds are to receive an amount equal to the principal of the securities given in exchange, plus the unpaid interest thereon at a specific rate from June 10, 1940, to Jan. 1, 1947. The new bonds will bear interest at 1 per cent initially, at 2% during 1950 and 1951 and at 3% therefter, all payable in dollars.

J. P. Morgan & Co., Inc., New York, has been named fiscal agent for the Italian Republic and the Credit Consortium, and the Chase National Bank, New York, has been appointed fiscal agent for the Utility Credit Institute.

SEC Reported Studying NYSE Commissions

Recent boost in minimum commission rates said to have brought flood of protests.

It is reported by the Trading and Exchange Division of the Securities and Exchange Commission that "a flood of letters" have been received from individuals protesting against the average of 20% increase in commission fees by New York Stock Exchange brokers, put into effect by the Board of Governors of the Exchange on Nov. 3. Under the Securities Exchange Act the SEC has authority, after holding a public hearing to require any registered securities exchange to revise its commission fees, if they are regarded as unreasonable. There is, however, no definite statement that the SEC, as yet, contemplates inaugurating action regarding the commission rates now in force.

Arthur J. Wilson Now with Swift, Henke in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Arthur J. Wilson has become associated with Swift, Henke & Co., 135 So. La Salle Street, members of the Chicago Stock Exchange. He was formerly with Davies & Mejia in San Francisco.

With Chas. W. Scranton Co.

(Special to THE FINANCIAL CHRONICLE)

NEW HAVEN, CONN.—William D. Lyon, Jr. has become associated with Chas. W. Scranton & Co., 209 Church Street, members of the New York Stock Exchange. He was formerly with Cooley & Co. and in the past was with B. J. Van Ingen & Co., Inc. in New York City.

IBA—An Association of Rugged Individualists

By JULIEN H. COLLINS*
Julien Collins & Company, Chicago
President, Investment Bankers Association of America

Newly elected IBA President pledges himself to foster in field of both State and Federal Regulation a program which will aid investment bankers in performing functions of supplying industrial capital and in protecting investor. Advocates uniform state Blue Sky Law and amendment of Securities Act of 1933. Denounces Justice Department's anti-trust suit both against underwriting concerns and against the Association, and promises all out fight to defend practices and plans which make for strong domestic economy. Urges program of public relations.

It is a compliment to any man in the investment banking business to be elected to office in this Association. No one could accept the privilege of this office without a keen sense of responsibility. I am fully conscious of the examples of distinguished service which have been supplied by my predecessors and the fast pace they have set, especially those with whom I have worked in recent years. When the Nominating Committee asked if I would care to make the campaign for this office, I was told that the work was to be light during the coming year. This I am inclined to doubt for I am well aware that my predecessors could not have served our industry so well without tremendous effort.

Julien H. Collins

It is no small satisfaction and assurance to me that Murray Hanson and Alden Little have promised to steer me around until the next annual convention and to acquaint me with some of the habits and customs of the Association.

Our activities will continue to be designed to provide the greatest benefit to our members and I have only a few new ideas to suggest for Association policy at this time. I should like to comment briefly at this point, however, on some plans which I hope to develop into a program for the coming year.

First, in the field of State Legislation. As the report of the State Legislation Committee has disclosed, we have secured the cooperation of the American Bar Association in the adoption of a resolution urging the National Conference of Commissioners on Uniform State Laws to begin work on a new uniform state Blue Sky Law. We are seeking to bring about greater uniformity and at the same time permit maximum integration of the state blue sky laws with the Federal acts.

We are informed that the Commissioners on Uniform Laws, as well as the Bar Association, look with favor on this suggestion, and to that end a meeting has been scheduled for early January between the Commissioners, the Bar Association and our Association for the purpose of working out procedures to carry on this important project.

We have reason to believe also that the Association will be given an opportunity to participate actively in the drafting of such a new uniform law, so that in this field of our activities we anticipate a busy and productive year. This work affords great opportunities to effect savings in time, effort and expense in operations under the blue sky laws and to make our business as a whole function more efficiently.

Amendment of Securities Act and Anti-Trust Suit

Second, in the field of Federal Legislation. Our program for amending Section 5 and related sections of the 1933 Act, at the moment, has been slowed up, perhaps in part, because of the implications of the anti-trust suit. Should the government succeed in its efforts to change the present syndicate method of underwriting and distributing new issues, the present Act would probably not be suitable for any new system which might evolve.

At this time the SEC has not decided what, if anything, it should do in the way of proposing amendments, at the next session of Congress, to the several acts which it administers, but we shall continue our efforts to obtain changes which will enable our business to function more realistically and efficiently without diluting investor protection the original concept and purpose of the Act.

Nothing has been more generally discussed at this meeting and nothing is more important to our business and our Association than the Anti-Trust Suit. Now, just a few words about this action against 17 of our member firms and against the Association itself, which I know is very much on your minds.

You have all received copies of the Bill of Complaint and have heard the matter discussed at earlier sessions of this Convention. Let there be no mistake in anyone's mind about one important point. This action in which the 17 firms are specifically named actually involves every firm in this business and failure on our part to win this case will adversely affect every individual firm.

I now enter my seventh year as a member of the Board of Governors of the Association, and during this period I have never seen any evidence of domination or control of the activities of the Association by any firm or group of firms. Should any indication of such domination ever become apparent, it would produce an unhealthy situation for all concerned, and it would be resented by the membership.

Naturally, I would not presume to speak for any of the 17 firms which are said to dominate this Association. But with respect to the position of the Association in this case, I do want to say emphatically that it is outrageous that our more than 700 members have been subjected to the expense and implications of this litigation.

We have openly and publicly opposed regulations designed to require certain types of securities to be sold by a system of compulsory competitive bidding. This is a matter of public record. In doing this we were obviously within our rights and within our line of duty. Furthermore, all of us know that both the SEC and the Interstate Commerce Commission invited us to present our views at their hearings on competitive bidding. I am informed that even the Anti-Trust Division finds no fault with citizens who so express their opinions, in the absence of some element of domina-

(Continued on page 49)

*Inaugural address by Mr. Collins at the 36th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 5, 1947.

The Past Year and the IBA

By EDWARD HOPKINSON, JR.*
Partner, Drexel & Co., Philadelphia

Retiring IBA President reviews operations of the Association during past year and stresses importance of cooperation with Marshall Plan to effect European stabilization. Urges plan be administered by bi-partisan corporation, and points out need for stabilization of European currencies to end inflationary trend. Scores Justice Department's suit against underwriting firms and the IBA and defends Association's activities and policies.

It has been a most interesting year to be President of your Association. Before reporting to you, however, on the things we have done or tried to do during the past year, I want to say a word about our Convention Program. Because of the tension and uncertainties of our foreign relations, we decided that this subject should be highlighted at our sessions this year and we have therefore arranged for reports and discussions of many aspects of this all important matter. They have a direct bearing upon the economy of our own country and our business as well. We are, therefore, extremely fortunate, in spite of the special session of the Congress and the many United States missions abroad, to have with us Willard L. Thorp, Assistant Secretary of State for Economic Affairs, Dr. John M. Cassels, economist of the Department of Commerce, Eugene R. Black, U. S. Executive Director, and E. Fleetwood Dunstan, Director of Marketing of the International Bank. These men have been and are in the midst of this whole situation and can give us first-hand information as to the problems our country faces and the policies of our Government for constructively dealing with them. We welcome them to our meetings and thank them for coming here.

E. Hopkinson, Jr.

As a member of the Committee for Financing Foreign Trade, appointed by President Truman, of which Winthrop W. Aldrich, Esq., is Chairman, I have been privileged to work closely with the National Advisory Council upon many phases of our foreign problems as they affect our foreign trade, so I first want to make a few comments in this field. This committee, over the past year, has met in Washington, usually once a month, with members of the Cabinet and the members of the National Advisory Council. The advice and counsel of the members of the Aldrich Committee, representing industry, commercial banking and investment banking, has been sought on many matters and we have at all times had extremely frank discussion.

Our guest speakers will discuss, among other things, the need for aid to Europe and our capacity to supply it. The important problem, however, as we see it, is how best to extend the required aid to the democratic nations of Western Europe with the least unfavorable impact upon our own economy; and how to accomplish the best results in putting the European house in order so that these countries may work out their own salvations.

Importance of European Stabilization

The objective of economic stabilization in Western Europe assumes an importance scarcely second to the humanitarian objective of relief. Without stabilization, American aid, even in the proportions suggested by the Paris Conference Report, can afford no lasting benefit to Europe or to us. Whatever the legislation passed by Congress and whatever the agency charged with its administration, the objective should be the accomplishment of this essential purpose.

Stabilization, as I am using the term, is intended to cover the entire field of a national economy, not simply the value of a national currency in foreign exchange. Disordered foreign exchange is a symptom of economic disorder, a result rather than a cause. Generous provision from abroad of a standard currency, such as sterling used to be and as the dollar is now, will help for a time to support a weak currency in the foreign exchange market; but unless the causes of economic and political weakness are removed, foreign aid is soon wasted. For this reason, among others, the funds the United States may supply under the Marshall Plan should not be used to establish "stabilization funds" but to give recipient nations the courage and the means to stabilize their own economies. The internal economic reforms necessary to stabilization are slow to get under way and are perhaps politically impossible without American aid; but with such aid, properly safeguarded, transition from disorder to order will become feasible. In this process much depends upon the skill with which the American funds are administered.

For this reason the aid extended under the Marshall Plan should be administered through a corporation, with a board of directors of full-time members who should have expert competence in the areas of activity in which the corporation will operate. Obviously, the members of such a board should be representative of both political parties but should be chosen on the basis of merit and without primary emphasis on their political affiliations.

An important section of the draft bill which Secretary Marshall submitted along with his statement to the Congressional Committee, would require the country receiving American aid to make a "commensurate deposit" in its own currency in a blocked account to be used only for purposes agreed to by that country and the United States. If the administration of these funds is mismanaged, inflation in the recipient country will be speeded; if properly managed, it can become one of the key factors in the stabilization program.

If the funds derived from the sale of American deliveries of goods were to be entirely diverted to the recipient Government's use, the effect would be highly inflationary corresponding to a further expansion of Government debt to the Central Bank with a like expansion of the currency. If, on the other hand, the funds derived by the recipient government from sales of American deliveries of goods were to be lodged in the Central Bank and taken out of circulation, the effect would be highly deflationary—unless the Treasury were to resort to further borrowing to offset it. The line of discretion will have to be somewhere between these two extremes, and for success will depend upon the good-will and closest cooperation between the American corporation on the one hand and the foreign treasury and Central Bank on the other.

What Belgium has already done by way of stabilization and revaluation of its currency has been notable and should be an example to the other Western European Governments to proceed with the revaluation of their currencies, if possible, even before the Marshall Plan or any part of it comes into effect.

I now want to report briefly on your Association's activities.

Association Activities

During my term of office I have attended Group Meetings in all parts of the country. These meetings were interesting and well attended. At most of them I was accompanied by Murray Hanson and Alden Little, than whom there are no better traveling companions. While the serious business of the Association was always uppermost in our minds, it was all too often impossible or too difficult not to succumb to the hospitalities extended to us at every stop and even in between. I am most grateful to our membership for all their kindness and from my standpoint my trips were both thoroughly enjoyable and well worthwhile. There is a great bunch of fellows in our industry and I found that they are relied upon in every community that I visited to be the leaders in unselfish public service.

The Washington office is no longer an experiment and has well demonstrated its usefulness and effectiveness. Our chief executive officer and general counsel, Murray Hanson, and our Educational Director, Bob Clark, were joined during the year by Gordon Calvert, who has been doing effective work, a good deal of which has been in the field of State Legislation. Arthur Davis, Dudley Smith, Bob Stevenson and Mary Lincoln of the Chicago office, have carried on with their usual efficiency under the watchful eye of our Emeritus Alden Little.

During the year your Board of Governors has met twice. A Winter Meeting was held at Absecon, New Jersey, on January 24-25th. At this meeting a particularly interesting report was received from the Federal Legislation Committee concerning the then pending proposals for Securities Acts amendments, and discussed with the Board by Walter Schmidt, Chairman of the Committee, and Murray Hanson. The Federal Taxation Committee report, dealing with the proposals for amendment of the Federal tax laws, was presented by Chairman Ames and fully discussed by the Board. The Federal tax revision program formulated by the Federal Taxation Committee and adopted by the Board of Governors at French Lick, was submitted to the House Ways and Means Committee on July 8th. There was also an important report regarding government securities, interest rates and debt policies from the Governmental Securities Committee, presented by Chairman Pfeffer. Three members of the Securities

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*Presidental address by Mr. Hopkinson at the 36th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 1, 1947.

European Recovery Program as an Investment

By JOHN M. CASSELS*
Economist, Department of Commerce

Pointing out Marshall Plan calls for investment appraisal in its highest form, Commerce Department official poses as basic and immediate essentials for European recovery: (1) supplies sufficient for economic efficiency; (2) sound management of both money and resources; and (3) success in initial steps toward stability and security. Says currency inflation as well as disruption of economic organization has contributed to recovery difficulties, which threaten to impose communistic ideology on people, but warns aid should not be conditioned on political grounds if basic democratic principles prevail. Admits aid program may enhance domestic inflationary tendencies.

Dr. John M. Cassels

I should count it a privilege to meet with the Investment Bankers Association for the discussion of any topic with which I could deal; and I should find satisfaction in talking with any audience on the important subject of postwar recovery. But a very special value attaches to the opportunity of speaking to this particular audience on this particular subject. My reason for saying this is simple and obvious. The soundest way to appraise the proposed European Recovery Program is to regard it as an investment. It must be justified on the grounds that the future returns to be expected, with due allowance for uncertainties, properly warrant the present outlays that are involved. The returns, in this case, are not calculable in terms of dollars or percentages, but they are none the less real and important. Here we are concerned with a national investment to facilitate world recovery — and through world recovery to take an absolutely indispensable step in the promotion of peace and prosperity. It calls for investment appraisal in its highest form—a form that is synonymous with statesmanship. It requires on the part of the people of this country the wisdom and the objectivity that are consistent with the role that must be played by a nation so strong and so fortunate as ours, in a world so interdependent and, for the present, so confused. In the democratic formulation of a sound and statesmanlike program for recovery, no group can exercise a greater influence nor make a greater contribution than the Investment Bankers Association. The fact that you have made this subject the featured topic of your annual convention has truly historic significance.

The statement that we must take a thoroughly businesslike approach to the problems of world recovery may readily convey two erroneous impressions. They need to be forestalled before we go further. First, the adoption of this approach does **not** lead us to a lower estimate of the amount of assistance which will be required. And second, it does **not** imply that we regard as irrelevant, or that we view with indifference, the widespread human misery which has followed in the wake of war. The humanitarian impulses of a generous people, the high responsibilities of a rich and powerful country, and the far-sighted common sense of a nation with pioneering traditions, all combine to lend support to the development of a fully effective recovery program. We have already been too long content with the meeting of minimum relief requirements. Our interest in the European situation goes beyond the mere prevention of starvation and suffering and disease and unrest. This is clearly a case in which hard heads will lead us to do more than would be dictated by kind hearts alone.

My role today, as I understand it, is merely to set the stage for a discussion. The facts with which we are concerned are well known. There is no inside information for me to bring you. All the cards are on the table as they should be when an important issue must be faced in a democratic country. All decisions still remain to be made by Congress. I have no instructions from Secretary Harriman, nor from anyone else, in regard to what I should say, or the position I should take on any particular questions. I come as a representative of the Department of Commerce, but I shall be speaking purely as a private individual. I am glad this can be so. For it gives us the best possible basis for a free and frank discussion.

Impact of Aid on Our Economy

Since the discussion will be continued tomorrow when Mr. Thorp speaks on "The Fundamentals of European Recovery," I shall try today to keep the focus of our thinking mainly on the impact of the proposed aid program on our own economy. There will inevitably be some overlapping in the subject matter that we cover, but for purposes of dovetailing it will, I hope, be helpful.

For purposes of simplification we may say that there are three basic problems in the European situation and that there are, correspondingly, three essentials for recovery.

The basic problems are:

(1) Food and fuel shortages.

(2) Fiscal and financial difficulties.

(3) Frustration and fear.

The three immediate essentials for recovery are:

(1) Supplies sufficient for economic efficiency.

(2) Sound management of both money and resources.

(3) Success in the initial steps towards stability and security.

Although it is helpful in this kind of analysis to distinguish and classify the problems we have under consideration, it is obvious, of course, that they are all closely interrelated. And the same is equally true of the steps that will be necessary in attempting to solve them.

Shortages of food have impaired the productivity of workers in some key industries—notably in the production of coal in the Ruhr. Shortages of coal have, till very recently, prevented the full use of plant capacity for the manufacture of nitrogen fertilizer. Lack of sufficient fertilizer has limited the production of indigenous food supplies.

Lack of coal has also stood in the way of all-out industrial activity. The inadequacy of production has made it practically impossible for most of the European countries to export large enough quantities of goods to pay for the imports which they urgently needed. This situation, in turn, has been aggravated by the fact that the things they needed most were in short supply throughout the world — with the result that the prices they have had to pay for what they bought abroad have gone up much faster than the

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*Excerpts from an address by Dr. Cassels at the 36th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 3, 1947.

Fundamentals of European Recovery

By HON. WILLARD L. THORP*
Assistant Secretary of State for Economic Affairs

State Department official points out problem of European recovery is to increase production and to establish financial stability. Says Europe has already made extraordinary strides toward recovery, but is hampered by inability to meet payments for imports and therefore a balance of imports and exports must be established. Concludes any recovery plan must be essentially based on internal European efforts, with assistance by U. S. and other countries.


Willard L. Thorp

There are many approaches to the problem of European recovery. Within each European country, the problem of recovery is the problem of increasing production and establishing financial stability. In its overseas aspect, the problem of recovery stems from two sets of circumstances — first, that European recovery depends on the obtaining of certain essential commodities from abroad; and second, that these countries do not have the necessary means of payment. From this viewpoint, one might say that European recovery will be achieved when the European countries can meet their foreign obligations without requiring abnormal assistance.

The pre-war European economy purchased substantial amounts of raw materials abroad and paid for them with manufactured products which were exported, and with so-called invisible income, chiefly in the form of interest on foreign investments, the sale of shipping and other services, expenditures by visiting tourists, and emigrant remittances. This pre-war balance has been completely upset by the necessity for increased and extraordinary imports, particularly coal and wheat, and the reduction of means of payment in both categories, commodity exports and invisible income.

For the past two years, this deficit in the balance of payments has been met by the use of such foreign assets and gold stocks as had survived the war, and by grants and loans from non-European countries. While the largest source of such assistance has been the United States, it cannot be forgotten that many other countries have also contributed.

Under these circumstances, Europe was able to make extraordinary strides towards recovery. The essential utilities have been rehabilitated and many industries in many countries were able to reach pre-war levels. However, the basic maladjustment in the foreign trade balance is still far from correction. The extraordinary imports of coal and wheat are still required. In fact, the unfavorable weather factors have increased the necessity for food from abroad. On the export side, an abnormal amount of their effort has had to go into rehabilitation and reconstruction, and exports of manufactured goods still lag. The invisible items show some improvement as to shipping and a slight resumption of tourism, but the lost return on foreign investment is gone forever and there have been few emigrants in recent years. So, in spite of the accomplishment and the effort the recovery has not yet been achieved.

Gap Between Imports and Exports

The essential overseas problem is therefore that created by this gap between exports and imports, taking into account all elements which enter into the balance of payments. This trade deficit affects all aspects of their operation, not merely production but the stability of their currency and their trade with each other. Each country has had to take drastic steps to conserve its foreign purchasing power, a process which has tended to lead directly to the carrying on of international trade on the basis of barter, a process which holds trade virtually to a minimum.

Compared with their total economic activity, the gap in the balance of payments is small. Their own estimate, based upon an import program developed by experts at the Paris meeting of the Committee on European Economic Cooperation, is that the deficit for 1948 with all the world outside the 16 nations would be $8 billion, assuming 1948 to be the first year of the program. Studies of these estimates have indicated that the quantities of goods sought are over-optimistic, but that a reduction in the estimated flow of supplies is offset in large part by the increase in prices since the estimates were made. Thus, some figure less than $8 billion is the total which must be met from all sources if they are to carry out their recovery program during its first year. This plan calls for major increases in their own production and for definite steps in the direction of currency stabilization and less restricted trade.

Levels of National Income

There are no reliable figures on the levels of national incomes of these 16 countries but let us assume that it is somewhere near $100 billion, or about one-half that of the United States. The less than $8 billion required is clearly only a small part of this total figure, but it is a critical element. The great bulk of the economic effort must and will be provided by the European countries themselves. The receipts from overseas will be only a small percentage of their total output of goods and services. The gap should decrease each year as the recovery process advances. We, and other countries which may also contribute to meeting the gap, will therefore not be supporting Europe. None of the 16 countries will get aid in sufficient quantities to encourage it to adopt the notion that it can relax its own efforts because a rich uncle has been discovered.

The share of the United States in the deficit for the first fiscal year of the operation of the plan is estimated to be in the neighborhood of $6 billion, or about 3% of our national income. In each succeeding year, the amount should be reduced as Europe gradually gets on her feet and increases her own ability to make payments abroad. It is an extraordinary fact that this sum, so small in relation to European national income and even smaller with reference to our own, can determine the economic fate of Europe.

The European Recovery Plan must be essentially a European effort, made possible of success by the assistance from the United States and other countries. The situation is like that of a business concern which has the fundamental requirements for sound and efficient operation, but which for some reason must turn to its banker for assistance. Without the assistance, the enterprise might completely collapse. With it, it has a good chance of working out of its difficulties. The basic factors of production must be supplied by the enterprise; it must provide the intelligence and direction. But it must be helped over a tough spot. For the moment, therefore, the banker is the

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*An address by Asst. Secy. Thorp before the 36th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 4, 1947.

The World Bank in a Goldfish Bowl

By EUGENE R. BLACK*

U. S. Executive Director, International Bank for Reconstruction and Development

World Bank official reveals activities, policies, operations and finances of World Bank. Says Bank is studying means of cooperation with Marshall Plan and sees its future loans improved in equity if Plan is consummated. Cites success of Bank's initial bond issue and stresses security back of Bank's bonds because of predominant responsibility of U. S. for repayment of principal.

I want to say first of all how grateful I am for the opportunity to talk to you today about the International Bank.

Eugene R. Black

In keeping with the promise made by Mr. John J. McCloy and me in our talks to you at the Spring Meeting in French Lick and at other gatherings around the country that the Bank would be operated as in a goldfish bowl, I would like to talk to you today on three aspects of the Bank. First, what we have accomplished; second, what we are doing at the present time; and third, what our plans are for the future.

In the first place, we have made four loans—one of $250 000,000 to France, $195,000,000 to Holland, $40,000,000 to Denmark and $12,000,000 to Luxembourg. These total $497,000,000. All these loans were made in dollars with the exception of $2,000,000 worth of Belgian francs made available out of its subscribed capital by Belgium to cover the purchase of railway equipment by Luxembourg. As of Oct. 31 we had disbursed funds to the extent of $245,000 000, leaving an unused balance of commitment of $252,000,000.

These loans were made for specific purposes. They were earmarked for material and machinery with which to increase production. This procedure is a healthy innovation in the history of international financing. The loans are furnishing badly needed supplies and equipment. They should prove of great aid to the borrowers in increasing their output of goods.

Close Check on Loan Proceeds

We have provided for close supervision in the disbursement of funds, making payments only after checking carefully the documents submitted to us.

In addition, our representatives in the borrowing countries are seeing to it that the materials bought with our funds are being used for the specific purposes for which the loans were granted. In that way we are making sure that the mistakes formerly made in some foreign loans, when the proceeds were not used for the agreed upon purposes or were otherwise diverted, will not be made by the International Bank.

We had some difficulty in the beginning in persuading the nations involved to grant us consultative and supervisory privileges as the question of infringement of sovereign rights was raised. In view of the fact, however, that we are an international organization and operate on a cooperative basis these rights have now been accepted.

Now a word as to our income and expenses. For the four months ended Oct. 31 we had income of $4 391,421. From this we deduct $623,315 the amount of commission appropriated to special reserve (you will recall that on each loan we have charged the borrower 1% per annum and the commission is put in a special reserve fund. This reserve fund cannot be used for making loans or for any other purpose except against possible future losses).

After this deduction our net income was $3,768,100. Our expenses including interest on our bonds in the same period were $4,255,640 or net loss of $487,534 However, in this four months period we charged up the full amount of issuance commission and registration expenses of $1,267,000 rather than spread it out over the life of our own obligations.

I feel that this is a very creditable showing, particularly in view of the fact that we have not been earning interest until very recently on our loans and as I have stated before we still have not begun to earn the full interest on our loans as we have only disbursed about half of the funds under our loan contracts.

For the month of October which really gives a truer picture of our operation, we had net income of $1,229 365 and expenses of $839,214 or net profit of $390,151.

We have at this time a staff of 379 men and women representing 20 different nationalities and I can assure you that our staff is composed of experienced and competent people and we are now operating on an efficient basis.

We held our second annual meeting of the Governors of the Bank in London in September. The meeting was attended by the Finance Minister, Central Bank Governor or some official of such standing, for each of the 45 member nations.

I attended the meeting and found it most interesting and instructive. It was well handled and a number of important matters were discussed not only in the general sessions but also in special committees, as well as in informal discussions among the different delegates.

Mr. John W. Snyder was the U. S. Governor and his Alternate was William L. Clayton.

Their advisers were Allen Sproul, President of the New York Federal Reserve Bank; William McChesney Martin. President of the Export-Import Bank; James J. Caffrey, Chairman of the SEC; Andrew Overby, Executive Director of the Monetary Fund; and myself.

Mr. McCloy presented the Second Annual Report in a most able manner and it was very enthusiastically received.

Mr. E. F. Dunstan, Director of Marketing for the International Bank, presented the report on our first piece of financing and he also received especial commendation.

Facts Regarding Financing

In this connection I would like to give you some of the facts about our first piece of financing which I hope will be of interest to you.

As you will recall, we carefully considered various methods of marketing our securities. We discarded competitive bidding. We decided not to sell our bonds to an underwriting group, although we were asked to do so. We also decided against a sponsor group of dealers. We decided to use the selling power of the largest possible number of dealers. We agreed not to make sales to institutions either on a group sale basis or as direct sales. In other words, the distribution was through dealers only. All dealers were given the same concession with no reallowance to any other dealer or to any buyer because of size or status.

After deciding to invite all responsible merchants of securities to participate in the distribution of our bonds, we communicated with 2,650 dealers and asked if they wished to be included. We received favorable replies from 1,725 firms.

We selected July 15 as our formal offering date. As our issues were new to the market in all respects, we faced a touchy market question in deciding on the proper coupons and issue price.

Our final decision was made only after detailed discussions with the best market men in the financial communities around the country, as well as with the Federal Reserve and Treasury authorities. The final selection of the price of par and the 2¼ and 3% coupons were generally acclaimed.

There were some who felt we priced our bonds too cheaply, and that, incidentally, in spite of the fact that we had strong suggestions made to us by several large potential buyers that our coupon should carry 3¼% rate instead of 3%.

Shortly after distribution was accomplished, we prepared and mailed to each participating dealer a questionnaire, requesting him to report his sales by classes of investors as well as by states. The composite of the replies shows that the bonds were sold to in-

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*An address by Mr. Black before the 36th Annual Meeting of the Investment Bankers Association of America, Hollywood, Fla., Dec. 2, 1947.

Fundamentals

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central figure in determining history.

The wise banker keeps his eye on his investment, but he seldom tries to step in and run the business. What we want is European recovery. We can help by supporting their own convictions — that production must be increased, currency must be stabilized, and trade restrictions must be reduced. We can help by meeting the balance of payments deficit. In the last analysis, however, recovery is their job. We must not remove the responsibility from where it belongs — on the 16 countries themselves.

Public Service Unit Notes Rapid Utilities Growth

Members of Committee, headed by Edward H. York, Jr., report expansion in electricity, gas and communications, but see earnings adversely affected by higher operating costs. Estimates Holding Company divestments as one-third accomplished and predicts active financing in utility securities over next five years. Announces special report on compulsory competitive bidding.

Presenting an optimistic picture of the outlook for the utilities industry the IBA Public Service Securities Committee, of which Edward H. York, Jr., partner of Drexel & Co., Philadelphia, is Chairman, in its report at the Association's recent Convention, traced growth and expansion of the various utilities during the last few years and predicted a large volume of utilities financing. The text of the report follows:

Edward H. York, Jr.

During the first 10 months of 1947, debt financing by electric and gas utility companies increased substantially and already exceeds that for the entire calendar year 1946. There were 44 bond issues totaling some $993,000,000—$585,000,000 for refunding purposes (including $260,000,000 of Consolidated Edison Co. of New York) and $408,000,000 for new money. Preferred stock financing also increased, with 32 issues aggregating some $288,000,000 — $224,000,000 for refunding and $64,000,000 for new money, while common stock financing representing new money financing on the part of operating companies comprised 15 issues, totaling approximately $44,000,000.

In addition, during the first 10 months of 1947, sales pursuant to divestment proceedings under the Holding Company Act comprised 20 issues of common stocks aggregating $205,000,000. This figure is based upon offering prices to the public or to parent company stockholders, which, in some cases, were well below market prices current at the time.

Telephone financing, too, has been a large factor in the 1947 markets, the six issues offered by the American Telephone & Telegraph Co. and its subsidiaries, aggregating $740,000,000, being practically all for new money in connection with its construction program announced about a year ago. This figure does not include the $360,000,000 2¾% convertible debentures recently offered for subscription by stockholders.

The above figures, which are not necessarily complete, aggregate $2,270,000,000, of which only about $840,000,000 was for refunding. For comparison, New Corporate Security Issues, Proposed Uses of Proceeds for Public Utilities for the last five years as reported in the Federal Reserve Bulletin are as follows:

	(000,000's Omitted) 1946	1945	1944	1943	1942
Total Net Proceeds	$2,129	$2,291	$1,400	$469	$464
New Money	785	69	40	22	145
Retirements	1,252	2,159	1,343	423	292
Other Purposes	93	63	17	25	27

The postwar growth of all sections of the utility industry has continued at an extremely rapid rate, though from the income point of view substantial increases in operating expenses have generally somewhat more than absorbed the gains in sales revenues.

In the electric utility field, for the first nine months of 1947, net income after fixed charges, for all privately owned electric utility operating companies, is estimated by the Edison Electric Institute at $494,000,000, which is about 1% less than for the same period of 1946. Kilowatt hour production was some 15% ahead of last year and operating revenues increased 11% to $2,565,000,000, but higher operating costs, chiefly fuel and labor, slightly more than offset the gains in operating revenues; there were, however, some further savings in fixed charges through refundings. The increase in fuel costs arises not only from higher prices for coal but also from reduced hydro generation due to a prolonged period of dry weather, and from the necessity for using high-cost standby facilities to meet the demands for energy.

While the increased availability of materials and supplies has permitted further extension of lines and expansion of service, there is still a huge unsatisfied demand for service. Nevertheless, 1,625,000 new customers were connected between Jan. 1 and the end of September, bringing total customers to a record peak of 37,775,000. At the same time, consumption of electricity by the average residential consumer, which was 1,329 kwh. at the end of 1946, is now approaching 1,400 kwh. per year. Looking ahead, therefore, the industry has to provide not only for large numbers of new customers but also for increased load on the part of those already connected.

To take care of this demand, the industry, according to the Edison Electric Institute, is scheduled to expend over the next five years approximately $5,000,000,000 in new construction. The program may be stretched out over a somewhat longer period should a business depression intervene. Among other things, it is contemplated that 18,000,000 kilowatts of generating capacity will be added, of which 15,000,000 kilowatts are for business-managed electric companies. Presently, deliveries of power equipment are scheduled as follows: 1947, 3,257,000 kw; 1948, 5,215,000 kw; 1949, 4,915,000 kw; 1950, 3,383,000 kw; 1951, so far ordered, 1,000,000 kw. Altogether, the increase in generating capacity of privately owned companies contemplated by the five-year program will enlarge presently installed capacity by more than one-third. This program, it is expected, in addition to taking care of the demands for service will also restore a normal margin of reserve generating capacity which with kwh. output now closely approaching the maximum capacity of presently installed generating units will be only about 5% at the peak of the coming winter. The new units also will operate at high efficiency with minimum fuel consumption thus reducing unit generating costs.

The gas industry, which for the year reached its highest point to date with 20,600,000 customers and revenues of $1,250,000,000 annually, also has continued to advance into new high ground with a gain in gas sales of 10.4% for the 12 months ended Sept. 30, 1947, over the previous period. Of the various segments of the industry mixed gas showed the greatest percentage rise with 14.2%, while natural and manufactured gas sales increased 10.3% and 8.4% respectively. Here, as in the electric industry, increases in sales do not carry through to net income particularly in mixed and manufactured gas. Higher costs of raw materials and labor have resulted in very unfavorable operating ratios, but rate adjustments, in many cases already applied for, are expected to alleviate this situation.

Interim earnings figures for the gas industry as a whole, are not available, but the Federal Power Commission publishes composite earnings figures for 81 natural gas companies reporting to it which indicate the rapid growth of this segment of the gas industry. These figures show gas operating revenues of $640,635,000 for the 12 months ended Aug. 31, 1947, an increase of 15.3%, and net income after fixed charges of $136,191,000, an increase of 17.9%, reflecting in some part earnings from the expansion of activities in recent years.

Discoveries of new fields have continued to enlarge proven natural gas reserves, such reserves at the end of 1946 being placed by the American Gas Association at 160 trillion cubic feet, an increase of 2½ times the 4.9 trillion cubic feet produced during that year. The demand for natural gas for straight and mixed use in areas where is has heretofore been unavailable, as well as in manufacturing and processing operations where gas has demonstrated its superiority to other fuels, has resulted in extensive plans and applications for further additions to the trunk-lines network. More than 320,000 miles of mains were in use at the end of 1946 and substantial increases in main mileage are being made during 1947.

The gas industry, like the electric industry, also has a substantial construction program under way. It is estimated that in 1947 $730,000,000 will be spent for new gas facilities, with more than half of the total going into natural gas transmission facilities. This figure compares with $310,000,000 of construction expenditures in 1946, which in turn was an increase of 93% over the previous year. The construction figure for 1947 includes the purchase from the Government by private interests of the Big Inch and Little Big Inch pipe lines, and their conversion from oil-carrying to natural gas transmission. No estimates of construction expenditures for 1948 and subsequent years are available.

Under the American Telephone & Telegraph Co.'s construction program, which was put at approximately $2,000,000,000 over a year ago, expenditures are estimated at over $1,250,000,000. However, there is still a large backlog of nearly 2,000,000 unfilled applications for service, and rising costs of labor and material may increase the amount of money required.

Holding Company divestments, as recently estimated in the PUR Utilities Financial Letter, have been roughly one-third accomplished. Holding Company investments at December, 1935, were placed at $4,015,000,000, of which up to June 30, 1947, $1,326,000,000 are estimated to have been sold or distributed with possibly $1,500,000,000 to $2,000,000,000 remaining to be distributed or sold. During 1944-1946 about $250,000,000 were disposed of annually, with about $150,000,000 disposed of in the first half of 1947. To complete the program, will, it is estimated, probably require five or six years at the present rate.

That financing should be active in utility securities over the next few years is an obvious conclusion, from the foregoing figures. For some time, the bulk of new issues has been for refunding purposes; now new money financing, is beginning to take the leading role. But of course all of the money for construction requirements will not have to be obtained from public sources; part will come through parent holding companies, and a substantial por-

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More Speculation and Equity Financing Needed

By RICHARD W. COURTS*
Courts & Co., Atlanta, Ga.

Southern investment banker attacks policies of Chairman Eccles of Federal Reserve Board in "killing speculation" in securities, while permitting capital to be siphoned into real estate and commodity speculation. Points out American industry will require $21 billions per year for capital expenditures, of which at least $7 billions must be supplied by capital market. Says more equity financing is needed and it cannot be obtained unless there is market for speculative securities.

It is dangerous to speak impromptu on a matter of this importance, but if I get a chance to talk about Mr. Eccles and his policies, I am not going to miss it.

Richard W. Courts

Over the last 10 years I have had some discussion with people in high places at the Federal Reserve Board, and as far back as eight or ten years ago it made me begin to think about their policies and purposes, and certainly, over the last two or three years, it has become apparent that Mr. Eccles wants to kill speculation—certainly in equity securities. You only have to examine the books of firms like mine to see what has happened to speculative funds. They have been siphoned out of the equity market, the security markets, and they have gone into real estate and commodities, helping to force the prices of clothes, food, and everything that we need, to all-time high prices. I do not think there is any question that the policy has contributed to that.

But the main thing is that in exercising his authority to govern credit in the purchase and carrying of securities, just as a plain layman, examining the Federal Reserve Act, I see two purposes there for which he was granted this authority: One was that there would be no excessive use of credit in the securities markets. Loans are at an all-time low, probably half of one per cent of the securities listed on the Stock Exchange, and as a plain layman, I can't see that there is any excessive use of credit—probably some expert can prove there is an excessive use. The next purpose for which the authority was granted was the use of credit with respect to over-all picture. I can t remember the exact language, but it was with a view to the entire credit picture as to whether there was excessive use. When I examine the deposits of banks, and when I look at the money in circulation, just as a plain layman, I do not see that there is any need for him to use the authority. But the fact is, regardless of whether he is right or wrong, he is killing speculation.

The economists, who ought to know what they are talking about, tell me that over the next five years American industry needs to spend some $21 billion per year for capital expenditures; that if they do, they will maintain the business level within 5 or 10% of where it is now, which is certainly fine; that if industry does not make these expenditures, this country faces a depression.

Well, certainly, if they are going to make these expenditures, these economists say that some $14 billion will come out of their earnings, corporate earnings, and reserves for depreciation, and that some $7 billion will come out of the public markets, and must come out of the public market. Well, that is a big order. Never in history, has American industry taken that much money in one year out of the public markets.

Equity Financing Needed

Some of these economists say that at least half of that money ought to be equity money, and I certainly think they are right. There has been so much bond financing due to high taxes or other causes that it is certainly time for corporations to build up their equities, particularly in view of the fact that we must remember that some 5 or 6 or 8 years prior to the War there was very little capital expenditure.

I do think that the industrial plants of this country for peacetime production are pretty well worn out. In the last five or six years practically everything that went into capital expenditure was for war production. As a layman, I am thoroughly convinced that industry needs this money; that it needs certainly $2 to $3 billion a year in equity money. It is perfectly plain under the present tax structure that it can't get that money out of the public markets.

Let us say that we get a new tax structure—get all that we want. The next thing is they can't do it as long as Mr. Eccles is maintaining these policies, and that is not only my opinion, but it is the opinion of some economists who ought to know what they are talking about.

The third thing is that even if we get both these things, the investment banking industry is probably not manned to do that job. We have had a hiatus of some 12 or 12 years with very few new men coming into the business, and certainly if we are to get $7 billion out of the public markets — something that has never been done before—this industry must be encouraged, and not picked at all day long by the Federal Reserve Board. This industry has got to be sold on the fact that we are going to be permitted to exist, and exist profitably, and go out and get new men and train them—put them through a school—let them be ready to do this job that we are called on to do.

I have gone into a lot of detail that I did not intend, but I do want to say this: That all of these thoughts have been passed on to the people in Washington who are certainly interested in the subject. Just as an everyday businessman, a plain layman, I know that American industry can't go forward and make capital expenditures unless there is speculation and unless there is a market for speculative securities—probably equity securities would be a better name to use when you are dealing with Mr. Eccles.

*A talk by Mr. Courts at the 36th Annual Convention of the Investment Bankers Association of America, Hollywood, Fla., Dec. 4, 1947.

Sees Limited Market For Foreign Bonds

IBA Foreign Investment Committee, headed by Harold Stanley, looks for little real activity in European obligations until economic and political conditions improve.

The Foreign Investment Committee of the Investment Bankers Association, whose Chairman is Harold Stanley, partner of Morgan Stanley & Co., New York City, issued the following brief report at the recent convention of the Association:

Harold Stanley

Securities of foreign governments publicly offered in 1947 aggregated $113,000,000. In February there was an issue of $45,000,000 of Commonwealth of Australia 15-year 3⅜% bonds followed in April by $10,000,000 Kingdom of Norway 10-year 3½% bonds. In May the Kingdom of the Netherlands offered $20,000,000 10-year 3¾% bonds, the proceeds of which were used, in part, to reduce somewhat the amount of the credit extended to that country by the United States Export-Import Bank. In June of this year there were marketed for the Commonwealth of Australia $19,000,000 of 10-year 3¼% bonds and $19,000,000 20-year 3½% bonds. The proceeds from the Commonwealth of Australia issues were used to refund outstanding obligations in this market and, therefore, did not increase the amount of publicly held foreign obligations. The June operation for the Commonwealth of Australia brought to conclusion its program for refunding all of its callable dollar bonds which amounted to approximately $125,000,000.

In all of the above issues, the underwriters found that the demand for foreign obligations was confined to a very limited group of purchasers and that the demand even from these buyers was not great. All five issues are now selling somewhat below their original offering prices.

In 1947, the largest transaction in the public market related to the foreign field was an offering by the International Bank for Reconstruction & Development of $100,000,000 of 10-year 2¼% bonds and $150,000,000 of 25-year 3% bonds. These issues, which were extremely successful, represented the initial public financing on the part of the Bank and the proceeds have been and are to be used in making loans to foreign governments and governmental institutions. The issues of the International Bank were widely marketed through a group of more than 1,700 dealers. These dealers reported in excess of 32,000 separate transactions and it is known that a large number of bonds were placed with institutional buyers.

A development of some interest in the foreign bond market occurred Oct. 16, 1947, when the Danish Government announced that it would pay off at 100% and accrued interest on Dec. 1, 1947, $7,000,000 principal amount of its 6% dollar bonds due Jan. 1, 1942, out of approximately $20,000,000 still outstanding. The bonds paid off were selected by lot. Because of the war, Denmark was unable to meet this maturity in 1942 but has continuously paid interest on these bonds at the 6% rate. The $7,000,000 used by Denmark to call these bonds was obtained through the issuance of a $7,000,000 bank credit recently obtained by the Kingdom of Denmark in Switzerland.

In the opinion of this Committee, it does not seem possible that we shall see any real activity in publicly offered European obligations until such time as both economic and political conditions abroad are substantially improved either through the "Marshall Plan" or in some other manner.

Respectfully submitted,

Foreign Investment Committee: Harold Stanley, Chairman; Jean Cattier; John S. Linen; John W. Cutler; Charles S. McCain; Nevil Ford; A. Sidney Norton; Albert H. Gordon; Joseph P. Ripley; John M. Schiff.

In Attendance at IBA Convention

ABBETT, LEON
Lord, Abbett & Co., New York

AINSWORTH, WALTER W.
Metropolitan St. Louis Company, St. Louis

ALLEN, SIDNEY P.
San Francisco "Chronicle," San Francisco

ALLYN, ARTHUR C.
A. C. Allyn & Co., Chicago

ALLYN, JOHN W.
A. C. Allyn & Co., Chicago

***ALTGELT, E. J. JR.**
Harris Trust & Savings Bank, New York

***AMAZEEN, EDWARD S.**
Coffin & Burr, Boston

AMES, AMYAS
Kidder, Peabody & Co., New York

ANDERSEN, JONAS C.
Blair & Co., New York

ANDERSON, EDWARD C.
Scott & Stringfellow, Richmond

***ARMITAGE, ALBERT T.**
Coffin & Burr, Boston

***ARNOLD, HAZEN S.**
Braun, Bosworth & Co., Toledo

ARNOLD, H. WILSON
Weil & Arnold, New Orleans

***ARNOLD, WARREN D.**
Whiting, Weeks & Stubbs, Boston

***ARRIES, D. E.**
D. E. Arries & Co., Tampa

ASCH, JULES
Hirsch & Co., New York

ASHPLANT, FREDERICK B.
F. B. Ashplant & Co., New York

ATKINSON, ARTHUR K., JR.
"Herald Tribune," New York

ATWILL, WILLIAM, JR.
Atwill & Co., Miami Beach, Fla.

AVERELL, ALFRED B.
Bache & Co., New York

***AYERS, WILLIAM L.**
608 S. Dearborn St., Chicago

BAIRD, ANDREW M.
A. G. Becker & Co., Chicago

***BAKER, DUDLEY F.**
Bosworth, Sullivan & Co., Denver

***BAKER, RALPH C.**
Amott, Baker & Co., New York

BARBOUR, PHILLIPS T.
First Boston Corporation, New York

***BARCLAY, WILLIAM K. JR.**
Stein Bros. & Boyce, Philadelphia

BARR, W. MANNING
Barr Brothers & Co., New York

BARROW, WM. RUSSELL
Barrow, Leary & Co., Shreveport

***BARRY, EUGENE P.**
Shields & Co., New York

BARTON, D. FREDERICK
Eastman, Dillon & Co., New York

BARTOW, CLARENCE W.
Drexel & Co., New York

***BASS, JACK M.**
Jack M. Bass & Co., Nashville

BASSETT, EARL K.
W. E. Hutton & Co., New York

***BECKERS, WILLIAM K.**
Spencer Trask & Co., New York

***BECKETT, THOMAS**
First Southwest Company, Dallas

BEISSNER, HENRY M.
Moroney, Beissner & Co., Houston

BELL, RUSSELL D.
Greenshields & Co., Montreal

***BICKMORE, J. FRANKLIN**
Boettcher & Co., Chicago

BIGGER, R. A.
R. S. Dickson & Co., Charlotte

***BIRR, H. T. JR.**
First California Company, San Francisco

***BLACK, EUGENE R.**
International Bank, Washington

BLAINE, WALTER F.
Goldman, Sachs & Co., New York

BLAKE, JOHN L.
Eaton & Howard, Boston

BLOSSER, JOSEPH D.
Straus & Blosser, Chicago

BLYTH, ROBERT B.
National City Bank, Cleveland

***BOARDMAN, R. H.**
R. H. Johnson & Co., Boston

***BOLES, EWING T.**
Ohio Company, Columbus

BOLTON, F. J.
Crouse & Co., Detroit

BOSSON, F. EDWARD
Putnam & Co., Hartford

BOWEN, FRANCIS B.
California Bank, Los Angeles

BOWMAN, FRANCIS B.
Chase National Bank, New York

BOYCE, C. PREVOST
Stein Bros. & Boyce, Baltimore

BOYNTON, HERBERT F.
H. F. Boynton & Co., New York

BRADLEY, MAHLON O.
Paul H. Davis & Co., Chicago

BRADLEY, S. WHITNEY
Eaton & Howard, Boston

BRAYSHAW, DONALD B.
Distributors Group, Atlanta

***BROCK, RAY M.**
Greene & Brock, Dayton

BROOME, ROBERT E.
Guaranty Trust Company, New York

BROOME, STOCKTON, JR.
Stockton Broome & Co., Atlanta

BROWN, WILLIAM P.
Baker, Simonds & Co., Detroit

BROWNE, KENNETH C.
New York "Times," New York

***BROWNING, HOMER**
Marine Trust Company, Buffalo

*Denotes Mr. and Mrs.

(Continued on page 39)

Warns of Squeeze on Railroad Income

IBA Railroad Securities Committee, headed by Percy M. Stewart, calls attention to continuous "squeeze" on railroads by increased wage demands, and says rail companies have never been allowed earnings contemplated under Transportation Act of 1920. Sees need of restoration of public's confidence in railroad shares.

The IBA Railroad Securities Committee, of which Percy M. Stewart, partner of Kuhn, Loeb & Co., New York City, is Chairman, pointed out in its Report to the 36th Annual Convention, that the most serious development in railroad operations in the past year was the narrowing of the spread between revenues and expenses. The following is the full text of the report:

Percy M. Stewart

Since your Committee's Interim Report filed last May there have been certain outstanding developments, none of which, however, clarifies the outlook sufficiently to warrant any long range predictions.

The most important factor with which our railroad managements have to deal is the narrow spread between revenues and expenses. The break-even point is so high that even with carloadings at unprecedented levels under peace-time conditions the net earnings of most of our roads are still unsatisfactory.

The recent wage increase granted to non-operating railroad workers will, it is estimated, increase operating expenses by about $450,000,000 a year. To take care of this added burden the Interstate Commerce Commission promptly authorized, effective Oct. 13 last, an emergency increase of 10% on freight charges for all commodities except coal, coke and iron ore. Compared with previous long delays, the fairly prompt action taken has encouraged the hope that the ICC is now inclined to show a more constructive attitude toward the industry than heretofore. Nevertheless, despite the accelerated action there was still a gap of six weeks between the effective date of the wage increase and the relief allowed. While on an annual basis the temporary relief granted should more than off-set the increased wages awarded to the non-operating employees effective Sept. 1, 1947, it will only partially serve to overcome the higher material costs incurred since June 1, 1947. The impact of higher wages with the compensating rate increase not yet in effect was the reason for the sharp falling off in railroad net income for September and early October.

Applications for Rate Increases

At the present time the ICC has under consideration the railroads' application for a further increase in rates which would add about $1 billion to revenues on the basis of present volume. The Commission is now carrying on extensive hearings to determine how much further relief should be granted. However, the final decision is not expected until January or February, 1948, at the earliest. In the meanwhile. two of the five operating brotherhoods, representing some 225.000 members as compared with 1,000,000 in the non-operating groups, just recently reached an agreement with the railroads which provided an increase in wages which it is estimated will increase expenses by $100,000,000 annually. This agreement was made retroactive to Nov. 1 and it is refreshing to note that it came about as a result of free collective bargaining without governmental intervention. Simultaneously a partial agreement was reached on certain working rule changes which had been proposed by both sides. Negotiations with regard to certain other rules are to continue, with real hope of reaching a satisfactory settlement soon. Unfortunately, negotiations with the remaining three operating brotherhoods, representing some 125,000 members, ended abruptly on Nov. 19. These three, comprising Engineers, Firemen and Enginemen and Switchmen, refused to accept the terms of settlement reached with the other operating brotherhoods, which would have increased the expenses item referred to above to $165,000,000 annually. The dispute is now in the hands of the National Mediation Board. The uncertainty regarding future expenses continues to harass railroad managements and of course the increases already granted have added considerably to the wage bill. There again must be a lag before relief can be furnished by the ICC. It seems economically wrong and morally unfair that our railroads should continue to operate under the handicap of a system whereby wages are raised before a commensurate increase in rates is granted. We saw the unfortunate results of the workings of this system in the early part of 1946. The railroads cannot and must not be subjected again to the devastating effect that a "squeeze" similar to that of 1946 would have on their earnings.

Despite the high level of industrial activity during 1947, with the largest amount of railroad operating revenues for any corresponding peace-time period to date, the net earnings result has been, in general, disappointing because of the high level of expenses. There has been no let-up in improvements being made to railroad properties since capital expenditures for 1947 are expected to aggregate close to $1 billion. The roads have endeavored to secure all the new equipment possible but deliveries have been retarded principally by the shortage of steel.

Rail Earnings Kept Down

Although this country's network of 227,000 miles of railways in unquestionably the most efficiently managed transportation system in the world and continues to serve our public at lower cost and with greater safety than anywhere else, it has never been allowed to earn the fair return contemplated under the Transportation Act of 1920. The industry will show approximately $400,000,000 net income for 1947—this figure is just a rough estimate—as compared with $289,000,000 for 1946. The improvement, while satisfactory, was attained under peak business conditions and with bumper crops. Because the net return on the heavy property investments has not proved adequate and because of the constantly increasing expenses of all kinds—wages, materials, supplies and taxes—railroad securities as an investment medium have again become unpopular and today there are but very few railroads which can market securities for new capital purposes, with the exception of course of equipment trust certificates. This is true despite the fact that hardly any roads face immediate maturity problems, have greatly reduced their debt and are earning substantial margins over their reduced fixed charges. They have never had in peactimes as strong a working capital position, with cash at the end of July amounting to approximately $1,900,000,000 and net working capital about $1,700,000,000. It is not the current position of the railroads that is responsible for this lack of investor confidence but rather the well justified fears as to the future earnings outlook. This is an extremely unfortunate situation and one which must be corrected if this great industry is to be able to attract the vast amount of capital that will be required if it is to be modernized in accordance with present day standards. The benefits of such an improvement program would be great—both in the character of the service that could be furnished and in the reduction of operational costs—but impossible if the necessary capital cannot be attracted to the industry. The narrow spread between revenues and expenses must be widened on a permanent basis. Failing this we can see nothing which will materially improve the investment position of railroad securities; in fact, we can foresee the possibility that even the present unsatisfactory condition can rapidly get worse should any substantial decline in traffic materialize. Unless the investing public's confidence in railroad investments is properly and promptly restored no future progress can be possible. If our railroads are to progress earnings must be increased to a level where investors will again be encouraged to buy their securities. Only then can our railroads be placed in a position to finance their new capital requirements. We urge that our governmental authorities and legislators alike give earnest consideration to this problem.

Respectfully submitted,

Railroad Securities Committee

Percy M. Stewart, Chairman; O. Paul Decker; John S. Loomis; Fairman R. Dick; Samuel Payne; W. Lloyd Fisher; Robert G. Rowe; Arthur C. Knies; Henry G. Smyth; Lowry Sweney.

Appendix

Appended is a statistical review of some phases of the industry for the current year.

Carloadings for Class I railroads for the period ending Oct. 25th show increases of 8% over the same period of 1946 and 13% above the average for the nine preceding years 1937 to 1945, inclusive. In terms of revenue ton miles, the increases would be somewhat higher. That the increased business was handled as ably as it was despite the difficulties in securing new freight cars and the necessitous fast retirement of superannuated cars speaks well for railroad management. Although it had been anticipated that deliveries of new freight cars would reach 10,000 during July, that figure has not yet been attained. During October almost 8,400 cars were received and it is now hoped that the 10,000 figure will be reached if not in November by December certainly. In connection with the augmented deliveries of new cars it would be well to note that there has been an increase of $184,000,000 up to November 10th in the amount of equipment trust securities outstanding from the $650,000,000 outstanding at the end of 1946.

While revenues of most individual roads show satisfactory gains over a year ago with the total for Class I roads at 12% above a year ago for the first nine months, the improvement must not be too optimistically regarded since in 1946 there were two serious factors which reduced revenues heavily, namely, the coal strike and the delay in the granting of increased rates as a result of the retroactive pay increases allowed during the year. The improvement in any event was brought about entirely by increased freight revenues which are up 22% while passenger revenues show a decline of 27%. The outlook for any improvement in passenger business seems slim indeed since the growing production of new automobiles and better airplane service should continue to make serious inroads on railroad passenger business.

After interest and other charges net income for the first nine months was approximately $320,000,000. For the full year 1946 net earnings amounted to $289,000,000 and the best estimate for the current year is around $400,000,000. The discouraging factor is the continued rise in operating expenses. Wages, materials, supplies and taxes all continue to cost more. This is not a recent development since the records show that for Class I roads operating expenses increased from about $3,665,000,000 in 1941 to $6,358,000,000 in 1946 and unfortunately outstripped the rise in revenues during the same period by over $412,000,000.

There have been no sizable new issues of railroad securities during the year with the exception of a $22,500,000 Southern Pacific Terminal refunding competitive transaction last May.

Up to November 10th a total of forty-four equipment trust issues, aggregating $184,000,000 principal amount, has been issued and sold competitively, which compares with $170,000,000 new equipment trust issues sold in the full year 1946.

Since our interim report in May there have been no new developments in the Department of Justice's two suits against the railroads.

Senator Reed of Kansas has recently been reported as saying that he would not attempt to push his railroad reorganization bill during the present special session of Congress. The Mahaffie reorganization bill drawn up by the Interstate Commerce Commission and which would apply only to roads that may have future financial troubles would appear to have a better chance of adoption. It seems unlikely that any other new legislation will be introduced at this special session but some important bills introduced early in the year will come up early in the first session of the 80th Congress.

State Legislation Group Reports on "Red Herrings"

Points out distribution of red-herring prospectuses in advance of state registration may still be held illegal in 42 states. Favors uniform state Blue Sky Law, but holds its general adoption will cover period of years.

The IBA State Legislation Committee, of which Robert G. Mead of Stone & Webster Securities Corp., New York City, is Chairman, reported to the 36th Annual Convention recent amendments to state Blue Sky Laws and the progress made in the proposed drafting of a uniform Blue Sky Law. The problem of the use of the red-herring prospectus prior to the effective date of state registration was also discussed. The text of the report, without appendices, follows:

Robert G. Mead

This report of your State Legislation Committee covers three problems of vital interest to all of you:

(1) Amendments to the state Blue Sky Laws;

(2) The use of red-herring prospectuses prior to the effective date of state registration;

(3) Uniformity in Blue Sky Laws.

Prefatorily, it can be said that the report on each of these matters is digested so as to be quite brief.

Amendments to the State Blue Sky Laws

This year an entirely new Blue Sky Law was adopted in Arkansas; the existing Securities Act in Connecticut was completely rearranged; and the Blue Sky Laws of 17 other states were amended. Members and representatives of the IBA were instrumental in the enactment of many of these amendments. Arthur Davis gave his assistance on amendments to the Texas and the Illinois Securities Acts; and Gordon Calvert helped both to draft and to get committee approval of amendments to the West Virginia Securities Act.

The nature of these amendments ranged the gamut from changes in definitions, through clarifying and simplifying changes, to the addition of many new exemptions.

Use of Red-Herring Prospectuses Prior to the Effective Date of State Registration

Your Committee, in its Interim Report at French Lick, Indiana, in May, pointed out that SEC Rule 131 which permits the distribution of red-herring prospectuses prior to the effective Federal registration date of the securities referred to in such prospectuses creates a new problem under the Blue Sky Laws, viz., whether such prospectuses may be distributed prior to the effective date of state registration without violating the Blue Sky Laws of the states in which the prospectuses are distributed. Rule 131 was originally adopted by the SEC for a six-month trial period which ended on June 6, but the SEC announced on July 10 that Rule 131 would continue in effect indefinitely. Consequently, this problem is still with us.

In the six states where securities may be sold without having been registered there is no substantial problem. (Nevada, Delaware, New Jersey, Maine, Maryland and Connecticut. Connecticut does require the registration of mining and oil securities.)

In 42 states Blue Sky Laws require some form of registration of, or notification regarding, non-exempt securities before such securities may be sold in those states. The crux of the problem in these states is whether or not the distribution of red-herrings would constitute an activity within the meaning of the terms "sell" or "sale" as defined in the Blue Sky Laws of those states (i.e., an "attempt to sell," etc.). Under very similar provisions of the laws of different states there have been rulings reaching opposite conclusions.

If we assume that the distribution of red-herring prospectuses in these 42 states does constitute an activity within the definition of "sell" or "sale" (i.e., an attempt to sell," etc.), it is necessary to register the securities described (or to file the appropriate notice) prior to the distribution of such prospectuses—unless such securities are in a class which is exempt from registration or are in a type of transaction which is exempt.

From this analysis of exemption provisions it is apparent that a widespread distribution of red-herrings to at least dealers and certain institutional buyers prior to the effective date of state registration is possible even in many states where the general distribution of red-herrings describing non-exempt securities is held to be illegal prior to registration of such securities in those states.

Your Committee recommends that, in addition to working out an interim solution to this problem in individual states, this problem should be considered both in drafting amendments to the Federal securities acts, to permit greater dissemination of information prior to the effective registration date, and in drafting a uniform state sale of securities act, with a view to integrating such state laws with the Federal securities acts.

Uniformity in Blue Sky Laws

For many years we have worked to obtain greater uniformity in state Blue Sky Laws. Indeed, much has been accomplished toward that objective. However, after the National Conference of Commissioners on Uniform State Laws withdrew the Uniform Sale of Securities Act at their annual meeting at Chicago in 1943, it became impractical for this Committee to advocate the adoption of a uniform law when no model or uniform sale of securities act existed. We might add parenthetically here that the old Uniform Sale of Securities Act had become, at least to some extent, obsolete because it had been drafted prior to the enactment of the Federal securities acts and, therefore, was not designed to integrate and to coordinate the state laws with the Federal acts so as to eliminate unnecessary duplication. Consequently, your Committee, with the assistance of Arthur Davis, has during the past few years endeavored to improve the workability of individual state laws as much as possible, although there has been no uniform or model draft act to serve as a pattern for such amendments.

Now we are able to report to you that the initial steps have been taken for the drafting of a new uniform sale of securities act by the National Conference of Commissioners on Uniform State Laws.

Shortly after last year's annual convention at Palm Beach, representatives of the IBA discussed with Mr. William Schnader, Chairman of the American Bar Association's Special Committee on Securities Laws and Regulations, the need for a new uniform Blue Sky Law. At Mr. Schnader's invitation, the IBA prepared and submitted to his committee a comprehensive memorandum on the "Need for a Uniform Sale of Securities Act." In September the American Bar Association, at its annual convention in Cleveland, adopted the following resolution upon the recommendation of the Special Committee on Securities Laws and Regulations:

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

Shortly after the American Bar Association convention, the National Association of Securities Administrators held their annual convention at Jacksonville, Fla. The President of that Association, Mr. D. D. Murphy (of South Carolina), in his opening address expressed the hope that that Association would strive for greater uniformity in Blue Sky Laws. After an address to that same convention two days later by Murray Hanson, in which he stressed the need for bringing about, as quickly as possible, greater uniformity in the state Blue Sky Laws and a better integration of these laws with the federal securities acts, there was widespread expression among the state administrators of a desire to cooperate in such a program.

Finally, in October the National Conference of Commissioners on Uniform State Laws directed its Section on Corporate Acts to draft a Uniform Act on Corporate Securities (a Blue Sky Law).

In conclusion, with regard to this point, your Committee would point out that the drafting of a new uniform sale of securities act and the adoption of that act in many states is a program to be carried to fruition over a period of years, not months. However, the significant point is that this program is no longer a mere hope or plan—the groundwork has been laid and the initial steps taken. It is anticipated that the drafts of a new uniform sale of securities act will be prepared during the next few months.

This Committee believes that there should be a model or uniform sale of securities act of each of the three principal types of acts: (1) a combination dealer and security registration type act, commonly referred to as a "regulatory" type act; (2) a dealer registration type act; and (3) a simple fraud type act. If there were a model law of each of these three types available, the people in a given state could choose the type of act they desired, but still have a uniform law. If any IBA members have suggestions as to any of the provisions of model laws of any type, now is the time to present your ideas. Don't wait until the uniform acts have been drafted and approved. It will be too late then.

In conclusion, the State Legislation Committee again reminds you that it and the staff of the IBA are always ready to give assistance and to afford the benefit of their experience with legislative problems in maintaining workable laws, rules and regulations. You are urged to work closely with this committee and the staff in all such matters. Also, in order to enable this committee and the staff to perform their "watch-dog" function over all amendments to laws affecting the investment banking industry, we beseech each of you to advise us immediately of any amendments, contemplated or introduced, in the legislature of your respective states.

Respectfully submitted,

State Legislation Committee—Robert G. Mead, Chairman; Richard W. Simmons, Vice-Chairman; Rollin G. Andrews; George K. Baum; Waller C. Brinker; Elmer A. Dittmar; Eldon H. Keller; Jack A. Kolscher; Orus J. Matthews; Willard Maxwell; William Moore; Joseph L. Morris; Nathan K. Parker; Howard P. Richardson; George C. Riley; William P. Sharpe; H. Warren Wilson; J. Carlisle Youngberg.

Estimates Industrial Capital Need at $30 Billions

Industrial Securities Committee, under Chairmanship of Frank A. Willard, says amount of new capital being raised by investors is inadequate. Denies reliance of business on capital market for new money is inflationary, whereas trend toward use of bank loans has reached inflationary proportions. Hits present income tax structure.

Frank A. Willard, partner of Reynolds & Co., New York City, and Chairman of the IBA Industrial Securities Committee, presented a report to the 36th Annual Convention in which the Committee stressed prevailing and forthcoming needs for additional corporate capital and the inflationary danger of business concerns relying on bank loans. The text of the Committee's report follows:

Frank A. Willard

The May report of our Industrial Securities Committee was submitted just about at the time of the year's lowest stock prices and the lowest ebb of business confidence. Actually the month of May, 1947, was a poor month for equity financing, not a great deal better than September, 1946, the low month for last year. There has been improvement in corporate financing since May, with the exception of the seasonally dull August total. The year's total will be below last year but it will be fairly large by comparison with the subnormal rate of the depressed 1930's. For the year to date corporate security offerings have been at an annual rate of $5.2 billion including $2.0 billion industrial issues. Corporate new money issues have been at a $3.2 billion rate including $1.3 billion new industrial money. The record for 1947 will be presented in greater detail to bring the previously prepared table up to date.

Private business is spending about $22 billion in 1947 on plant structures and equipment. In addition there is an estimated inventory increase of $7.6 billion for the year. Thus there is a total business need for some $29 to $30 billion to meet plant and inventory demands. These demands are not out of line with the volume of national income and the trend of prices.

Where is this money coming from? It is necessary to oversimplify the available figures to get an answer but the answer is something like this: There will be about $10.8 billion from earnings after dividends and $11.9 billion from depreciation and other similar charges, a total of $22.7 billion from internal sources. This leaves an estimated $6.8 billion to be financed from outside sources or withdrawn from cash and government bond holdings.

This figure of $6.8 billion represents the 1947 demand by business upon the capital market. On the basis of new issues to date and in sight the sale of new money issues, bonds, preferred stock, and equities will raise $3.5 billion of this need and the remaining $3.4 will be raised by bank loans. In addition, there will be many companies which will draw down their cash and government bond holdings.

On the surface it appears that business requirements are being approximately met and that everything is running smoothly in the capital market. Actually this is not so—the amount of new money being raised is inadequate and the country's business enterprise is being forced to lean too heavily on our strong commercial banking structure.

The weekly loan data for commerical banks show that loans have increased consistently and sharply for the past 16 weeks by a total of $2.0 billion from July 9 to Oct. 29.

The reliance of business on capital markets for new money is not in the long run inflationary. Such a move results in tapping the accumulated savings of individuals. It does not result in increased commercial bank deposits and hence an increased money supply. However, when business cannot raise new money it is forced either to curtail expenditures or borrow from the banks. Bank borrowing does have an inflationary aspect in that this process creates new deposits and by building up the money supply puts an inflationary squeeze on the level of commodity prices. Within moderate limits when loans have been subnormal, the expansion is desirable and natural. However, when loans and deposits are already at high levels further increments become undesirable and inflationary. The Chairman of the Board of Governors of the Federal Reserve System recently admonished the Supervisors of State Banks, stating that "as bank supervisors you can try to see to it that the banks of this country put some pressure on credit expansion and stop this inflationary growth that they are responsible for collectively, though individually they may not be aware of it," and, "if banks persist in increasing their risk assets, they should be required to enlarge their capital accordingly by retention of earnings. If retained earnings are not sufficient, then additional stock should be sold."

The key relationship of the uptrend in commercial loans to the current political and economic confusion is highlighted in a recent issue of "Business Week," which ascribed the President's decision to call a Special Session of Congress to the warning by his Council of Economic Advisers that the rate of loan increase had reached inflationary proportions.

Pressure toward loan increase is acute right now because of the recent sharp renewal of inventory formation. During current months net business needs for capital are probably double the average monthly need for the year as a whole.

The reason for the construction in the new money market is a complex of factors having to do with taxes, international affairs, and competing investment media such as real estate. Basically, however, the answer lies in high personal income taxes.

The Lionel D. Edie organization has made a study of corporate needs and sources of capital and the relationship of available savings to the present high personal tax rates. On the basis of acceptance as a fact the thesis that "the chief source of venture capital,

(Continued on page 50)

The table below presents the estimates used in this discussion:

1947
ESTIMATED BUSINESS CAPITAL EXPENDITURES & SOURCES
(billions)

Expenditures:		
Non-residential Construction		$ 4.6
Producers' Durable Equipment		17.3
Inventory Increase		7.6
		$29.5
Sources:		
Corporate Profits	$28.2	
Less Taxes	11.2	
Less Dividends	6.2	
Undistributed Profits		$10.8
Depreciation Charges		9.5
Capital Outlay Charged to Current Expense		2.4
Total Internal Sources		$22.7
Capital Deficiency		$ 6.8
Supplied by:		
New Money—Capital Markets		$ 3.4
Increase in Bank Loans		3.4

Gov't Securities Group Reviews Debt Policies

Delmont K. Pfeffer, Chairman, notes Treasury's program to pay off large amounts of maturing obligations, the breaking of wartime pattern of interest rates, and selling of long-term issues held in Trust Funds to investors. Sees need for constant refundng operations and continuation of balanced budget. Referring to recent issue of 18-year 2½s, committee expresses itself in favor of use of marketable securities for funding purposes, although conceding that Treasury choice of non-marketable offerings seemingly simplifies future market control problems. Says foreign aid funds should be raised by taxation rather than through borrowing.

Reviewing the United States Treasury debt management policies and the problems to be faced in this field, Delmont K. Pfeffer Vice-President of the National City Bank of New York, the Chairman of the IBA Governmental Securities Committee, along with the other committee members, reported to the Association's 36th Annual Convention, as follows:

Delmont K. Pfeffer

During the past year the United States Treasury has directed its debt management policies along the following three lines:

First, the Treasury has continued to pay off large amounts of maturing obligations, mostly certificates, notes and bills, held mainly by the commercial banks and the Federal Reserve Banks. In the calendar year 1946 such payments amounted to $23.4 billion and thus far in the present calendar year to an additional $10.2 billion.

Second, the Treasury has broken the wartime pattern of interest rates on 90-day bills and 12-month certificates. While the Federal Reserve has continued to influence these rates through its investment policies, the bill rate has risen from ⅜% to nearly 1% and the certificate rate from ⅞% to nearly 1⅛%. In the process the Treasury has begun to establish quarterly dating of certificates in place of the previous monthly schedule.

Third, the Treasury has supplied substantial amounts of longer term bonds to investors other than commercial banks, both by selling of marketable securities held in various Treasury trust funds and by the opening of a new series of non-marketable bonds due in 18 years and bearing interest at 2½% if held to maturity. Sales of bonds out of Treasury funds have amounted to approximately $2.3 billion over the past 18 months, of which about $1.8 billion bonds were sold within the calendar year 1947. The restricted allotments of the new non-marketable issue totaled $970 million including $100 million sold to the Federal Deposit Insurance Corporation.

All three of these broad policies tend to restrain credit expansion.

In the process of redeeming Treasury debt, the volume of money and demand deposits created through the wartime extension of bank credit has been reduced, offsetting to a large extent the peacetime growth of private debt. During 1946 the Treasury used the war loan deposits resulting from the sale of Victory bonds, to pay maturing obligations. This year, such payments have been made mainly through the application of revenue cash surpluses, and the present expectation is that even larger amounts will be available for this purpose within the first half of 1948. Out of the above-mentioned totals of Treasury debt retirement since Jan. 1, 1946, Federal Reserve holdings have been reduced by a net amount of about $2 billion, commercial bank holdings by about $20.5 billion, the remaining $11.1 billion being paid back to other investors.

The establishment of higher rates on Treasury bills and certificates is certainly not the most direct attack upon inflation, but it is a move in the right direction. Long before the recently renewed concern about credit inflation, we had urged that rates on the shortest Treasury issues be allowed to rise to a more realistic and normal relationship with long-term rates, as a necessary preliminary to effective Federal Reserve open-market influence upon bank reserve positions, when and if that should appear advisable.

Supplying long-term bonds to meet the institutional need for such investments has supplemented the Treasury's ability to retire bank-held debt. Even more important, the sale of bonds out of trust funds was in effect a holding operation, which helped to prevent any renewal of the trend toward lower interest rates that had been one of the underlying causes encouraging expansion of bank credit.

In addition, the Treasury has continued to press, and with signal success, its regular sale of savings bonds, which most directly attacks inflationary forces by making it easy for people to set aside money for future spending instead of throwing it into today's tight market for consumer goods. To the extent that sales exceed redemptions, additional sums are thus obtained for reduction of bank holdings of governments. At a minor expense and with a limited staff, the Savings Bond Division has displayed laudable ingenuity in enlisting the support of private industry for its sales campaigns. This year's principal development was the introduction of the bond-a-month plan by which a bank depositor may authorize periodical charges against his account for the purchase of savings bonds. Although the plan entails additional free services by the banks, approximately 12,700 (90% of all) commercial banks have offered this service to their depositors and the Savings Bond Division estimates that the volume of purchases approximates the rate of $300 million a year. Instead of the freely predicted post-war reduction in savings bonds owned by the public, new issues since the end of the war have exceeded redemptions by about $3.8 billion of which more than $1,650 million represents the 1946-47 increase in the amount outstanding, not including interest accrual.

All of the several policies outlined above are sound, and merit the approval and support of the people in our industry, who should be leaders in the development of a general understanding of their significance. The relaxation of wartime rate controls on bills and certificates especially required courage, if only because it is always hard to depart from a long established pattern. Central bank influence upon the money market and bank credit could not be properly exerted while the Federal Reserve was committed to the maintenance of unrealistic rates on shortest-term securities whose principal attraction was their liquidity; nor could there be any sudden withdrawal from that position. Therefore, in the meetings of the IBA Conference Committee with the policy-making officials of the Treasury, your committee had stressed the paramount importance of beginning to break away from these pegged rates. However, we do not advocate that Treasury and Federal Reserve controls be completely withdrawn, for the wise application of their influence is desirable as an assurance of gradual and flexible, rather than precipitous, adjustment to new trends in the nation's economy.

Even under the most favorable conditions the Treasury will have tremendous continuing responsibilities in the management of the public debt and in the related fields of public finance.

Of the present interest-bearing debt, approximating $255 billion, $168 billion is in the form of marketable securities of which the commercial banks hold about $70 billion, and the Federal Reserve Banks about $21 billion. The maturities of this marketable debt average about 9⅝ years, with approximately $100 billion, 60% of the total, due or callable within five years. Within the next two years, excluding certificates, bills and notes, about $13 billion bonds will mature or become callable. Thus the need for refunding is constantly present, and the debt management possibilities are correspondingly great. Because of its large cash payment of debts as against the small maturities of bonds occurring thus far since the war, the Treasury has not had to make a decision as to refunding of maturities into longer-term issues, other than that resulting from the recent relatively small sale of the non-marketable 18-year 2½s.

It is to be noted, however, that this October funding took the form of securities redeemable at the option of the investor. While the subscriptions were restricted in volume, nevertheless previous dollar limitations on the sale of such redeemable securities were raised, and this in favor of long-term investing institutions rather than of individuals. Although we appreciate that the choice of non-marketable issues may seem to simplify future market control problems, we would prefer the use of marketable securities in order to give greater permanency to such funding operations.

The maintenance of stability in the ownership of the $52 billion of savings bonds must always be one of the most important considerations in Treasury financing policy, because of the potential spending power which that ownership represents. As to the objection that the existence of so huge an amount of debt payable on demand of the lenders might at some future time embarrass the Treasury, there is undoubtedly a partial answer in the fact that the holder who redeems before maturity suffers a relatively heavy loss of potential income; or conversely, a few years from now the remaining periods of investment to maturity will be rewarded by rates of interest well above today's level. Nevertheless, the necessity of avoiding any disturbance of public opinion through too sudden changes in the relationship between rates on marketable and on non-marketable securities of the Treasury grows more compelling as the proportion of redeemable debt increases. The combined present value of E, F, and G savings bonds is already approximately equal to the total of the Treasury's marketable bonds due beyond 10 years.

Although this may be somewhat outside the scope of our Committee's assignment, we cannot refrain from commenting on the Marshall and other foreign aid plans in their relationship to Federal debt management. It is essential, under present conditions of full employment and monetary inflation, that the Treasury maintain not only a balanced budget but also a surplus for retirement of bank-held debt. Accordingly, we wish to express full agreement with the Administration's affirmation of the principle that increased programs for foreign aid should be financed out of tax revenues, and not by borrowing.

In review, it has been a year of constructive progress in Treasury fiscal policy, in directions long advocated and considered sound by our industry.

Governmental Securities Committee: Delmont K. Pfeffer, Chairman; George Buffington, Robert H. Moulton, Russell M. Colwell, L. Sumner Pruyne, Robert H. Craft, Ralph H. Rebele, George B. Kneass, Herbert N. Repp, Francis M. Knight, Rudolf Smutny, Aubrey G. Lanston, George F. Spaulding.

Continued Huge Output of Municipals Expected

Municipal Securities Committee, under chairmanship of George L. Martin, reports substantial increase in new offerings. Says Hinshaw Bill should have clarifying amendments and scores U. S. Supreme Court decision in Tidelands Oil Case. Reviews State Court decisions and legislation relating to Municipal credit.

George L. Martin

The IBA Municipal Securities Committee, headed by George L. Martin, President of Martin, Burns & Corbett, Inc., of Chicago, in reporting to the 36th Annual Convention, calls attention to the increased volume of new municipal securities offerings in 1948, resulting in part from the Michigan and Illinois Veterans' bonus issues which together aggregated $5,000,000,000 and notes additional veterans' bonus issues, exceeding a billion dollars has already been authorized. The text of the Committee's report follows:

This year has been outstanding as to volume of new municipal issues. During the first 10 months, there were over $2,100,000,000 of new issues of long-term municipal bonds. For this period alone, the volume of such sales was substantially larger than in any full year in the history of municipal security financing. Sales of soldiers' bonus bonds in substantial amounts contributed materially to this record volume.

While there were a number of sizable issues floated during the year, there were three of particular prominence. On March 4, Michigan sold $200,000,000 Veterans' Bonds. At the time this was the largest state or municipal issue ever underwritten and offered to the investing public as a single issue. On April 29, Illinois sold $300,000,000 Service Recognition Bonds, thus setting a new high in the amount of municipal bonds to be underwritten and offered to the investing public as a single issue.

While the Michigan and Illinois sales were history making as to size, in the field of municipal financing, there was another outstanding job done last Summer by the group of dealers handling the $105,000,000 Chicago Transit Authority Bonds. The educational and sales work involved in the successful flotation of this issue of a newly created authority merits the recognition of all.

At the general election on Nov. 4, there were over $1,100,000,000 of new issues authorized by the voters. Among the authorizations are $400,000,000 soldiers' bonus bonds in New York State and $300,000,000 for a like purpose in Ohio.

In connection with sale last Spring of $20,000,000 Fulton County, Georgia bonds, the Department of Internal Revenue reaffirmed its long established rule as to the treatment by investors for income tax purposes of bonds sold by a municipality at a discount. In this particular case, Fulton County accepted a bid for their bonds on an all-or-none basis at a specified price for each individual maturity. These varying prices ran down to substantial discounts. The Department ruled that this discount was a portion of the interest paid by the county and, therefore, is exempt to the investor and is not to be considered as taxable gain. Where bonds are not held for the life of the obligation, the exempt discount allowance is apportioned as to the period held in relation to the full period.

This ruling, of course, has no bearing on bonds sold by a municipality at par or better, and later acquired in the market at discounts. All such cases still require the declaration as a capital gain of the difference between their cost and the price of disposition if above the cost.

Texas Tax Remission Bonds

Over the past year, we have reported at various times on the tax remission situation in Texas. With the exception of last year, the state remitted annually to certain local units a portion of its general fund tax. As you know, none was levied last year and no authority was found to assist these various units with treasury funds. Accordingly, defaults in some instances became imminent.

At the recent session of the State Legislature, a bill (H. B. 27) was passed and later signed by the Governor. By it the number of years for state remissions to these units was extended beyond the time originally specified, by the equivalent of an extra 1¼ years to cover last year's omission of payments. Authority is also given in the act to these units to borrow against the extended payments or to issue refunding bond for any maturities of principal or interest. Also the State Automatic Tax Board, at its meeting last summer, authorized a 35 cent general fund tax for the current fiscal year and with that levy the tax remission feature becomes automatic for the year.

While this action was helpful, there was no appropriation by the legislature of state funds from which the above mentioned authorized borrowings might be made thus leaving the particular units to effect any necessary borrowing through other channels.

At the general election to be held in November 1948, a Constitutional Amendment will be submitted to the voters which in substance provides that beginning Jan. 1, 1951, no State ad valorem tax shall be levied upon any property within the state for general revenue purposes. Except, however, that in those counties or political subdivisions or areas of the State from which tax donations have heretofore been granted, the State Automatic Tax Board shall continue to levy the full amount of the state ad valorem tax for the duration of such donation, or until all legal obligations heretofore authorized by the law granting such donation or donations shall have been fully discharged, whichever shall first occur; provided that if such donation to any such county or political subdivision is for less than the full amount of State ad valorem taxes so levied, the portion of such taxes remaining over and above such donation shall be retained by said county or subdivision. It will be noted that the amendment gives full consideration to the State's tax remission agreements.

The amendment also provides that beginning Jan. 1, 1951, the counties of the State may levy ad valorem taxes upon all property within their respective boundaries for county purposes, except the first $3,000 value of residential homesteads, not to exceed 30 cents on each $100 valuation, in addition to all other ad valorem taxes authorized by the Constitution of the State, provided the revenue derived therefrom shall be used for construction and maintenance of Farm to Market Roads or for Flood Control.

Water Pollution Control Bills

During the year there were introduced in Congress five bills intended to broadly develop water pollution abatement and control. Three of these bills originally were identical companion pieces of legislation, one in the Senate, S. 418, sponsored by Senators Barkley and Taft; two in the House, H.R. 315, sponsored by Representative Spence of Kentucky, and H.R. 470, sponsored by Representative Elston of Ohio. Also in the House are two additional bills, both by Representative Mundt of South Dakota. The first of these two bills, H.R. 123, was very similar to the above mentioned bills. Later Representative Mundt introduced another bill, H R. 3990, which embodied certain features of his first bill and certain features of S. 418 in its revised form.

All of these bills, with the exception of H.R. 3990, contained in their original form provisions for federal aid in the form of grants-in-aid and loans by the federal government in a way that would encourage and create federal government competition with private industry in the field of municipal and industrial financing.

We, accordingly, directed this to the attention of the sponsors and recommended that there be inserted in the bills in the appropriate sections a provision that federal loans shall be made only when funds or credit at prevailing rates for the character of the loan under consideration are not otherwise available to the borrower. The sponsors reflected interest in the proposal.

Hearings on H.R. 123, H.R. 315 and H.R. 470 were held by the Public Works Committee of the House in the middle of June. At the hearings, the IBA submitted to the Committee the above mentioned recommendation. The full text of the statement filed appeared in "The Daily Bond Buyer" of June 23 and "The Bond Buyer" of June 28. The Congressional Committee evidenced considerable interest in our recommendation and we believe that the sponsors of the bills view it favorably. We are hopeful that in the ultimate outcome the objectionable feature will be eliminated.

In the Senate, S. 418, was revised very substantially after hearings by the Public Works Committee of that body and later was passed by the Senate in its revised form. In the form adopted, the measure would not either encourage or create the competition mentioned. Representative Mundt, in his latest introduction, H.R. 3990, included a provision which would avoid such competition insofar as municipal financing is concerned. It does not, however, eliminate such competition insofar as industrial financing is concerned. This was probably due to an oversight as parts of two sections are involved.

As matters now stand, all of the bills, including the one adopted by the Senate, await action by the Public Works Committee of the House. That Committee is very much interested in the subject and it will undoubtedly give the entire matter further careful consideration in January.

The bills authorize federal financial assistance to the extent of not exceeding $100,000,000 annually for the purpose of loans or grants-in-aid and loans. S. 418, as passed by the Senate, eliminates grants-in-aid and authorizes loans up to 33⅓% of the reasonable cost of the project which loans may be subordinated to facilitate additional financing of the project. The other bills authorize grants-in-aid up to 33⅓% of the

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Reviews Recent Stock Exchange Developments

IBA Committee on Stock Exchange Relations, whose Chairman is Clifford Hemphill, reports on permissive incorporation, commissions, margins and public relations. Sees improvement in "standby" technique and member participation in secondary offers, as well as trading in stock rights. Announces close cooperation with other Stock Exchange organizations.

Clifford Hemphill, partner of Hemphill, Noyes & Co., New York City, and Chairman of the IBA Committee on Stock Exchange Relations, submitted the following report to the 36th Annual Convention of the Investment Bankers Association of America:

Clifford Hemphill

Your Committee on Stock Exchange Relations made a verbal report to the Board of Governors at their meeting at the Seaview Country Club, Absecon, New Jersey, on Jan. 25, 1947, and a similar subsequent report at the meeting at French Lick Springs Hotel, French Lick, Indiana, on May 20, 1947. In addition to informal discussions between members of your Committee, formal luncheon meetings were held on May 5, 1947, at the Down Town Association, 60 Pine Street, New York, and on Nov. 6, 1947, at India House, Hanover Square, New York.

During the year a number of controversial matters within the Exchange membership have been resolved, which makes this more of an informatory report than otherwise.

Permissive Incorporation:

The entire membership of the Exchange had the opportunity in November, 1947, to vote upon permissive incorporation and admission to membership in the Exchange of non-members. The proposed amendment was defeated by a vote of 835 against and 344 in favor. Eleven hundred and eighty members voted on this question, which was a new high record.

Commissions:

Commissions to New York Stock Exchange members were increased approximately 20% on an over-all basis in October of this year, and the new rates went into effect on Nov. 3, 1947. Eleven hundred and thirty-one members voted and 756 were in favor of the increase, whereas 373 were against it.

Saturday Closings:

The New York Stock Exchange, considering itself a service institution for the entire nation, plans to remain open for business on Saturdays (except during the summer months) until further notice.

Margins:

The Exchange feels that the maintenance of the 75% margin requirement on the purchase of securities on the Exchange is discriminatory and that a liberalization is more than justified. It is actively working to that end, although to date there is nothing favorable to report.

Public Relations:

The Exchange has recently appointed Mr. Donald D. Hogate as Director of Public Relations and continues to advertise extensively, by radio and otherwise, in an endeavor to more thoroughly educate the public in the aims and operations of the Exchange.

Labor Situation:

The employees of the New York Stock Exchange are still working under the contract made in the Spring of this year which runs for one year. Recently the unions asked for a vote (under the supervision of the National Labor Relations Board) of employees of two Stock Exchange firms, and in each case were unsuccessful in being named the bargaining agent.

New Technique on Standbys:

Several successful standby offerings recently have been made which were facilitated by the privilege enjoyed by the underwriter's representative of laying off shares during the standby period against the purchase of rights. It is the feeling of your Committee, however, that there is probably a limit to which the risk in an underwriting commitment can be minimized if any substantial underwriting fees are to be justified.

Specials and Secondaries:

Your Committee commends to your consideration an article on page six of the November issue of "The Exchange" which gives interesting data with regard to "Special Offerings" and "Secondaries." The cost to the seller of such offerings has decreased consistently since 1942 until fairly recently when such costs have modestly increased. There were 19 "Special Offerings" in 1946 as against 17 for the first 11½ months of 1947 and 48 "Secondaries" in 1946 as against 30 for the first 11½ months of 1947.

Member Participation in Secondaries Offered by Non-Members:

Several large Secondary offerings have been made by non-member firms in which the New York Stock Exchange has not permitted member participation, and there has been a feeling that the attitude of the Exchange in this connection should be liberalized. However, all the factors involved in each offering are carefully studied and considered by the Exchange and the Exchange is exceedingly conscientious in its endeavor to give members every opportunity to originate and participate in such offerings. The Exchange requires that the spread in "Secondaries" be at least twice the regular Stock Exchange commission for such shares and member participation has been disallowed at times because of this requirement. It must be remembered that it was not so long ago that it took days to obtain a ruling from the Exchange as to whether or not the offering could be made either as a "Special" or a "Secondary," whereas, at present, the time required for such investigation and decision has been decreased to minutes.

Trading in Rights by Members:

As a result of repeated requests to the Exchange for a liberalization of the Exchange rule which permitted transactions by members in rights to subscribe to new securities **only** on the Exchange, there has been a modification in the ruling giving members broader opportunity to effect transactions in Rights. However, an even broader liberalization is now being considered by the Exchange and it is believed that it will further facilitate such trading by members.

Of course, if Exchange members are permitted to trade Rights at net prices for customers it is equivalent to rebating of commissions, as no commissions are paid by clients on such transactions. It is well known that the Exchange requires strict enforcement of the regulations prohibiting rebating of commissions, in any form.

Nuisance Charges:

It is understood that the Exchange is giving consideration to the elimination of nuisance charges on postage, and if and when this matter is resolved, perhaps further study will be given to the small charges for interest which Exchange members are required to make at the present time on delayed payments, and which to all practical purposes amount to nuisance charges.

It is obvious there is extreme duplication in the efforts and endeavors of Committees of the Investment Bankers Association, Association of Stock Exchange Firms and National Association of Security Dealers with regard to Exchange matters, but there is close cooperation between these Associations, and your Committee again wishes to express appreciation of the very helpful and willing cooperation which the New York Stock Exchange, its officials and staff, have always afforded this Committee.

Respectfully submitted,

Stock Exchange Relations Committee: Clifford Hemphill, Chairman; Edward C. Anderson; Richard de La Chapelle; Benjamin H. Griswold, 3rd; Richard A. Kebbon; Joseph H. King; Lee M. Limbert; Samuel D. Lunt; Charles B. McDonald; C. Newbold Taylor; Albert W. Tweedy.

Golf & Tennis Winners At IBA Convention

The following are the winners in the golf and tennis tournaments at the Investment Bankers Association Convention held in Hollywood, Fla.:

GOLF

Women's Medal Play Tournament: (1) Mrs. William R. Stuart (Mason, Moran & Co.), Chicago; (2) Mrs. James A. Fayne (Bache & Co.), New York.

Low Net: (1) Mrs. George L. Martin (Martin, Burns & Corbett), Chicago; (2) Mrs. Mason B. Starring, Jr. (Graham, Parsons & Co.), New York.

Women's Blind Bogey: (1) Mrs. Thompson M. Wakeley (A. C. Allyn & Co.), Chicago; (2) Mrs. S. E. Johanigman (Milwaukee Company), Chicago.

Mixed Twosome: (1) Russell J. Olderman (Field, Richards & Co.), Cleveland; Mrs. Carl H. Doerge (Wm. J. Mericka & Co., Cleveland. Runners-up: P. Scott Russell, Jr. (Glore, Forgan & Co.), New York; Mrs. P. Scott Russell, Jr. (Glore, Forgan & Co.), New York.

Alden H. Little Trophy: (1) Charles M. Lynch, Jr. (Moore, Leonard & Lynch), Pittsburgh; (2) Walter A. Schmidt (Schmidt, Poole & Co.), Philadelphia.

Robert E. Christie, Jr., Memorial: (1) Wm. Russell Barrow (Barrow, Leary & Co.), Shreveport; (2) Wallace M. McCurdy (Thayer, Baker & Co.), Philadelphia.

IBA of Canada Trophy: (1) Herman L. Lind (Camp & Co.), Portland; (2) Salim L. Lewis (Bear, Stearns & Co.), New York.

New Orleans Cup: (1) Marion H. Cardwell (J. J. B. Hilliard & Son), Louisville; (2) Milton S. Trost (Stein Bros. & Boyce), Louisville.

San Joaquin Light and Power Trophy: (1) R. H. Boardman (R. H. Johnson & Co.), Boston; (2) Jules Asch (Hirsch & Co.), New York.

Winner of Golf Clubs and Bag: James R. Roddy (Scharff & Jones), New Orleans.

TENNIS

Men's Doubles: Malon C. Courts (Courts & Co.), Atlanta; Richard W. Courts (Courts & Co.), Atlanta. Runners-up: Kimball Valentine (Vance, Sanders & Co.), Boston; Allen L. Hopkins (Putnam & Co.), Hartford.

Mixed Doubles: Mr. and Mrs. G. H. Walker, Jr. (G. H. Walker & Co.), New York. Runners-up: Mr. and Mrs. W. L. Lyons (W. L. Lyons & Co.), Louisville.

Taxation Committee Scores Capital Gains Tax

Chairman Amyas Ames reports Bureau of Internal Revenue ready to change ruling on securities dealers may hold for investment and points out need to reduce capital gains taxes. Calls attention to need for more investment capital and concludes "our tax laws are hurting our country."

Amyas Ames, partner of Kidder, Peabody & Co., New York City, and Chairman of the IBA Federal Taxation Committee, released to the Convention the report of the Committee covering the past year which reads as follows:

Amyas Ames

The Federal Taxation Committee has been working to get the Bureau of Internal Revenue to change one of its recent rulings — I.T.: 3828. Under this ruling, a dealer may hold securities for investment only if they are of a type different from those retailed to customers in the ordinary course of business. It is a discriminatory ruling which would in effect prevent dealers from using the capital gains provisions of the Federal tax laws.

As reported at the Spring Conference at French Lick, we appointed Norris Darrell of Sullivan & Cromwell to represent our Committee and the I.B.A. and after conference with the Internal Revenue officials prepared a memorandum which we presented to those officials in Washington. This memorandum concluded as follows: "This ruling can only create uncertainty and confusion It fails to achieve the purpose intended. It is contrary to the law and to business practice. Therefore it is recommended that it be withdrawn and a new ruling or regulation issued to supersede it."

Since presenting this memorandum, we have had, through our representative, several conferences in Washington. We have had occasion to see and to criticize a draft of a new ruling to replace I.T. 3828. We understand that the final draft of this revised ruling is now virtually complete and that it will be released shortly.

Unfortunately, we can not report complete accomplishment because the revised ruling has not yet been released. But we can report that in the final talks in Washington there was no controversy whatsoever on the fundamental points we had raised, and that the final draft of the revised ruling embodies the changes which we had recommended. In brief, the officials of the Internal Revenue Bureau are now agreed that the original ruling is wrong, they are prepared to change it and we are satisfied that the new ruling now in final draft is in acceptable form.

Earlier this year, this Committee prepared a report entitled "A Tax Program Making Possible the Continuation of our Free Enterprise System." This report was approved by the Board of Governors of the Association at French Lick and was printed and distributed to the members. Copies of this report were filed with the Ways and Means Committee of the House of Representatives and made part of the official records of that committee. Copies of this report have also been distributed by members of the Federal Taxation Committee and by other I.B.A. members in their local communities.

This report was read at the last meeting and so, in the interest of brevity, I will not go into it in detail. A review of the principal memoranda on tax reform which have recently been presented to the House Ways and Means Committee would indicate that the desirability of limiting the surtax schedule to not over 50% is gaining recognition. Similarly, there appears to be a broader understanding of the need to remove the penalty of double taxation from corporate income.

However, we feel that there is not a sufficiently widespread understanding of the third point in our program, the revision of the capital gain tax from 25% to 12½%. The need for this reform appears greater now than ever before. A capital gain tax that may be bearable in a period of level prices can endanger a prosperous society in a period of inflationary price rise. Under current inflationary conditions the capital gain tax becomes in reality a capital levy because it applies against the increase in price of capital assets, an increase which is in no real sense a capital gain. As a result, we are in effect spending our principal to pay our governmental operating expenses and there can only be one end to that road—more inflation and socialism.

It has been estimated that $6,000 of capital was needed to make a job for one worker in American industry before the war. Now, with inflationary prices, $8,000 to $9,000 is needed to create a new job. In other words, more capital is needed now to maintain our employment and expand our production. We must permit the building of capital if Americans are to have jobs, but under our present tax laws it is virtually impossible.

The House Ways and Means Commitee in June appointed a Special Tax Study Committee under the chairmanship of Roswell Magill and Gov. Frank Carlson of Kansas. This committee made its report on Nov. 3 and I would like to quote two sentences from it: "Today the equity market is 'starved,' and even the strongest corporation finds it impossible to raise additional funds through offerings of share capital except on terms so costly as in many cases to necessitate deferment of plans. . . . Yet many corporations have depleted working capital, because of heavy increases in the cost of inventories and badly need additional equity money, which is largely unavailable today."

It is encouraging that recognition is being given by competent committees of this kind to the harmful effect that a serious shortage of capital can have on our country. How few of us realize that our income and inheritance tax laws follow — perhaps unknowingly—on these two planks in the original Karl Marx Communist platform: (1) "A heavy progressive or graduated income tax" and (2) "Abolition of all right of inheritance." To these two perfect instruments for destroying our American system double taxation of corporation earnings and an abnormally heavy capital gains tax have been added.

Our tax laws are hurting our country. Unless they are changed quickly, they will affect our whole way of life, they will wreck our economy. It is good economics to restore the driving power to our American system, to reward enterprise, to foster the ambition of men who have the initiative to create jobs. It is good economics to promote the building of capital to make those jobs and more jobs possible. Because that is the American way it is also good politics. But much remains to be done before a good tax law is a reality.

Respectfully submitted,
Federal Taxation Committee—
Amyas Ames, Chairman; Charles F. Adams, Jr.; Frank E. Gernon; Rucker Agee; Hardin H. Hawes; Wm. Russell Barrow; James H. Lemon; Malon C. Courts; Herman L. Lind; M. J. M. Cox; Aaron W. Pleasants; Richard P. Dunn; Ralph W. Simonds.

In Attendance at IBA Convention

(Continued from page 32)

BROWNLEE, J. A.
155 N. Clark Street, Chicago

BRYCE, T. JERROLD
Clark, Dodge & Co., New York

BUCKNER, ERROL E.
National Bank of Commerce, New Orleans

***BULLOCK, HUGH**
Calvin Bullock, New York

BUSH, ROLLIN C.
National City Bank, New York

***CAHN, WILLIAM M. JR.**
Henry Herrman & Co., New York

CALDWELL, DONALD
J. Barth & Co., New York

CALVERT, GORDON
Investment Bankers Association, Washington

CARBERRY, PATRICK
"Wall Street Journal," New York

CARDWELL, MARION H.
J. J. B. Hilliard & Son, Louisville

CARPENTER, F. B.
John Nuveen & Co., Chicago

CARR, FRANK C.
John Nuveen & Co., Chicago

CARTER, DeWITT
Nashville Securities Company, Nashville

CARTER, HUGH D., JR.
Courts & Co., Atlanta

CASEY, DOUGLAS
A. C. Allyn & Co., Chicago

***CASSELL, CLAIR F.**
C. F. Cassell & Co., Charlottesville

***CASSELS, JOHN M.**
Department of Commerce, Washington

CHESTER, PAUL P.
Baker, Simonds & Co., Detroit

CHILDRESS, FRANCIS B.
Childress & Co., Jacksonville

CHRISTOPHER, WILLIAM H.
R. W. Pressprich & Co., New York

***CLARK, ROBERT E.**
Calvin Bullock, New York

CLARK, ROBERT W., JR.
Investment Bankers Association, Washington

***CLARKE, HAGOOD**
Johnson, Lane, Space & Co., Atlanta

CLARKE, JOHN W.
John W. Clarke, Inc., Chicago

CLAY, HARRY 3rd
"Commercial & Financial Chronicle," New York

CLAYBOURNE, JOHN H.
A. G. Edwards & Sons, New York

*Denotes Mr. and Mrs.

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Federal Legislative Group Opposes SEC Program

Its membership, headed by Walter A. Schmidt, of Schmidt, Poole & Co., Philadelphia, report disagreement with SEC proposals with respect to competitive bidding, distribution of shares of open-end companies, registered secondaries, and other special cases. Sees anti-trust suit stalling legislative program for SEC amendments.

The 20 members of the IBA Federal Legislative Committee, together with its Chairman, Walter A. Schmidt, partner of of Poole & Schmidt, reported that, after consulting with the NASD and other interested groups, it decided not to support the proposals of the SEC regarding amendments to the Securities acts. The details are continued in the text of the Committee's report which follows:

Walter A. Schmidt

During the past year the Federal Legislation Committee, with the active assistance of our President and General Counsel, has directed its efforts principally to an attempt to work out with the SEC, the NASD and others, amendments to the Securities Act of 1933 to cure the so-called problem of "beating the gun" under Section 5 and related sections of that Act by clearly making it lawful, among other things, for underwriters and dealers to distribute information about new issues and to make solicitations and offerings during the waiting period.

This work was reported on by your committee and fully discussed at both the Absecon meeting of the Board of Governors last January and at the spring meeting of the Board at French Lick in May.

Shortly after the French Lick meeting, the SEC, in Securities Act Release No. 3224, dated June 6, 1947, released a memorandum of its Statutory Revision Committee containing certain tentative proposals of amendments of the registration and prospectus requirements of the '33 Act. This memorandum of tentative proposals was similar to, but by no means identical with, the outline of amendments which we presented and discussed at French Lick and the general substance of which was there approved by the Board.

You have all received copies of the Commission's Release No. 3224, so there would seem no point to summarize it here.

After careful study of the staff's memorandum and discussions thereof with the NASD and other interested groups, it became clear that we could not support the proposals as set forth by the Commission's staff, and so another series of conferences ensued with representatives of the Commission and its staff in an endeavor to work out a compromise on which all could agree.

For a time it looked as though we were making substantial progress, but here it should be made clear that up to this point all of the conferees had been approaching the problem largely as it applied only to the ordinary negotiated deal and not with respect to its implication to competitive bidding, the distribution of shares of open-end companies, registered secondaries and other special cases.

Thus, when we thought we had almost found the answer with respect to the ordinary negotiated deal, we took up the competitive bidding and other special situations and found that the new techniques for distributing prospectuses, etc., which we were considering for the negotiated deal were wholly inapplicable to the competitive bidding situation and that they presented equally grave difficulties for distributors of investment trust securities.

The conferees thus had several subsequent meetings to see if all of these problems could not be resolved. At about this time, however, which was early this Fall, it became apparent both to the Commission and to us that the Department of Justice had decided to bring its anti-trust action against 17 investment banking firms and the Association. We were informed that this action would question the legality of our present system for underwriting and distributing securities. It was felt by all the conferees, therefore, that there was no point in going forward with the amendment program until we knew precisely what the position of the Department of Justice was to be. Obviously, there is not much point in attempting to perfect the present Act, which is designed to fit the present distributive system, if that system is found to be unlawful, and some new system must be devised to which the present Act may be wholly, or in part, inapplicable.

Our efforts, therefore, to amend the '33 Act since early Fall have largely been on dead center; and since the actual filing of the suit, the Commission has not decided what, if any, legislative program it should propose to the second session of the 80th Congress.

With respect to any program which may be submitted by the Commission, your committee is of the opinion that unless there is substantial agreement thereon among all interested parties, which would obviate the necessity of protracted hearings, there is not much chance of its being acted upon at the coming session of Congress and, by the same token, any program which we might present would have little chance of passage unless it is concurred in by the Commission.

With respect to the legislative picture generally at the first session of the 80th Congress, no law was passed which in any way changed any of the existing laws directly affecting or regulating our business. A good many bills, however, were introduced which are of interest to various segments of our business and these are in various stages of the legislative process. They, of course, retain their status as at the close of the last session for further action at the next session beginning in January. We have had a summary of all these bills prepared which shows what, if any, action was taken on them at the last session, and this summary is appended to the report of the committee. It is well worthy of your careful examination.

Respectfully submitted,

Federal Legislation Committee—Walter A. Schmidt, Chairman; William K. Barclay, Jr.; William Bayne; Emmett F. Connely; Brownlee O. Currey; Hal H. Dewar; John S. Fleek; Newton P. Frye; Charles S. Garland; Edward H. Hilliard; Joseph T. Johnson; R. Parker Kuhn; George L. Martin; James Parker Nolan; John Redwood, Jr.; Joseph M. Scribner; John K. Starkweather; Harry Theis; Henry T. Vance; Lyle F. Wilson; Jean C. Witter.

In Attendance at IBA Convention

(Continued from page 39)

CLIFFORD, HARRY C.
Kidder, Peabody & Co., New York

***COGGESHALL, GEORGE K.**
Schoellkopf, Hutton & Pomeroy, New York

***COHU, HENRY W.**
Cohu & Torrey, New York

COLLIER, W. T. K.
Collier, Norris & Quinlan, Montreal

***COLLINS, JULIEN H.**
Julien Collins & Co., Chicago

COLLINS, WILLIAM J.
William J. Collins & Co., Portland

***COOK, HAROLD H.**
Spencer Trask & Co., New York

***COOK, ROBERT H.**
B. J. Van Ingen & Co., Miami

CORRINGTON, JOHN W.
Paine, Webber, Jackson & Curtis, Chicago

***COUFFER, JAMES G.**
B. J. Van Ingen & Co., New York

COUIG, J. DALTON
Hirsch & Co., New York

***COURTNEY, WILLIAM M.**
Allen C. Ewing & Co., Wilmington, N. C.

***COURTS, MALON C.**
Courts & Co., Atlanta

COURTS, RICHARD W.
Courts & Co., Atlanta

COXON, THOMAS T.
Hallgarten & Co., New York

***CRAFT, ROBERT H.**
Guaranty Trust Company, New York

***CRAGO, JOHN H.**
Smith, Moore & Co., St. Louis

***CRAIGIE, WALTER W.**
F. W. Craigie & Co., Richmond

CREELY, WALTER J.
Goldman, Sachs & Co., St. Louis

CROMWELL, W REX
Dallas Rupe & Son, Dallas

CROSS, LOUIS J.
Paul H. Davis & Co., Chicago

CROUTER, GORDON
DeHaven & Townsend, Crouter & Bodine, Philadelphia

***CROWELL, WARREN H.**
Crowell, Weedon & Co., Los Angeles

***CRUTTENDEN, WALTER W.**
Cruttenden & Co., Chicago

CULBERTSON, WILLIAM H.
Merrill Lynch, Pierce, Fenner & Beane, New York

***CULLEN, JOHN L.**
R. W. Pressprich & Co., New York

CURREY, BROWNLEE O.
Equitable Securities Corporation, Nashville

DAIN, JAMES M.
J. M. Dain & Co., Minneapolis

DALENZ, JOHN McG.
Calvin Bullock, New York

***DAVIS, ARTHUR G.**
Investment Bankers Association, Chicago

DAVIS, DeWITT
Welsh, Davis & Co., Chicago

DAVIS, JOSHUA A.
Reynolds & Co., New York

DAVIS, RALPH W.
Paul H. Davis & Co., Chicago

DECKER, O. PAUL
American National Bank, Chicago

DeHAVEN, WALTER T.
DeHaven & Townsend, Crouter & Bodine, New York

de La CHAPELLE, RICHARD
Shields & Co., New York

DELAFIELD, RICHARD M.
First Boston Corporation, Chicago

***DEWAR, HAL H.**
Dewar, Robertson & Pancoast, San Antonio

*Denotes Mr. and Mrs.

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In Attendance at IBA Convention

(Continued from page 40)

DIECKMAN, ELMER F.
Glore, Forgan & Co., New York

***DIXON, JOSEPH W.**
Graham, Parsons & Co., New York

***DOERGE, CARL H.**
Wm. J. Mericka & Co., Cleveland

***DONNALLY, J. P.**
Peoples National Bank, Charlottesville

***DOOLITTLE, ROY W.**
Doolittle, Schoellkopf & Co., Buffalo

DORBRITZ, ERNEST O.
Moore, Leonard & Lynch, Pittsburgh

DOWNEY, NORMAN S.
Union Securities Corporation, New York

DOYLE, LEO J.
Doyle, O'Connor & Co., Chicago

DROBNIS, GEORGE J.
69 W. Washington Street, Chicago

DuBOIS, ALLEN C.
Wertheim & Co., New York

DUHME, HERMAN
Reinholdt & Gardner, St. Louis

DUNN, EDWARD K.
Robert Garrett & Sons, Baltimore

DUNN, STEWART A.
C. J. Devine & Co., New York

DUNNE, NEWMAN L.
Wisconsin Co., Milwaukee

DUNSTAN, E. F.
International Bank, New York

DUVAL, GORDON B.
Guaranty Trust Company, New York

EATON, CHARLES F. JR.
Eaton & Howard, Boston

***EDWARDS, WILLIAM N.**
William N. Edwards & Co. Fort Worth

***ELCOOK, S. L.**
2515 Ponce de Leon Blvd, Coral Gables

ELLINWOOD, D. M.
Moody's Investors Service, New York

ELLIS, R. WINFIELD
Lee Higginson Corporation Chicago

ELLSWORTH, SHERMAN
Wm. P. Harper & Son & Co., Seattle

EMERSON, SUMNER B.
Morgan Stanley & Co., New York

***EMERSON, WILLARD I.**
Hemphill, Noyes & Co., New York

EMIG, HOWARD A.
Farwell, Chapman & Co., Chicago

EMPEY, L. H.
American Trust Company, San Francisco

ERICKSON, EVERETT R.
Chicago "Journal of Commerce," New York

ERICKSON, WENDELL R.
Stone & Webster Securities Corp., New York

EVANS, CLEMENT A.
Clement A. Evans & Co., Atlanta

EVANS, THOMAS W.
Continental Illinois Bank, Chicago

***EWING, ALLEN C.**
Allen C. Ewing & Co., Wilmington, N. C.

FAHEY, LESLIE J.
Fahey, Clark & Co., Cleveland

FARRELL, F. D.
City National Bank, Kansas City

***FAUSET, JOSEPH H.**
Fauset, Steele & Co., Pittsburgh

***FAYNE, JAMES A.**
Bache & Co., New York

FELDMAN, HERMAN A.
Geyer & Co., New York

FENNELLY, JOHN F.
Glore, Forgan & Co., Chicago

***FINNEY, HOWARD JR.**
Bear, Stearns & Co., New York

FISHER, CHARLES N.
Singer, Deane & Scribner, Pittsburgh

FISHER, ROBERT W.
Blyth & Co., New York

***FLINT, JOHN G.**
Kidder, Peabody & Co., Boston

FOLGER, JOHN CLIFFORD
Folger, Nolan, Inc., Washington

FORDON, RALPH
Watkins & Fordon, Detroit

FORREY, GEORGE C.
Indianapolis Bond & Share Corp., Indianapolis

FREDERICK, PAUL O.
Commerce Union Bank, Nashville

FRIDLEY, EARL G.
Fridley & Hess, Houston

FRIEDRICHS, G. SHELBY
Howard, Labouisse, Friedrichs & Co., New Orleans

FRIEND, ARTHUR S.
Folger, Nolan, Inc., Washington

FROMAN, CELESTE
Investment Bankers Association, Chicago

FRYE, CHARLES S.
"Journal of Commerce," Chicago

FULLER, WILLIAM A.
William A. Fuller & Co., Chicago

FULTON, WALLACE H.
Nat'l Assn. of Securities Dealers, Washington

GABLE, LAURENCE J.
Taussig, Day & Co., St. Louis

GAERSTE, JOHN L.
Cooley & Co., Hartford

GALLAGHER, F. P.
Kidder, Peabody & Co., New York

GARLAND, CHARLES S.
Alex. Brown & Sons, Baltimore

GATCHELL, EARLE
Hayden, Stone & Co., New York

GEDDES, EUGENE G.
Clark, Dodge & Co., New York

GEIS, LEONARD B.
Newburger & Hano, Philadelphia

GERNON, FRANK E.
Carl M. Loeb, Rhoades & Co., New York

GEYER, GEORGE
Geyer & Co., New York

GILBREATH, W. SYDNOR JR.
First of Michigan Corporation, Detroit

GISH, CARL K.
Boettcher & Co., New York

GLASSMEYER, EDWARD JR.
Blyth & Co., New York

***GLOVER, W. WAYNE**
California Bank, Los Angeles

GOODWIN, CLAIRE V.
Walston, Hoffman & Goodwin, San Francisco

GORDON, ALBERT H.
Kidder, Peabody & Co., New York

GRAHAM, JAMES S.
Allison-Williams Company, Minneapolis

***GRIFFIN, O. D.**
Lord, Abbett & Co., New York

GRISWOLD, BENJAMIN H. 3rd
Alex. Brown & Sons, Baltimore

GRUBBS, M. M.
Grubbs, Scott & Co., Pittsburgh

GRUNER, GEORGE
Lee Higginson Corporation, Chicago

***HAGAN, JOHN C. JR.**
Mason-Hagan, Inc., Richmond

HAGEMANN, E. K.
G. H. Walker & Co., St. Louis

HALE, R. WALTER JR.
Nashville Securities Company, Nashville

***HALLOWELL, HENRY R.**
Hallowell, Sulzberger & Co., Philadelphia

***HAMMOND, WILLIAM H.**
Braun, Bosworth & Co., Chicago

HANRAHAN, EDMOND M.
Securities & Exchange Commission, Philadelphia

***HANRAHAN, PAUL B.**
Hanrahan & Co., Worcester

HANSEL, DOUGLES R.
Wertheim & Co., New York

HANSON, MURRAY
Investment Bankers Association, Washington

***HARKNESS, EDWARD M.**
Mason, Moran & Co., Chicago

HARPER, W. PAUL
Boatmen's National Bank, St. Louis

HARRIS, DAVID J.
Sills, Minton & Co., Chicago

HARRIS, MARTIN
"Finance Magazine," Chicago

HARTER, ROBERT L.
First Boston Corporation, New York

***HASSMAN, ELMER G.**
A. G. Becker & Co., Chicago

***HATCHER, LLOYD B.**
Trust Company of Georgia, New York

HATCHER, ROBERT L.
Chase National Bank, New York

HAWES, HARDIN H.
Harris Trust & Savings Bank, Chicago

HAZELWOOD, CHARLES F.
E. H. Rollins & Sons, New York

***HEFFERNAN, PAUL**
New York "Times," New York

***HEIMERDINGER, JOHN G.**
Walter, Woody & Heimerdinger, Cincinnati

HELLER, JAMES M.
J. C. Bradford & Co., New York

***HELLER, WALTER S.**
Heller, Bruce & Co., San Francisco

***HEMPHILL, CLIFFORD**
Hemphill, Noyes & Co., New York

HENDRIX, W. R.
Equitable Securities Corporation, Nashville

*Denotes Mr. and Mrs.

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In Attendance at IBA Convention

(Continued from page 41)

HERZER, KARL P.
F. S. Moseley & Co., New York

*HERZOG, EDWIN H.
Lazard Freres & Co., New York

HESS, WILBUR E.
Fridley & Hess, Houston

HEWITT, CHARLES L.
Francis I. duPont & Co., New York

*HIBBEN, JOSEPH W.
Kidder, Peabody & Co., Chicago

*HICKEY, MATTHEW J. JR.
Hickey & Co., Chicago

*HILDRETH, W. S.
Peoples National Bank, Charlottesville

HILL, MALVERN
Stranahan, Harris & Co., New York

*HOBBS, WILLIAM G. JR.
Russ & Co., San Antonio

HOLDEN, PHILIP D.
Chemical Bank & Trust Co., New York

HOLMES, ELAINE (Mrs.)
Investment Bankers Association, Washington

HOPKINS, ALLEN L.
Putnam & Co., Hartford

HOPKINSON, EDWARD JR.
Drexel & Co., Philadelphia

HORNER, EDWIN B.
Scott, Horner & Mason, Lynchburg

HORNING, BERT H.
Stifel, Nicolaus & Co., St. Louis

HORTON, LEONARD M.
Chemical Bank & Trust Co., New York

*HOUSTON, JOSEPH C.
Calvin Bullock, Chicago

HOWE, L. L.
John Nuveen & Co., Chicago

*Denotes Mr. and Mrs.

HOWE, PAUL D.
A. Webster Dougherty & Co., Philadelphia

HUGHES, A. R.
Lord, Abbett & Co., Chicago

HULME, MILTON G.
Glover & MacGregor, Pittsburgh

HUNT, E. JANSEN
White, Weld & Co., New York

HUNT, EVERT M.
First Trust Company, Lincoln

HURRY, HARRY W.
Bingham, Walter & Hurry, Los Angeles

IGLEHART, J. A. W.
W. E. Hutton & Co., New York

*JACKSON, WILLIAM C. JR.
First Southwest Company, Dallas

*JARDINE, J. EARLE JR.
William R. Staats Co., Los Angeles

JENNETT, EDWARD J.
First National Bank, Chicago

*JOHANIGMAN, S. E.
Milwaukee Company, Chicago

JOHNSON, JOSEPH T.
Milwaukee Company, Milwaukee

*JOHNSON, R. H.
R. H. Johnson & Co., New York

*JOHNSON, THOMAS M.
Johnson, Lane, Space & Co., Savannah

*JOHNSON, WILLIAM A.
Mason, Moran & Co., Milwaukee

*JOHNSTON, E. S.
Wood, Gundy & Co., New York

JOHNSTON, JOHN R.
McDonald & Co., Cleveland

JONES, EDWARD D.
Edward D. Jones & Co., St. Louis

JONES, GEORGE S.
Wertheim & Co., New York

*JOSEPH, HERMAN B.
Skall, Joseph, Miller & Co., Cleveland

KALES, DAVIS
Commerce Union Bank, New York

*KAUFMAN, C. G.
Shields & Co., Chicago

KENNEDY, FRANK T.
C. J. Devine & Co., New York

KERR, WILLIAM D.
Bacon, Whipple & Co., Chicago

KILBURN, PETER
Greenshields & Co., Montreal

*KING, JOSEPH H.
Union Securities Corporation, New York

*KING, WILLIAM P.
Harris, Hall & Co., New York

*KING, WILLIAM T.
National Rockland Bank, Boston

KIRKLAND, SAMUEL N.
Jenks, Kirkland & Co., Philadelphia

KLEIN, GUSTAV
Mead, Miller & Co., Baltimore

*KLUTE, ROY H.
Mason, Moran & Co., Chicago

KNIGHT, FRANCIS M.
Continental Illinois Bank, Chicago

KNIGHT, NEWELL S.
Mercantile-Commerce Bank, St. Louis

KNOPP, BERNARD B.
First National Bank, St. Paul

KOHLER, B. M.
H. C. Speer & Sons, Chicago

LANE, ARTHUR D.
Chase National Bank, New York

LAUD-BROWN, WELLS
Bankers Trust Company, New York

LEACH, EDMUND C.
Sterne, Agee & Leach, Montgomery

LEDYARD, Q. R.
J. C. Bradford & Co., Nashville

*LEE, ALONZO H.
Sterne, Agee & Leach, Birmingham

LEE, JAMES J.
Lee Higginson Corporation, New York

LEEDY, LOOMIS C.
Leedy, Wheeler & Alleman, Orlando

LEMKAU, HUDSON B.
Morgan Stanley & Co., New York

*LEMON, JAMES H.
Johnston, Lemon & Co., Washington

LESTER, B. P.
Lester & Co., Los Angeles

*LEWIS, REUBEN A.
"Finance Magazine," Chicago

LEWIS, ROBERT J.
Estabrook & Co., New York

LEWIS, SALIM L.
Bear, Stearns & Co., New York

LIEBENFROST, CONRAD H.
Stern, Lauer & Co., New York

LINCOLN, MARY R.
Investment Bankers Association, Chicago

LIND, HERMAN L.
Camp & Co., Portland

LINEN, JOHN S.
Chase National Bank, New York

LITTLE, ALDEN H.
Investment Bankers Association, Chicago

LOFTUS, EDGAR J.
R. S. Dickson & Co., New York

*LOOMIS, JOHN S.
Illinois Company, Chicago

*LOW, V. THEODORE
Bear, Stearns & Co., New York

LUDIN, JOSEPH
Dillon, Read & Co., New York

LYKLEMA, WALTER C.
A. C. Allyn & Co., Chicago

*LYNCH, CHARLES M. JR.
Moore, Leonard & Lynch, Pittsburgh

LYNCH, LAWRENCE J.
Dick & Merle-Smith, New York

LYON, ROBERT W.
White, Weld & Co., New York

*LYONS, W. L.
W. L. Lyons & Co., Louisville

MACDONALD, RANALD H.
Dominick & Dominick, New York

MACFADDEN, WILLIAM S.
Piper, Jaffray & Hopwood, Minneapolis

MALICK, J. S.
Fidelity-Philadelphia Trust Co., Philadelphia

*MALLORY, WALDO W.
Clement A. Evans & Co., Atlanta

MARKS, LAURENCE M.
Laurence M. Marks & Co., New York

MARKUS, NORBERT W.
Smith, Barney & Co., Philadelphia

MARTIN, BENNETT S.
First Trust Company, Lincoln

*MARTIN, GEORGE L.
Martin, Burns & Corbett, Chicago

MARTIN, WAYNE
Milhous, Martin & Co., Atlanta

*MASON, FRED. H.
Mason, Moran & Co., Chicago

*MASON, ROBERT
Central Republic Company, Chicago

MATTHEWS, ROBERT H.
G. H. Walker & Co., St. Louis

MAXWELL, J. M.
Northern Trust Company, Chicago

MAY, J. DENNY
Parker Corporation, Boston

*McCARTHY, DENNIS H.
First Boston Corporation, San Francisco

*McCLOUD, JAMES F.
Kirkpatrick-Pettis Company, Omaha

McCLURE, NATHAN D.
Harriman Ripley & Co., Chicago

*McCORMICK, D. DEAN
Kebbon, McCormick & Co., Chicago

*McCURDY, WALLACE M.
Thayer, Baker & Co., Philadelphia

McDONALD, CHARLES B.
McDonald & Co., Cleveland

McDONALD, HARRY A.
Securities & Exchange Commission, Philadelphia

McDONALD, HARRY A. JR.
McDonald-Moore & Co., Detroit

McDONNELL, DONALD N.
Blyth & Co., New York

McELROY, DAVID B.
J. P. Morgan & Co., New York

McEWAN, GEORGE S.
Paul H. Davis & Co., Chicago

McFARLAND, DONALD E.
Kalman & Co., Minneapolis

*McGREW, EDWARD D.
Northern Trust Company, New York

*McMILLAN, JOHN S.
Dempsey-Tegeler & Co., St. Louis

McRAE, DONALD F.
Blair & Co., Inc., Atlanta

MEANS, J. W.
Trust Company of Georgia, Atlanta

MELOTH, H. B.
Security First National Bank, Los Angeles

MERRILL, CHARLES B.
Merrill, Turben & Co., Cleveland

*MEYER, MAURICE JR.
Hirsch & Co., New York

MILLER, GALEN, Hayden Miller & Co., Cleveland

*MILLER, HENRY S.
Mead, Miller & Co., Baltimore

MILLER, LEWIS
First National Bank, Chicago

MINOR, STANLEY N.
Pacific Northwest Company, Seattle

MOHR, SIDNEY J. JR.
Thornton, Mohr & Co., Montgomery

MOLANDER, WINSTON L.
Northwestern National Bank, Minneapolis

MONTGOMERY, HARRY T.
Associated Press, New York

*MOORE, RODERICK D.
Branch, Cabell & Co., Richmond

*MORELAND, J. MARVIN
Rotan, Mosle & Moreland, Galveston

MORGAN, WILLIAM B.
Stroud & Co., Philadelphia

MORRIS, GEORGE L.
Hornblower & Weeks, Philadelphia

MORRIS, JOSEPH L.
Robinson-Humphrey Company, Atlanta

MORRIS, PAT G.
Northern Trust Company, Chicago

MORRISON, A. B.
A. B. Morrison & Co., Miami

*MORSE, FRANK H.
Lehman Brothers, New York

MORTON, FRED G.
Milwaukee Company, Milwaukee

MORTON, ROALD A.
Blue List Publishing Co., New York

*MORTON, WILLIAM H.
W. H. Morton & Co., New York

*MUENCH, MAX S.
Stix & Co., St. Louis

*MUIR, EDWARD D.
Russ & Co., San Antonio

MULLANEY, PAUL L.
Mullaney, Ross & Co., Chicago

MULLINS, FREDERIC P.
A. E. Masten & Co., Pittsburgh

MURNANE, GEORGE JR.
Lazard Freres & Co., New York

NAUMBURG, CARL T.
Stern, Lauer & Co., New York

NELSON, EDWARD H.
Kidder, Peabody & Co., New York

NEUHAUS, JOSEPH R.
Neuhus & Co., Houston

NEWBY, BETTL A. (Mrs.)
T. Nelson O'Rourke, Inc., Daytona Beach

*NEWHARD, CHAPIN S.
Newhard, Cook & Co., St. Louis

NORTH, LUDLOW F.
Wisconsin Company, Milwaukee

*NOYES, GEORGE F.
Illinois Company, Chicago

O'BRIEN, JOHN J. III
John J. O'Brien & Co., Chicago

*Denotes Mr. and Mrs.

O'HARA, B. H.
Commerce Trust Company, Kansas City

OLDERMAN, RUSSELL J.
Field, Richards & Co., Cleveland

***O'ROURKE, T. NELSON**
T. Nelson O'Rourke, Inc., Daytona Beach

OSTRANDER, LEE H.
William Blair & Co., Chicago

***OTIS, C. BARRON**
"Bond Buyer," New York

OWEN, RALPH
Equitable Securities Corporation, Nashville

PARISH, HENRY
Carl M. Loeb, Rhoades & Co., New York

PARKER, CHARLES S. JR.
Continental Bank & Trust Co., New York

PARKER, E. CUMMINGS
Glore, Forgan & Co., Chicago

PARKER, NATHAN K.
Kay, Richards & Co., Pittsburgh

PARKER, WILLIAM A.
Parker Corporation, Boston

PARRY, SIDNEY L.
Assn. of Stock Exchange Firms, New York

PARSONS, ROBERT H.
Pacific Company, Los Angeles

PARTRIDGE, JOHN F.
Welsh, Davis & Co., Chicago

PAYNE, CARR
Cumberland Securities Corporation, Nashville

PEARSALL, GILBERT B.
Van Alstyne, Noel & Co., New York

PENNELL, HENRY B. JR.
Coffin & Burr, New York

PERRIGO, CHARLES R.
Hornblower & Weeks, Chicago

PETERSON, E. NORMAN
Equitable Securities Corporation, New York

***PHILLIPS, BLAIR A.**
White-Phillips Co., Davenport

PHILLIPS, EDWARD J.
Samuel K. Phillips & Co., Philadelphia

PHILLIPS, SAMUEL K.
Samuel K. Phillips & Co., Philadelphia

PICKARD, A. G.
C. F. Childs & Co., Chicago

***PIGOTT, JAMES M.**
Central Republic Company, Chicago

PINKERTON, CHARLES H.
Baker, Watts & Co., Baltimore

PIPER, JOHN S.
San Francisco "News," San Francisco

***PLEASANTS, AARON W.**
International Trust Company, Denver

POHLHAUS, WALTER C.
Mackubin, Legg & Co., Baltimore

PONTIUS, MILLER H.
F. Eberstadt & Co., New York

POPPER, ELVIN K.
I. M. Simon & Co., St. Louis

POSTLETHWAITE, J. RUSSELL
Irving Lundborg & Co., San Francisco

POTTER, EDWARD JR.
Commerce Union Bank, Nashville

POWERS, LESTER
Dominick & Dominick, New York

PRESCOTT, JOHN A.
Prescott, Wright, Snider Company, Kansas City

***PRESSPRICH, REGINALD W. JR.**
R. W. Pressprich & Co., New York

PRETTYMAN, C. B. JR.
Welsh, Davis & Co., Chicago

*Denotes Mr. and Mrs.

***PROSSER, MALCOLM S.**
Seattle-First National Bank, Seattle

QUINN, JOHN
Shields & Co., New York

RALPH, HENRY A. J.
Bank of America, San Francisco

RASH, DILLMAN A.
J. J. B. Hilliard & Son, Louisville

RATCLIFFE, MYRON F.
Lehman Brothers, New York

RAUCH, ALFRED
Kidder, Peabody & Co., Philadelphia

RAUSCHER, JOHN H.
Rauscher, Pierce & Co., Dallas

REDWOOD, JOHN JR.
Baker, Watts & Co., Baltimore

REED, STUART R.
Paine, Webber, Jackson & Curtis, New York

REID, FRANK B.
Maynard H. Murch & Co., Cleveland

REILLY, F. VINCENT
"Commercial & Financial Chronicle," New York

***REILY, JOHN M.**
Weeden & Co., New York

REINHOLDT, JULIUS W. JR.
Reinholdt & Gardner, St. Louis

REISSNER, FRANK L.
Indianapolis Bond & Share Corp., Indianapolis

***REX, WILLIAM M.**
Clark, Dodge & Co., New York

RHOADS, PHILIP J.
First National Bank, Oklahoma City

RIEPE, J. CREIGHTON
Alex. Brown & Sons, Baltimore

RIES, GEORGE J.
Mississippi Valley Trust Company, St. Louis

***RITER, HENRY G. 3rd**
Riter & Co., New York

ROBERTS, ALBERT JR.
A. M. Kidder & Co., St. Petersburg

ROBINSON, ARTHUR R.
Fidelity Union Trust Company, Newark

ROBINSON, EDWARD H.
Schwabacher & Co., New York

RODDY, JAMES E.
Scharff & Jones, New Orleans

ROSS, ALFRED J.
Dick & Merle-Smith, New York

ROVENSKY, WILLIAM R.
Hornblower & Weeks, New York

***ROWE, ROBERT G.**
Stroud & Co., Philadelphia

ROYCE, DONALD
William R. Staats & Co., Los Angeles

***RUSSELL P. SCOTT JR.**
Glore, Forgan & Co., New York

SANDERS, JESSE A. JR.
Sanders & Newsom, Dallas

SCARBOROUGH, EUGENE W.
Central Republic Company, New York

SCHLICHTING, ARTHUR W.
Bankers Trust Company, New York

SCHLUTER, HAROLD J.
First National Bank, Chicago

***SCHMICK, FRANKLIN B.**
Straus & Blosser, Cricago

SCHMIDT, REGINALD M.
Blyth & Co., New York

***SCHMIDT, WALTER A.**
Schmidt, Poole & Co., Philadelphia

***SCRIBNER, JOSEPH M.**
Singer, Deane & Scribner, Pittsburgh

SENER, JOSEPH W.
Mackubin, Legg & Co., Baltimore

SEVING, FREDERICK T.
Butcher & Sherrerd, Philadelphia

***SHANKS, SANDERS JR.**
"Bond Buyer," New York

***SHELLEY, WILLIAM F.**
Vance, Sanders & Co., Boston

***SHEPARD, ROBERT O.**
Hawley, Shepard & Co., Cleveland

***SHIELDS, CORNELIUS**
Shields & Co., New York

***SHILLINGLAW, DAVID L.**
Shillinglaw, Bolger & Co., Chicago

SIMMONS, RICHARD W.
Lee Higginson Corporation, Chicago

SIMONDS, RALPH W.
Baker, Simonds & Co., Detroit

SIMPSON, CRAIG
Bankers Trust Company, New York

SINTON, JUDITH R.
Investment Bankers Association, Chicago

SIPP, PAUL L.
First of Michigan Corporation, New York

SKINNER, DAVID L.
Harriman Ripley & Co., New York

***SMITH, DUDLEY C.**
Investment Bankers Association, Chicago

SMITH, J. RAYMOND
Weeden & Co., New York

SMITH, NORMAN
Merrill Lynch, Pierce, Fenner & Beane, New York

SMUTNY, RUDOLF
Salomon Bros. & Hutzler, New York

SNOW, WARREN H.
E. H. Rollins & Sons, New York

***SPACE, JULIAN A.**
Johnson, Lane, Space & Co., Savannah

***SPEAS, J. W.**
First National Bank, Atlanta

STALEY, THOMAS F.
Reynolds & Co., New York

STALKER, ALFRED J.
Shields & Co., New York

***STARRING, MASON B. JR.**
Graham, Parsons & Co., New York

STEARNS, GEORGE R.
"The Economist," Chicago

STEARNS, PHILIP M.
Estabrook & Co., Boston

STEINECKE, S. W.
S. K. Cunningham & Co., Pittsburgh

STEPHENSON, F. KENNTH
Goldman, Sachs & Co., New York

***STERLING, NORMAN E.**
Allen C. Ewing & Co., Jacksonville

STERN, SIGMUND
Stern Brothers & Co., Kansas City

***STEVENSON, GETHRYN C.**
Bacon, Stevenson & Co., New York

***STEVENSON, ROBERT 3rd**
Investment Bankers Association, Chicago

***STUART, WILLIAM R.**
Mason, Moran & Co., Chicago

STUTZ, CARL N.
White-Phillips Co., Davenport

SUTHERLAND, WILLIAM G.
Ryan, Sutherland & Co., Toledo

SWEENY, T. TYLER
E. H. Rollins & Sons, New York

TAUSSIG, GARFIELD J.
Taussig, Day & Co., St. Louis

TAYLOR, C. NEWBOLD
W. H. Newbold's Son & Co., Philadelphia

***TEGELER, JEROME F.**
Dempsey-Tegeler & Co., St. Louis

***TERWILLEGER, DAVID L.**
Richard W. Clarke & Co., New York

***THACKERA, CHARLES**
Bear, Stearns & Co., New York

THAYER, ROBERT L.
Lehman Brothers, New York

***THEIS, HARRY**
Albert Theis & Sons, St. Louis

THOBURN, THEODORE
Hayden, Miller & Co., Cleveland

THOMAS, JOSEPH A.
Lehman Brothers, New York

***THORP, WILLARD L.**
Department of State, Washington

***THORS, J. EMERSON**
Kuhn, Loeb & Co., New York

TILGHMAN, ALLEN B.
A. G. Edwards & Sons, St. Louis

***TOBIN, AUSTIN J.**
Port of New York Authority, New York

***TOMASIC, ANTHONY E.**
Thomas & Co., Pittsburgh

TOMPKINS, HENRY B.
Robinson-Humphrey Company, Atlanta

***TRIGGER, RAYMOND**
"Investment Dealers' Digest," New York

***TROST, MILTON S.**
Stein Bros. & Boyce, Louisville

TRUSLOW, FRANCIS ADAMS
New York Curb Exchange, New York

***TSOLAINOS, K. P.**
Baker, Weeks & Harden, New York

TUERK, FRED R.
William R. Staats Co., Los Angeles

TYSON, ROBERT W. JR.
Blair & Co., Inc., New York

UNDERWOOD, MILTON R.
Milton R. Underwood & Co., Houston

URELL, WILLIAM H.
Barr Brothers & Co., New York

***VALENTINE, KIMBALL**
Vance, Sanders & Co., Boston

***VANCE, HENRY T.**
Vance, Sanders & Co., Boston

VAN HART, T. GEORGE
Salomon Bros. & Hutzler, New York

***VARNEDOE, SAMUEL L.**
Varnedoe, Chisholm & Co., Savannah

VILAS, HOMER A.
Assn. of Stock Exchange Firms, New York

VOBAYDA, LUD C.
First National Bank, Minneapolis

von GLAHN, THEODORE A. JR.
Salomon Bros. & Hutzler, New York

VRTIS, CHARLES S.
Glore, Forgan & Co., Chicago

*Denotes Mr. and Mrs.

(Continued on page 44)

In Attendance at IBA Convention

(Continued from page 43)

*WAKELEY, THOMPSON M.
A. C. Allyn & Co., Chicago

WALDMAN, GEORGE R.
Mercantile-Commerce Bank, New York

*WALKER, G. H. JR.
G. H. Walker & Co., New York

WALSH, ROBERT A.
Dempsey-Tegeler & Co., St. Louis

WANDERS, GEORGE
"Herald Tribune," New York

*WARD, MURRAY
Hill Richards & Co., Los Angeles

WARTERFIELD, C. W.
Cumberland Securities Corporation, Nashville

WASHBURNE, HEMPSTEAD
Harris, Hall & Co., Chicago

WATLING, PALMER
Watling, Lerchen & Co., Detroit

WEED, W. H. JR.
Union Securities Corporation, New York

WELTNER, A. E.
A. E. Weltner & Co., Kansas City

WENDT, GEORGE B.
First National Bank, Chicago

WERNER, CHARLES S.
Wertheim & Co., New York

WHEELER, HOWARD S.
Leedy, Wheeler & Alleman, Orlando

WHIPPLE, JAY N.
Bacon, Whipple & Co., Chicago

*WHITE, CHARLES B.
Charles B. White & Co., Houston

WHITE, HARRY H.
White, Hattier & Sanford, New Orleans

*Denotes Mr. and Mrs.

WHITE, KELTON E.
G. H. Walker & Co., St. Louis

*WILLARD, E. WARREN
Boettcher & Co., Denver

WILLARD, FRANK A.
Reynolds & Co., New York

WILLIAMS, BENJAMIN D.
W. E. Hutton & Co., New York

WILLIAMS, EMIL C.
Chemical Bank & Trust Co., New York

*WILLIAMS, WARREN D.
Ryan, Sutherland & Co., Toledo

WILLIAMSON, JOHN D.
Dittmar & Co., San Antonio

WILMOT, WILLIS G.
Hibernia National Bank, New Orleans

WILSON, WALTER W.
Morgan Stanley & Co., New York

WILTBERGER, ALFRED S.
Blyth & Co., Chicago

*WITTER, JEAN C.
Dean Witter & Co., San Francisco

*WOELFEL, ERNEST J.
F. S. Moseley & Co., Boston

WOLFF, JAMES W.
Newburger & Hano, New York

*WOOD, DAVID M.
Wood, King & Dawson, New York

WOOLFOLK, ROBERT M.
Woolfolk, Huggins & Shober, New Orleans

WRIGHT, JOHN S.
Morgan Stanley & Co., New York

*WULBERN, E. B.
R. S. Dickson & Co., Charlotte

*YANTIS, F. S.
F. S. Yantis & Co., Chicago

YORK, EDWARD H. JR.
Drexel & Co., Philadelphia

*Denotes Mr. and Mrs.

The Past Year and the IBA

(Continued from page 26)

and Exchange Commission were guests of the Board at dinner following the closing session at Absecon.

The Spring Meeting of the Board was held at French Lick Springs, Indiana, from May 19-22nd. We had as guest speakers The Honorable Adlai E. Stevenson, former U. S. Delegate to the United Nations organization, who gave us a most informative review of world events as they then stood, and Messrs. John J. McCloy, President of the World Bank, and Eugene R. Black, the World Bank's U. S. Executive Director, who made most important statements regarding the policies proposed to be followed by the Bank, and its plans for financing.

Promotion of Savings Bond Campaign

Your Association has cooperated fully with the United States Treasury in promoting the sale of U. S. Savings Bonds. By invitation I attended a Savings Bond meeting held by the Treasury in Washington on March 19th. Following that meeting, at the request of the Secretary of the Treasury, I appointed in April the IBA Savings Bond Committee under the chairmanship of Norbert W. Markus, with Richard de La Chappelle as Vice-Chairman. Group Savings Bonds Committees were appointed in each Group to cooperate with the State Directors of the U. S. Savings Bonds Division of the Treasury and to coordinate the promotional activities in their respective areas.

The Spring Meeting at French Lick was attended by Messrs. Lawrence W. Olney, Assistant Director of the Savings Bond Division, Sidney Tickton, Louis Carow and Morris Townsend, who gave up-to-date information regarding the whole fiscal situation and the plans for the campaign.

Under the leadership of your Savings Bond Committee, the IBA membership emphasized to their customers the importance of the "Bond-a-Month Plan" by running special ads and drop-ins on the Savings Bond campaign; using the line "Buy and Hold U. S. Savings Bonds" on market letters and other literature and by distributing literature prepared by the Treasury Department with customers' statements and other mailings.

The Treasury reports that the total sales of Series E, F and G bonds for the first 10 months of 1947 approximated 5 billion 8 hundred million dollars, while total redemptions for the same period approximated 3 billion 9 hundred million dollars, for a net gain of approximately 1 billion 9 hundred million dollars. During the same period the sales of Series E bonds exceeded redemptions by 165 million 5 hundred thousand dollars, which may be contrasted with the first 10 months of 1946 which showed a net loss in Series E bonds of 891 million dollars.

The Conference Committee under the chairmanship of Cliff Folger, continued to function effectively in carrying on the contacts with the Treasury, initiated more than a year ago by Secretary Snyder, and meetings were held in Washington on Dec. 16 of last year and March 26 and November 18 of this year, on problems relating to fiscal matters.

Relations with International Bank

At the request of officials of the International Bank, invitations were extended by Herbert F. Boynton, Chairman, National Association of Securities Dealers and your President, to representatives of the industry to attend a meeting at the offices of the Bank in Washington on June 4th. At this meeting the work of the Bank was fully and frankly explained by a member of its leading officials, and there followed a helpful discussion of the problems attendant on the marketing of the Bank's obligations.

I have referred to these activities at some length, because I believe our membership should know that not only have the officers and staff of your Association cooperated to the fullest extent to meet every request from the Treasury and the Bank but also that individual members of the Association have, in every instance when requested, given generously of their time.

The resolution on margin trading, approved by the Governors at Palm Beach, was duly transmitted to the Federal Reserve Board and, as you know, in January, 1947, a 25% relaxation was put into effect. This has not been adequate, however, to serve the purpose of assisting in the creation of freer and more active markets.

Amendments to the Securities Acts

The matter of amendments to the Securities Acts has continued to engage the attention of your Federal Legislation Committee and our counsel, and they have continued to cooperate with the National Association of Securities Dealers and other interested organizations, in attempting to improve the present law. In spite of a sincere desire of all of us to work out a constructive solution, many difficulties have arisen in attempting to deal even with the field of dissemination of information and when a sale becomes effective. I will not attempt, however, to anticipate the report of the Federal Legislation Committee with more detail. However, I am still hopeful that some constructive amendments may be presented to Congress at the coming session.

The Standby Period Question

At the Palm Beach meeting, there was an interesting report to the Board of Governors by a committee of which Gene Barry was Chairman, of a new technique for reducing the risks of underwriters during the standby period. The substance of this report was subsequently circulated in a pamphlet distributed by Shields & Company, entitled "The Financing of Stock Issues with Preemptive Rights." This technique, or variations of it, has been used in a number of offerings involving waiting periods and has proven useful and effective in a number of instances. It should be borne in mind in any use of it that the regulations of the Securities and Exchange Commission having to do with manipulation should constantly be kept in mind and carefully complied with.

The "Washington Bulletin" had its premiere with the issue of Jan. 27, 1947, since which time there have been 7 additional issues, including the latest one dated September 15th. These Bulletins, I hope, have been of value to the membership, because they have contained up-to-the-minute information on a variety of subjects of interest and importance to the industry.

We have also done most effective work the past year in the State Legislation and Municipal Securities fields, the details of which will be given to you by those Committees at subsequent sessions of the Convention.

Our Education program has continued to attract real interest and attention. Publication of "Fundamentals of Investment Banking," with its 12 volumes, has now been completed, and the final volume is in the process of distribution. Subscriptions now exceed 2,700 sets; the education courses conducted in 21 cities have been well attended, and more than 2,000 students are now enrolled or have already been graduated. In the industry as a whole the turnover of new employees does not seem unduly high; however, in certain areas, the turnover after employment of graduates of the education courses does seem high. Among future projects in this field is the development of scientific screening procedures to be used in the selection of new employees which we hope will be a factor in reducing the turnover. These subjects are having the attention of the Education Committee and will be referred to in its report.

Safeguarding Investments in Mexico

At the French Lick meeting I was given authority to appoint a special committee to work with a similar committee of Mexican bankers to further the investment and safeguarding of American capital in Mexico. This has been the subject of further discussion and correspondence, and I am now pleased to announce the formation of such committee and the names of the gentlemen who have consented to serve in that capacity:

Charles F. Glore (Chairman), Glore, Forgan & Co., Chicago.

Hal H. Dewar, Dewar, Robertson & Pancoast, San Antonio.

Elmer A. Dittmar, Dittmar & Company, San Antonio.

Russell A. Kent, Bank of America, N. T. & S. A., San Francisco.

Charles E. Mitchell, Blyth & Co., Inc., New York.

Joseph P. Ripley, Harriman Ripley & Co., Inc., New York.

Sir William Wiseman, Kuhn, Loeb & Co., New York.

The Anti-Trust Suit

On Oct. 30, 1947, a Bill of Complaint was filed by the Attorney General on behalf of the Government of the United States, in the United States District Court for the Southern District of New York, naming as defendants 17 investment banking firms and your Association. The relief prayed against your Association is that it "be forthwith required to terminate its activities and be duly dissolved, and defendant banking firms be enjoined from organizing or belonging to any other organization having like purposes and engaging in similar practices."

It is charged that "defendant banking firms have dominated and controlled the policies and activities of defendant, The Investment Bankers Association of America, and said defendant has cooperated with said defendant banking firms to induce and compel others engaged in the securities business to recognize, respect and defer to the restrictive customs and practices of defendant banking firms hereinbefore described. Defendant banking firms have also utilized defendant, The Investment Bankers Association of America, with its active approval and consent to organize, direct and conduct intensive pressure and propaganda campaigns to prevent the adoption by governmental administrative agencies of rules and regulations requiring the sale of security issues at competitive bidding."

Very briefly stated, the offense charged against the 17 firms is that of a conspiracy, which has consisted "of a continuing agreement and concert of action" among the 17 defendants not to compete among themselves and to divide among themselves on a mutually satisfactory basis, new security issues by employing the syndicate method; by recognizing and deferring to the claims of traditional bankers; by determining participations and positions in accordance with historical position; by reciprocally exchanging participations in buying groups and by adopting, maintaining and stabilizing uniform prices, terms and conditions of sale and re-sale. Among other allegations, it is charged that the 17 firms have eliminated and prevented competition "by inducing institutional investors to refrain from making bids for security issues offered at competitive bidding in return for the preferential allotment to such investors of substantial blocks of the securities purchased by defendant banking firms."

As every member of this Association well knows, no 17 banking firms, whether composed of the firms named as defendants in the proceeding, or any other 17 firms, have dominated or controlled or attempted to dominate and control the policies and activities of your Association. The policies and activities of your Association are directed by its Board of Governors, elected by its 18 groups, composed of 700 members, a great majority of which are very heavily representative of the small dealers and distributors all over this country and Canada. You members of this Association, and you members of its present and past Boards of Governors, know how utterly unfounded is the allegation of domination and control contained in the Bill of Complaint.

Position of the Association

This really boils down the charge against your Association to the one of "intensive pressure and propaganda campaigns to prevent the adoption by governmental administrative agencies of rules and regulations requiring the sale of security issues at competitive bidding."

The facts are well known and are not subject to dispute. Your Association did appear before the Securities and Exchange Commission and the Interstate Commerce Commission at public hearings and opposed the adoption of regulations requiring certain kinds of securities to be sold under a system of compulsory competitive bidding. Officers of your Association made speeches and published articles criticizing proposals for compulsory competitive bidding. Your Association has never taken any position to prevent any company from selling its securities by competitive bids or by any other method the company deemed desirable.

As far as your Association is concerned, its record regarding the matters complained of is an open book. Its positions upon these matters have been arrived at as a result of considered discussion and judgment on the part of a democratically elected Board of Governors. I have no fear that any Court will ever hold illegal such public expression of position on behalf of an organization such as your Association, whose views should be of particular competence in the field of security marketing and distribution.

On the advice of Murray Hanson, our General Counsel, Mr. Hugh Cox, of Washington, D. C., a former Assistant Attorney General, and Assistant Solicitor General, has been retained as Special Counsel to act with Murray in presenting your defense.

Continued Huge Output Of Municipals Expected

(Continued from page 37)

reasonable cost of the project, also loans in excess thereof to complete the project. All of the bills authorize additional appropriations for investigations, surveys, plans and related operations.

The Hinshaw Bill, H.R. 1881

This bill, which was introduced by Representative Carl Hinshaw of California and which is identical with the former Boren Bill, H.R. 3129, was fully covered in our Interim Report of last May; as was also the "Minute" issued by the SEC after Congressman Hinshaw had introduced the bill. There is little that can be added at this time, except to point out that the bill is still in the hands of the Interstate and Foreign Commerce Committee of the House, to which it was referred.

The "Minute" of the current Commission is persuasive as far as it goes. It is, however, a disclaimer limited to a specified action and even within its limitation it is binding only insofar as the Commission remains as presently constituted. There are within the broad power asserted by the preceding Commission various means of regulating the marketing facilities and markets for state and municipal securities other than covered by the specific action of the current Commission. Such asserted power may again be advanced in one form or another by some future Commission, unless the law is amended to clarify the intent of Congress.

The Interstate and Foreign Commerce Committee in its report last year accompanying H.R. 3129, of which H.R. 1881 is a reintroduction, said:

". . . it is obvious to the committee that amendments should be made to existing law to make certain that State and municipal financing will not be subjected to the burdens which would be likely to result from the regulation, through administrative rules or regulations, of transactions in State and municipal securities."

The Committee's statement speaks for itself. Clarifying amendments to the law are essential.

The Tidelands Matter

In a 6 to 2 decision handed down on June 23 last, the U. S. Supreme Court upheld the claim by the federal government to the three-mile marginal sea belt off the coast of California. Justices Frankfurter and Reed dissented and Justice Jackson did not participate. In its opinion the Court states:

"As previously stated this Court has followed and reasserted the basic doctrine of the Pollard case many times. And in doing so it has used language strong enough to indicate that the Court then believed that states not only owned tidelands and soil under navigable inland waters, but also owned soils under all navigable waters within their territorial jurisdiction, whether inland or not."

This has always been the recognized status of the land and its resources. The Court now says that all of these statements were, however, merely paraphrases or offshots of the Pollard inland water rule, and were used, not as enunciation of a new ocean rule, but in explanation of the old inland water principle.

The State of California, the defendant in the case, appealed to the Court for a rehearing and reconsideration of the majority opinion. The state set forth in its motion extensive arguments in support of its position. On Oct. 13 the Court denied the appeal and on Oct. 27 issued its decree holding that the United States is possessed of paramount rights in, and full dominion and power over, the lands, minerals and other things underlying the three-mile belt off the coast of California, and that California has no title thereto or property interest therein.

There is serious and widespread concern as to the effects of this decision. As California and others point out, no one can foretell the extent to which future federal administration may go in asserting the right to expropriate private property and property rights on the basis of this concept of national power.

Reliance will now necessarily be placed upon congressional action—legislation to protect the states and their grantees from federal encroachment in the exercise of national power. Measures are presently pending in the House and Senate specifically recognizing the title and interest of the states and their grantees in the tidelands, lands under inland navigable waters and reclaimed lands within their respective boundaries. Such congressional action was contemplated as the only way to set at rest permanently the controversy which may involve titles to property in various states in the nation.

State Court Decisions and Legislation

Appended to this report are brief references to certain state court decisions rendered and state legislation enacted during the year. Only decisions and legislative enactments considered to be of general interest to the municipal trade or of special significance locally are included.

Respectfully submitted,

Municipal Securities Committee—George L. Martin, Chairman; William M. Adams; Rucker Agee; Errol E. Buckner; R. C. Chapman; Walter Cleave; Walter I. Cole; Russell M. Colwell; Edward B. Coughlin; L. H. Empey; Charles N. Fisher; Herbert V. B. Gallagher; Francis P. Gallagher; George J. Gillies; Wilfred L. Goodwyn, Jr.; William H. Hammond; John G. Heimerdinger; William C. Jackson, Jr.; Bernard B. Knopp; John S. McMillan; J. W. Means; J. Creighton Riepe; Robert O. Shepard; B. Shapleigh Symonds; Harry Theis; Emil C. Williams.

European Recovery Program as an Investment

(Continued from page 27)

prices of those things they had to sell.

Contribution of Inflation to Difficulties

In many of the countries inflation has contributed to the prevailing difficulties. Money was too plentiful at the end of the war and few governments have been strong enough to take the necessary corrective measures. In the worst cases (as in Germany, for example) this has meant a widespread reversion to primitive methods of barter. More generally it has contributed to the extensive black market dealings, some misdirection of productive resources, a loss in the incentive provided by money wages, and a failure to reflect in the circumstances of all individuals the economic stringency of national conditions.

Disruption of Economic Organization

The war itself brought, not only physical destruction, but also a disruption of economic organization which, although less spectacular, has undoubtedly had more serious consequences. Subsequent events have added further to the dislocation of traditional economic relations. The intricate economic mechanism, so effectively described 25 years ago by J. M. Keynes in his "Economic Consequences of the Peace," has suffered a series of shattering blows from which the recovery must of necessity be anything but easy.

Finally, we must remind ourselves that the populations, which we add together impersonally to get a statistical load of 270 millions, are in fact made up of human beings like ourselves—men, women and children with feelings and desires and aspirations exactly like our own—families in which the sufferings of the children mean aching hearts for the parents. Let us not underrate the significance for the world and its future of the hunger and the fear that haunt the homes of millions in Europe today. Nor let us fail to take fully into account the overwhelming sense of frustration that must naturally be experienced by people whose honest efforts to better their own conditions have been thwarted by the internal and external disruption of the economies in which they live. And let us recognize, with objective understanding, that inequities of distribution arising in these circumstances are bound to be resented strongly because their consequences are felt so keenly. We would be far from hardheaded or businesslike in our analysis if we underestimated the importance of these human elements in the equation of our overall problem. There are powerful social forces at work, in the countries of Europe and elsewhere, which I feel sure we will fail to interpret correctly if we attribute them, in any large degree, to an alien ideology or to external propaganda. Realistically, the problem in this connection is to distinguish, as clearly as we can, between those forces which reflect a natural need for evolutionary change, those which are temporary reactions against adverse current circumstances, and those which would more permanently give to the course of developments a direction which would conflict with genuine ideals of democracy.

In terms of the investment analysis we are attempting to carry out, it is important for us to recognize, with perfect frankness, that the economic system characteristic of the countries which we help can not be made to correspond exactly with our own. On this point we must have no illusions. If, in anyone's mind, an essential objective of recovery aid were the attainment of complete conformity to our economic methods and arrangements, we should have to advise him honestly that, from his point of view, this investment would prove unsound. Here let me quote you a highly significant statement from the report of the President's Committee on Foreign Aid (the Harriman Committee):

"It should be made a condition of continued assistance . . . that the participating countries take all practicable steps to achieve the production and monetary goals which they have set for themselves in the Paris report. . . .

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

"While this Committee firmly believes that the American system of free enterprise is the best method of obtaining high production, it does not believe that any foreign aid program should be used as a means of requiring other countries to adopt it."

Magnitude and Costs of Program

When we turn next to consider the impact of the proposed recovery aid program on the United States, we must be equally frank in recognizing the magnitude and the character of costs which will be involved in making this large-scale national investment. Basically it means that we must send out from this country a substantial volume of exports for which we receive no current *quid pro quo.* For some part of these exports there would be specific repayment at a later date, but the returns on most of what we sent would come only indirectly in the form of a general improvement in world conditions. The total of these unrequited exports might, in four years, amount to between $17 and $20 billion worth. That is, of course, a large amount, but in relation to our national income it is by no means staggering. It would be about 2½% of the Gross National Product of the United States during the period. It includes our civilian supply costs for occupied areas; and yet the total for this recovery program would be only about half as great as what we will spend during the same period for purely military purposes.

We cannot, stop, however, with these general quantitative relations. The carrying out of this program will mean three things for us:

(1) We will be giving away goods which we might otherwise have had for our own use;

(2) We will reinforce to some extent the inflationary forces in our own economy;

(3) We will make necessary some measures of government control which might otherwise be avoided.

These are the kinds of costs that have to be considered in forming our judgments about this type of national investment. Although our national income is such that after a deduction of 2½%, the people of this country would still be very well off, there are a number of particular commodities, such as food and steel, which we cannot supply in the quantities required without some inconvenience to ourselves. (I say inconvenience rather than sacrifice because I think it connotes more correctly the seriousness of the commodity impact we would experience from the program.) On the monetary side, a similar point needs to be noted. The inflationary effect of the "export surplus" as such will almost certainly be less troublesome to deal with than the "price spiraling" effect which could result from an intensified demand for certain individual products. Actually I believe that if there were no Marshll Plan in prospect we would be getting quite seriously concerned right now about the falling off in our exports which would be inevitable in the absence of financial assistance to importing countries. We would be starting to worry a bit, perhaps, about the deflationary effects of an impending decline in our export trade of between $5 and $7 billion per year. It is not unnatural for a country in our position to have a surplus of exports over imports. I would assume, when world conditions become more settled again, the foreign investment of private capital would serve to finance a fairly substantial "export surplus."

What is exceptional in the export program required to implement the European Recovery Plan, is not so much its size nor the extent to which it will exceed our imports, but rather the fact that it calls for a particular collection of commodities which does not correspond with the assortment that would be easiest for us to supply. The provision of funds for "off-shore purchasing" will (if adopted) have a great effect in lessening this distortion, but it cannot overcome it completely. The things that are needed most are in short supply throughout the world. So, if we mean to play our part in an effective recovery program, we must face the fact that some of the exports called for will not be too readily available, that some measures of price control and allocation will be unavoidable, and the need for more general measures for the checking of inflation will also be to some extent increased. The necessity of accepting controls is, I know, one of the most objectionable—if not the most objectionable — of the prospects created by the proposed program. I am not sure that we would escape them all, even if the idea of European aid were abandoned, but our fairest approach to the question we are considering at these meetings is to ask ourself whether or not the returns to be expected do not warrant our supporting it even when these controls are counted among the costs.

Public Service Unit Notes Rapid Utilities Growth

(Continued from page 30)

tion will come from retained earnings and sources within the respective companies. Commissioner Richard B. McEntire, of the Securities and Exchange Commission, recently discussed this latter subject in regard to electric utilities, in his address before the National Association of Railroad and Utilities Commissioners, from which the following is quoted:

"From a financing standpoint the electric utility industry, as one might expect from the construction figures, is confronted with a situation substantially different from that which it has faced for many years. It appears that, for the 10-year period, 1932-1941, only approximately 18% of the gross capital expenditures of the utility industry was raised from the issuance of securities. The rest came from cash in the till. During the war, new capital issues totaled only about 15% of the increase of the value of plant and equipment over the same period. During 1946 the volume of new capital issues to reach the market was the heaviest since 1831. The total of $172,846,000 was, however, only slightly more than half of the aggregate charges to depreciation during the year. We can expect the proportions to change sharply in the next four or five years since the industry will be required to rely on outside financing to a substantially greater extent than has been its experience in the past 15 years. There simply won't be enough cash in the till to pay for the construction costs.

"A study of the composite income statement for 1946 of Class A and Class B electric utilities, prepared by the Federal Power Commission, indicates that the total of net additions to earned surplus (after preferred and common dividends) and non-cash charges and reservations amounted to somewhat in excess of $500 million during that year. Assuming that this amount represents resources available for construction and that comparable amounts will be available for that purpose in 1947, we can further assume that the industry, with an estimated program for this year of at least $1 billion, may require new funds in 1947 to the extent of approximately one-half billion dollars. Funds derived from internal sources, on these assumptions, would produce only approximately 50% of the total construction program for 1947. These are, of course, very rough calculations. Projections of a similar nature made for the next four or five years would also indicate that a very substantial proportion of the construction for these years will also have to be financed through outside sources. So it seems that a greatly increased percentage of this tremendously increased program must be financed by bringing 'new money' into the industry."

The same situation obtains generally in the gas and telephone fields of the utility industry. The comments, however, deal with the industry as a whole; their application to specific companies will develop variations from the general pattern.

The form that prospective new money offerings of particular companies will take, whether senior or equity financing, will depend on the situation within a particular company. Taking the various branches of the utility industry as units, the most recent available composite balance sheets for electric utilities and for natural gas companies, and the consolidated balance sheet of the American Telephone & Telegraph Co., show over-all well-balanced capital structures with sound debt ratios. The natural assumption is that to keep in balance, both debt and equity issues will be sold to provide for new construction, but retained earnings will of course replace equity financing to a far greater extent than debt financing.

In the case of holding company divestments, also, operating company securities in many cases will be issued in exchange for outstanding securities of the holding company concerned and therefore will reduce the amount to be sold for cash.

The investment banking industry, nevertheless, has a big job before it, with the demands on resources of the banking and monetary system becoming rapidly heavier. The flow of individual savings into savings banks and insurance companies is smaller than it has been, due to purchases of cars, homes, appliances, etc. While investment by institutions will continue to play a great part in financing the large construction program, it is apparent that the market will have to be broadened if the volume and type of securities issued are to be placed. Interest and dividend yields have passed their low points. Rates on loans have become higher, due in part to action taken by Government agencies and in part to demands from industry. Moody's Public Utility Aaa bond yields, which were at 2.51% in the late spring, are now around 2.77%; Baa bond yields which were at 3% in August were 3.19% recently; high-grade preferred stock yields which were 3.53% in February are now around 3.79%; and medium-grade preferred stock yields which were 3.79% in February are now around 4.28%. Yields on the utility common stocks used in the Dow-Jones Averages were 4.68% in January and 5.45% in April, and now approximate 5.37%. The yields above are those for seasoned issues; recent new issues of bonds, preferred and common stocks have been placed only at substantial concessions from these yields. These trends are a reflection, in part at least, of industry's demands for new capital and of the necessity for attracting broader investor interest.

Before closing, the Committee wishes to bring to the attention of the membership a report compiled by Arthur Davis and Gordon Calvert covering "Compulsory Competitive Bidding Requirements of State Public Utility Commissions." This report will shortly be published in the IBA Bulletin and is an authoritative summary based on replies to a questionnaire which was sent to the respective Commissions. It should prove very useful to the membership.

Respectfully submitted,

Public Service Securities Committee—Edward H. York, Jr., Chairman; Albert T. Armitage; Robert W. Baird; Frederic H. Brandi; Joseph H. Briggs; Charles L. Hewitt; B. P. Lester; Franklin T. McClintock; George L. Perin; Edward K. Van Horne; Robert C. Webster.

The World Bank in a Goldfish Bowl

(Continued from page 29)

vestors in each of the 48 states, the District of Columbia, Hawaii and Puerto Rico. Canadian investors, in the main life insurance companies, purchased $4,944,000 bonds. Investors in Argentina, Panama, Cuba, France, Belgium and Italy purchased small amounts.

Seventy-three per cent of the bonds was purchased by investors in the States of New York, Pennsylvania, Illinois, New Jersey, California, Massachusetts, Ohio and Connecticut.

The number of sales made by dealers in placing the $250,000,000 bonds with investors totaled 32,087.

Classification by types of investors reveals that the bonds were purchased as follows:

Commercial Banks	$114,713,000
Insurance Cos.	53,022,000
Individuals	38,474,000
Savings Banks	18,787,000
Fraternal, Charitable & Educat'l Institutions	7,093,000
Corporations	7,004,000
Trust Funds	5,979,000
Investment Trusts	1,736,000
Miscellaneous	3,192,000

The figure for commercial banks includes the bonds which these banks purchased for the account of their clients. We have no information as to what these purchases for others totaled, but it can safely be assumed that commercial banks for their own investment portfolio were the largest type of buyer. Insurance companies were a very important second.

Present Operations

Now as to the second aspect of the Bank, namely, what we are doing at the present time.

For the last two months we have been busily engaged in studying the various aspects of the so-called Marshall Plan. The staff of the Bank has spent a great deal of time working with government committees and we believe has been of considerable value to them in providing them with the results of our experience and our information relating to this proposal.

We have also given a good deal of thought as to how we could most effectively complement a European Recovery Program and be of the maximum assistance in carrying out this important undertaking.

In addition, we have been discussing several small loans with various countries outside of the Marshall Plan area.

As to the third aspect of the Bank: what are our plans for the future—

First, as to loans. In my opinion we have sufficient uncommitted funds on hand, around $500 millions, to take care for the next six months or year's time of our most pressing loan applications from countries outside the Marshall Plan area on which we might act favorably.

As to loans with Marshall Plan Europe, it is of course impossible for us to do any accurate planning until the Marshall Plan is a *fait accompli*. As this will probably not be until early spring, I can therefore see no reason for our doing any new financing until March or April, and maybe not until early next summer.

Loans Under Marshall Plan

You have probably seen the figure of $3,000,000,000 odd mentioned as the sum set aside by the Sixteen Nation Conference in Paris and also under the Harriman report as the amount which the International Bank might be called upon to supply for the financing of equipment in connection with the overall European Recovery Program. In my opinion, after two months in Europe and after numerous discussions with the heads of large manufacturing concerns, bankers and government officials, this figure is pretty much on the high side. I do not think that an accurate estimate of this need can be made until specific projects are objectively considered and screened by an organization equipped to examine such projects. Until this is done, I think any figure is largely guess work.

I found that the real need is for raw materials and that a large part of the heavy machinery has either already been obtained in Europe or can be purchased there. Furthermore, I think it very difficult to gauge ahead of time what may be needed in the way of equipment for a four-year period, so I would ask that you wait awhile before being too sure that $3,000,000,000 is the right amount that we will be asked to finance over the four-year period. As far as our bonds are concerned, I feel that the security behind them will be even greater than before because whatever amount is finally settled upon under the Marshall Plan will be just that much equity behind our issues and will supply the much needed fuel, food, raw materials and other consumable items to serve as an added base to our loans. The Marshall Plan also will, in my opinion, lay at rest the spectre of *in terrorem* pressure on the Bank on behalf of possibly uneconomic loans and will allow us to be even more selective in the type of credits we approve.

It has recently been brought to my attention that, in spite of the publicity which was given the facts at the time when the bonds were sold, many investors are sil not fully aware of the extent to which the bonds of the Bank are in effect guaranteed by the United States. The 80% of the United States subscription to the capital stock of the Bank, which is subject to call only for the purpose of meeting obligations of the Bank, amounts to $2,540,000,000. That amount may be called by the Bank to the extent necessary to meet its obligations and must be paid by the United States whether or not any other member government meets calls upon its 80% unpaid subscription.

Also as to the future, I want to assure you that we plan to continually take you into our confidence both as to what we have done and are planning to do. We do not need at any time to do any financing hurriedly, so you can be certain that any new issues which we may float on the market you will learn about in ample time.

In other words, you will be given the information directly and promptly, and you won't have to depend on picking up gossip from the columnists as to when any new financing is contemplated.

We are trying constantly to continue the interest in our bonds as well as broaden the market for them. We were successful recently in obtaining a ruling that interest paid by the Bank on its bonds owned by non-resident alien individuals or by foreign corporations is exempt from Federal income and withholding tax.

The officials of the Bank in the last two months have made 11 speeches all over the country. Active efforts are to be made by us to get additional legislation passed legalizing our issues in about 12 States that we failed to get before our first issue. In this we would like your help.

Conditions in Europe

When Edward Hopkinson, Jr., President of your Association, asked me to make this talk, he suggested that I tell you something of the impressions I gained on my recent trip to Europe.

My trip lasted nine weeks and I visited England, France, Switzerland, Italy, Holland, Belgium and Luxembourg. The object of my trip, besides attending the Board of Governor's meeting in London, was to learn as much as I could about the economic, financial and political situation in these countries. I also had discussions with various government officials about the possibility of stimulating interest in our bonds. With this I met real success. I think you can expect that European investors will show an increasing interest in buying future issues of International Bank bonds. Eventually, of course, as financial conditions improve in that area, we intend to offer our issues for public subscription in European markets, too.

The chief impression I received was the earnest desire of these countries to get ahead with their work of reconstruction and their willingness to work hard to accomplish that end.

In Italy, for example, there was almost a feverish activity. I visited most of the large manufacturing plants, and although in most cases they suffered terrific damage from bombardment, they were back at work and striving long hours to build up their production. Every inch of the farm land was being worked not only by the men, but also by their wives and children. There was a great deal of construction of all sorts. The roads were jammed with trucks—old and new ones—loaded with all kinds of materials.

In France I visited near Lyons a mammoth hydro-electric development on the Rhone River. Working on this project were Italians, French, Poles, Germans, Indo-Chinese and several other nationalities. There were two 54-hour shifts and the work was going on at night under arc lights just as actively as in the daytime. By far the bulk of the heavy and complicated electric equipment was European made.

In Holland, which I visited for the third successive year, I had a real opportunity to see what had happened since my first visit there almost immediately after liberation. At that time there were no automobiles left except a few that could hardly run. Almost all their railroad rolling stock had been destroyed or stolen, and all the copper wires used in electrification were gone. The people were riding everywhere on bicycles that had no tires. A large part of Holland was flooded. All important bridges were destroyed, roads badly damaged. The ports of Amsterdam and Rotterdam were pitiful sights. The Germans had systematically tried to put those two ports out of business by blowing up the great loading cranes, destroying the warehouses and sinking ships inside the harbor.

The pigs had been killed, the horses stolen, as well as a number of cows. What few chickens that were left couldn't lay eggs for lack of laying mash.

I visited Arnhem at that time and the destruction was so terrific that only about 25 people were living there. Now the population is 60,000.

The progress they have made since then is almost unbelievable. As you know, I come from Georgia and we lost a small war ourselves back in the last century. My home of Atlanta was burned to the ground and our money was worthless, so I learned from my grandparents just what difficulties a country faces under such conditions, and I know how long and tedious the road to recovery was. For that reason I am all the more amazed at what has been accomplished in Europe in such a short time.

While in Holland I visited for the first time the Isle of Walcheren which is located in the southern part of Holland, on which are the beautiful medieval cities of Flushing and Middleburg. The Germans broke the dikes surrounding this island in four places, the North Sea poured in and flooded nearly the whole island. Practically every tree was killed by the salt water and enormous damage from the floods and bombardment was inflicted on the buildings, among which were some of the most beautiful and historic in Europe. The four breaches in the dikes have now been repaired and this was quite an engineering feat due to the angry currents of the waters.

Crops are growing in the fields again, although in walking through the fields you still find sea shells and other signs of marine life brought in by the sea.

Just at sunset on the last day of my tour of the island, I noticed imbedded in the great dunes along the shore, a number of grotesque masses of concrete—pill boxes and other fortifications that the Germans had built to protect themselves from an invasion by the Allies. In the doorway of one of these fortifications a Dutch woman (in the native Dutch dress) stood smiling and waved to us as we went by. Nearby the family wash was hanging on the line and off in the distance construction of hundreds of new houses was going on.

That sight gave me a great feeling of inner satisfaction as I knew that I had contributed in a small way to obtaining the funds that were necessary to make that scene possible.

For the same reason I feel that the stop-gap aid and the long-range Marshall Plan could help to give us all a similar feeling of satisfaction which in my opinion is just as important a reason for giving these measures your support as any that I know of.

IBA—An Association of Rugged Individualists

(Continued from page 25)

tion or conspiracy to effect a larger, improper purpose.

The case against the Association, therefore, resolves itself into a charge either that all of us, who in any way opposed compulsory competitive bidding, were forced to do so by the 17 firms or that we voluntarily conspired with the 17 firms to attempt to defeat compulsory competitive bidding to promote their alleged broader scheme to dominate and control the underwriting business.

IBA Not Dominated by Any Group

With respect to the first alternative charge, it should be obvious to anyone making the most cursory examination of this business that it is composed of rugged individualists and that no individual firm and no group of firms could dominate or control the thinking and public statements of the entire group on any public question.

This charge, therefore, is not only wholly without foundation in fact but is also insulting to us as individual citizens. The second alternative charge is ridiculous on its face.

Our Association has no political affiliations, and our members hold a wide variety of views on public questions; but we are certainly in complete agreement that the reputation and standing of the investment banking business shall be vigorously defended against attack.

Faced with the necessity of defending this action, I think there can be no doubt that our defense should be conducted without compromise and with the utmost vigor; and I pledge my every effort to that end.

Whatever the result of this action which seeks to dissolve the IBA the value of the Association to its members in the establishment and maintenance of high principles of business conduct and the development of fellowship and uncertain is permanent.

An Unwarranted Attack

If a popular issue can be made by an unwarranted attack upon the industry that supplies capital for the conduct of American industry, it must be that we have not adequately informed the public of our place in the economy.

For many years we have been talking about improved public relations. One valiant, but costly, effort was interrupted by the war. It must be apparent to everyone that the public is unaware of our many contributions to the smooth functioning of the whole economy. Moreover, alien ideas, half-truths and pestilent notions are fostered and developed by twisted reasoning, fantastic promises and false accusations designed to serve political ends.

I don't know how many of you follow baseball. If you do you know something of the last place experience of the Phillies and the St. Louis Browns. In the public relations league, we are right down there in last place, too.

To carry the analogy further, I wonder what would happen to the boys in the bleachers and in the grandstand, too, if the bankers and the investment bankers were not in there pitching every day. There have been times lately when we have had to do own catching, too.

It is time to remind ourselves that some of the well-tried old ideas of good citizenship are being neglected. It is not too late to apply ourselves to the promotion of thrift and the maintenance of sound investment practices.

Our citizens should be encouraged in every way to provide themselves with the added security made possible by their own accumulations. Whether by his daily effort a man earns $1 or $100 a day, the reward he receives after allowance for taxes is in his control until his money is spent or invested.

It is time to reaffirm our interest in developing new men in our industry who will supply intelligent advice to the thousands of new investors who should be accumulating capital during this prosperous period.

Our Association could expand no more important activity than the encouragement of wise spending and investing habits. This is a project in which individual firms could be helpful, but only the Association itself is in a position to organize and carry forward a really effective integrated program of public education.

It is time for the practice of economy and efficiency in both industry and government. The future of America and its hopes for peace depend upon the level of the economy within our own country. Our Association will continue to sponsor and defend practices and plans which make for a strong domestic economy.

Britain Draws Another $100 Million

Leaves only $300 million unused of original $3¾ billion credit.

Great Britain, following the "unfreezing" of the $400 million unused balance of the $3,750 million U. S. credit, has drawn down another $100 million, it was revealed by the Treasury Department on Dec. 10. In August of this year, because of the abandonment of Britain's effort to restore the convertibility of sterling as required by the loan agreement, the unused $400 million of the loan was frozen by the Treasury, and no further withdrawals was permitted. However, after correspondence between Secretary of the Treasury Snyder and Sir Stafford Cripps, British Chancellor of the Exchequer, withdrawals are again permitted on the implied promise that Britain would resume paying trade debts abroad in dollars as soon as she was able to do so. It is expected that the $300 million of the total loan remaining to be drawn upon, will be taken up before the middle of 1948.

Estimates Industrial Capital Need At $30 Billions

(Continued from page 35)

during the years of rapid growth in American industry, was the savings of individuals in the higher income brackets," they come to the following conclusions:

(1) Tax paid income of all individuals earning over $10,000 will amount to $9.1 billion annually in the years ahead versus $10.1 billion yearly in the 1925-29 period. This is a 10% decline despite the sensational lift in national income.

(2) Today, however, there are almost twice (actually 185%) as many individuals in this bracket above $10,000 pretax income; hence, the 10% lower tax paid total is spread much thinner.

(3) The cost of living is at least 30 to 40% higher now than in the earlier period so that we have a situation in which

(a) tax paid earnings for this group are one-tenth lower in total dollar amount,

(b) the total is spread much thinner to almost twice as many individuals,

(c) each individual is paying out substantially higher living costs.

The upshot is that the income group of $10,000 and above has an estimated saving power of $1.2 billion per annum versus $4.8 billion in the 1925-29 period. These figures highlight the inadequacy of funds available for new money financing, particularly for venture capital.

This tax matter is not the direct concern of our committee, but any study of industrial financing runs head on into high income taxes as an incentive killing factor.

A stirring commentary on the dangerous effect of a high income tax is made by President Conant of Harvard University who recently said, according to "Time" magazine, that "The unique quality of U. S. democracy is its belief in equality of opportunity in a fluid society. High inheritance taxes 'reflect the American belief in a fluid society without a hereditary privileged class. . . . High taxes on earned incomes have the reverse effect . . . on the fluidity of our society. Therefore, insofar as the national expenditures permit, the case for keeping income taxes low is over-whelming, both in terms of social ideals and incentives.' The present system of taxation, 'is having a profound effect on the incentives which thus far in our history have contributed to the taking of risks and the seizing of opportunities.'"

"There is considerable reason to believe that the absence of this idea (of equal opportunity) in France and Italy, for example, has in no small measure been responsible for the large inroads of Communistic philosophy."

Mr. Emil Schram, President of the New York Stock Exchange, said recently in an address before the Association of Stock Exchange Firms in New York that "U. S. capital markets are languishing under the present unintelligent tax structure and unless this structure is revised to place it on a more favorable basis, sources of equity money will dry up." Mr. Schram further declared, "Unless we revise our tax structure, we are headed for nationalization of industry. There is no strong country standing by to save America; the American people must save America."

John W. Snyder, Secretary of the Treasury, in a speech before a forum on "Meeting the High Cost of Government" at the Waldorf-Astoria Hotel in New York on Nov. 20, 1947, stated that he is not opposed to tax reduction but that he believes it "feasible and proper" after the United States has "met certain necessary prerequisite obligations." Secretary Snyder specified that Congress should first consider foreign aid and debt reduction before they consider the problem of reducing taxes.

You all will doubtless agree that in this instance Secretary Snyder is putting the cart before the horse. Your Industrial Securities Committee therefore recommends that each of you write a letter to the President of the United States and to Secretary Snyder recommending that tax relief be given equal priority with debt reduction, in order to safeguard the American system of free enterprise.

Respectfully submitted,

Industrial Securities Committee

Frank A. Willard, Chairman; Walter W. Ainsworth, Thomas A. Graham, Henry M. Bateman, Carey S. Hill, W. T. K. Collier, John C. Maxwell, Louis J. Cross, James W. Moss, Clement A. Evans, James Parker Nolan and Wickliffe Shreve.

CORPORATE SECURITIES OFFERINGS

Including Private Placements and Unregistered Issues but Excluding Commercial Bank Term Loans (Thousands)

Proposed Uses of Net Proceeds:	9 Mos. Ended 9-30-47	1946	1945	1944	1943	1942	1941
All Corporate	$3,830,903	$6,357,901	$5,901,744	$3,141,847	$1,146,914	$1,042,556	$2,-23,199
New Money	2,345,004	3,003,099	1,079,844	656,967	307.958	473,652	868 288
% of Total	61.21	47.23	18.30	20.91	26.85	45.43	33.10
Plant and Equipment	1,677,314	2,011,843	637,803	251,757	140,889	287,039	660,904
Working Capital	667,678	911,256	442,042	405,210	167,069	186,613	207,385
Retirements	1,401,294	3,135,463	4,688,823	2,438,033	811,685	533,703	1,726,753
% of Total	36.58	49.32	79.45	77.60	70.77	51.19	65.83
Funded Debt	1,010,962	2,258,288	4,116,897	2,037,505	666,657	365,819	1,482,968
Other Debt	230,726	407,917	134,009	49,071	72,538	137,543	144.227
Preferred Stock	159,606	469,257	437,917	351,486	72,490	30,341	99.558
Other Purposes	84,617	219,339	133,076	46,818	27,271	35,201	28,157
% of Total	2.21	3.45	2.25	1.49	2.38	3.38	1.07
Industrial	1,454,596	3,354,684	1,969,294	1,033,392	497,439	527,185	827,828
% of Total	37.97	52.76	33.37	32.89	43.37	50.57	31.44
New Money	989,732	1,999,975	810,516	453,364	227,587	292,651	244,012
Retirements	432,940	1,198,090	1,107,002	551,617	252,659	207,741	565,751
Other Purposes	31,926	156,618	51,775	28,111	17,193	26,793	18 065

Easy Money Policy—The End of an Illusion

(Continued from first page)

imposing higher taxes. Sometimes it is urged also as a command of social justice. The latter argument is of course based upon pure illusion. Small savers pay the bill, directly, or indirectly via savings banks and insurance companies, whereas large capitalists, who are interested chiefly in equities, harvest the profits from refunding operations.

Undesirable Concomitants

An easy money policy is, however, illusionary in inflationary times mainly because of its undesirable concomitants.

When demand for credit is strong, interest rates will not long remain low unless the quantity of money is increased. The inevitability of this increase is exactly why the classicists warned so persistently against keeping interest rates artificially low.

In inflationary periods an increase in the quantity of money immediately affects prices. The inflation in most European countries today is due to a lax credit policy—as far as it is not due merely to a lax fiscal policy in the past and present. The illusion persists that one can go into the water of such an inflationary policy without getting wet by inflation.

The illusion — or rather its breakdown—that an increase in the quantity of money does not inevitably lead to inflation sows a bumper crop of new illusions, as is only too evident now in England.

The first illusion it creates is that, contrary to the experience of centuries, the groups of the population that most need protection can be protected from the consequences of inflation by price ceilings rather than by correction of the basic monetary mistakes. The results are black markets.

The second illusion is that price ceilings will not affect the quantity and kind of production. As ought to be self-evident and was confirmed by our experience under the OPA, an economy squeezed between rising costs and fixed prices cannot function. When maximum prices are set, especially on mass consumption goods, essential and luxury goods are made instead. Production declines also absolutely with the rise in costs and wages.

Another illusion is that money can in the long run fulfill its function of stimulating production if a rationing system has deprived it of its unlimited purchasing power. When goods are rationed, more money does not mean more goods, but at best more savings. And savings are hardly desirable when people are starving, therefore more concerned about the present than the future, and in addition fear that their savings will become worthless. If more money does not mean that people can buy more goods they will work as little as possible, thereby reducing production still further. These interrelations are even more obvious in Germany than in England. The entire German economy seems to be collapsing chiefly because the currency has been degraded to a sort of supplement to ration coupons.

Astonished, a bit horrified at what they have perpetrated, yet happy over the prospect of new fields for their activity, the planners demand more and more regulation of production, as well as of investment, until finally everything, including job allocation, is regulated by the government. The "Road to Serfdom" is thereby followed to its end, not least for industrial workers, in whose name and for whose protection an easy money policy was advocated.

The planners do not see that everything that has happened is due to a fundamental illusion: that scarcity of capital in a poor country can be glossed over by low discount rates. Poverty should manifest itself in nations as in individuals in that no money is available for anything except the most urgent needs. There must not be as much—and as cheap—money available as desired, and poverty begin only on the markets for goods. Under a reasonable monetary policy, there must be goods for every quantity of money. Scarcity must show itself in money. We do not wish to imply herewith that a sound monetary policy would solve all problems in needy Europe. Though certainly not a sufficient condition of recovery, it is however an essential one. Nor do we wish to say that it would be easy to raise discount rates substantially in a country accustomed to the poison of cheap money. Many difficulties, especially those connected with the non-consolidation of the debt, with the banking situation, and with the budget, must first be overcome. Furthermore, a rise in discount rates alone would hardly be effective, although it would be much more effective than many contemporary theoreticians assume. Therefore, an energetic interest policy would probably have to be supplemented by measures aimed at absorbing and removing the pent-up inflationary forces — perhaps on the lines of the Belgian model.

In other words, there would have to be a thorough monetary reform if the traditional means, the interest rate policy, did not suffice to render purchasing power, which was provisorily dormant during the war, permanently dormant. In any case, without rendering money scarce, the sole alternative to a progressive depreciation of the currency is a totalitarian economy regulated to the utmost.

Inflation of course has repercussions also outside the domestic prices. It leads to raising prices of the foreign exchange of countries whose monetary policy is more conservative—or, because of their advantageous economic position, need not be conservative. If the foreign exchange rate is stabilized, inflation leads on the one hand to black markets for gold and foreign exchange, and on the other, to a strongly passive balance of trade and payments with sound-currency countries. Gold and foreign exchange flow partly directly into these countries, partly indirectly via those third countries from which one has imported and to which one, in ignorance of the situation, has promised convertibility of one's own currency into "hard" currency. All allegedly superfluous payments to foreign countries are soon suspended and the currency is no longer convertible.

Illusions About International Effect of Inflation

From this situation arises a further illusion—the illusion of the "God-made passivity of the balance of trade," as I called it almost 30 years ago when I endeavored to fight the great German inflation. I tried to prove that the destruction of the mark was due simply to domestic inflation, not to disturbances in the balance of trade or payments. If President Havenstein and the others then in charge of the Reichsbank did not understand the argument and gave inflation a free rein, they can perhaps be pardoned because no tradition of monetary theory existed in Germany. But a similar excuse cannot be made for Great Britain today. Her most outstanding economist, David Ricardo, tried to make clear 130 years ago—after the Napoleonic Wars—that it was not lack of goods or a compulsory passive balance of trade that induced the outflow of gold — as the directors of the Bank of England thought — but simply the fact that gold or foreign exchange was the sole cheap export. Ricardo compared the attempt to replenish the deficits in the balance of payments by buying or borrowing gold or foreign exchange from abroad with pouring water into the bottomless barrell of the Danaides.*

"The Scarce Dollar"

A sort of subdivision of the illusion of the "God-made passivity of the balance of trade" is the illusion—and the slogan—of the "scarce dollar." It is understandable that debtor countries should use it, but not that creditor countries should take it seriously. In the last analysis, the dollar is scarce in England while many other currencies, especially of the pound area, are abundant because it is easy to export to soft-currency countries and difficult to import from them. And it is difficult to import not because their production apparatus has been destroyed in the war. Neither Canada nor Australia was bombed or invaded. The differences in the possibilities of foreign trade with hard- and soft-currency countries arise solely because the price of the hard currency is too low in terms of domestic currency, so that imports are unduly facilitated and exports impeded. This remains true although official prices of goods in soft-currency countries are sometimes not higher than in hard-currency countries, for at these prices goods are often unavailable.

To say that foreign exchange is scarce means to view economic phenomena in isolation rather than in the framework of causal conditions. Foreign currencies will always, and obviously, become scarce if the natural means of regulating demand for them, discount and credit policy, are not applied. Also a scarcity of foreign currency should express itself in scarcity of domestic money.

Sacrifices Needed

A stringent monetary and fiscal policy entails sacrifices for the population. Taxes must be raised and wages and profits must be low enough to bear the greater interest burden. If for social and political reasons such sacrifices cannot be asked of the people, recourse must be had to foreign aid through taking loans or gifts. However, in the interests of truth, one should not speak of dollar scarcity until one has tried to increase the domestic capital and to decrease demand for it through higher interest rates in order to avoid the alleged crisis of the balance of payments, which is in reality merely an inflation crisis. Under a reasonable monetary policy, scarcity of capital or of goods need not lead to inflation or currency restrictions.

Devaluation Fallacies

From the illusion of the scarce dollar, and from the failure to recognize its real causes, follows "the non-devaluation illusion." It is undoubtedly correct that, for the reasons mentioned above, devaluation would not be of any benefit. Unless supplemented by monetary reform, it would have to be resorted to over and over again. Moreover, theoretically, there is always the alternative of a very incisive deflationary policy which would go far beyond forestalling future inflation. Such a policy is, however, practically out of the question for other reasons.

It must be admitted that the non-devaluation illusion is nourished by the Bretton Woods Organization, which reinforces still further the strong tendency of our time to conceal rather than remove inflations. The International Monetary Fund is based on the illusion that the 19th Century of currency stability can be achieved, even approximately or for a time, in this 20th Century world, a world in which the will and the ability to adjust domestic factors, which have become rigid, according to the exchange rate, are no longer present.

A currency can be stabilized only when there is sovereignty in credit and fiscal matters, and above all, in the wage policy of a country. The International Monetary Fund has no sovereignty in individual countries and, as matters stand, can have none. Its potentialities are confined to certain "technicalities," especially in the realm of short-term equalization of the balance of payments, which in normal times are superfluous, and in times of insecurity, like today, are unimportant to the point of ridiculousness. Stabilization begins at home. On the other hand, the International Monetary Fund creates a psychological atmosphere that prevents exchange rates from reaching a level corresponding to their purchasing power and eternalizes currency restrictions — just the thing the Fund was set up to prevent. In this atmosphere, attention is distracted from the one really essential matter — sound credit and fiscal policies in the individual countries.

The Push to Bi-Lateralism

In any case, so far the result of Bretton Woods has been that official — unfortunately, not unofficial — exchange rates are stabilized, but foreign trade is reduced through this very stabilization and, worse yet, pushed more strongly in the direction of bilateralism. If, nevertheless, the endeavor to stabilize currencies is not given up, but is supposed to be adopted by further organizations to be founded, the reason is probably that—as is so often the case—what was originally the means to the end, has become the end itself.

Meanwhile what had to happen happened. If the foreign value of currencies is fixed at a level much above the level that would correspond to its domestic purchasing power and to the entire economic situation of the country, the only solution is an ever stricter regulation of all foreign trade. Through a complicated system of licenses, luxury articles, non-essential but much sought after in the inflationary environment, such as films and tobacco, must be kept out. There must also be a general transition to a strict reciprocity under which only as much is bought from each country as is sold to it. This system, which means of course the end of multilateral trade and of world free trade—so much desired especially by the United States—is familiar. It was the system of the so-called New Plan of Schacht. Introduced when Germany's balance of payments was deteriorating rapidly in the wake of the National Socialist spending policy, it was combined with a compulsory system of export subsidies and import excises designed to compensate for the fact that the external value of the mark had been fixed much too high. The system functioned well for years, but it must not be forgotten that it functioned within a totalitarian state in which free communication with foreign countries was forbidden and sending capital abroad was subject to the death penalty.

The most tragic—or tragi-comic—illusion, the inevitable consequence of all other illusions, is that the world must now split, as far as foreign commerce is concerned, into two parts: the world of hard- and the world of soft-currency countries. It is as if the countries of these two worlds were in a kind of natural community determined by their economic conditions or by their lot in the war. But did Argentina and Sweden, which were typical war profiteer countries, suffer from the war or has something changed in their economic position? Or are they hurt by being caught between the pincers of agricultural and industrial prices—of which the impact, incidentally, is very much overrated. Certainly not. The community of soft-currency countries is not a community of economic conditions but a community of lax monetary and fiscal policies, a community of ignorance about monetary theory, inexperience with monetary policy, and of political doctrinaire stubbornness.

IBA Holds 36th Annual Convention

(Continued from first page)

H. York, Jr., Drexel & Co., Philadephia.

Membership Continues to Grow

The Membership Committee of the Association, headed by James M. Dain as Chairman, reported a growth in membership from 701 as of Aug. 31, 1946 to 717 as of Aug. 31, 1947.

The membership of the Association at the end of the past two fiscal years was as follows

As of Aug. 31, 1947		As of Aug. 31, 1946	
Class I	40	Class I	40
Class II	56	Class II	54
Class A	93	Class A	94
Class B	277	Class B	266
Class C	251	Class C	247
	717		701

Registered branch offices as of Aug. 31, 1947, 819; as of Aug. 31 1946, 771.

During the fiscal year ending Aug. 31, 1947, the Membership Committee approved 28 applicants for membership. One former inactive member was reinstated. The loss of 13 members resulted in a net gain of 16 members. One member, who resigned during the year and was later reinstated, is not included in these figures.

Since the beginning of the new fiscal year on September 1, membership losses have totaled six, but eleven new applicants were considered by the Board of Governors during the Convention.

The Finance Committee, under Chairmanship of Jerome L. Porter of the First National Bank of Chicago, reported that during the fiscal year which closed on Aug. 31, 1947, the Association's income amounted to $189.054. Expenditures totaled $153,502, leaving a surplus of $35,552. This compares with $185,892 income, $125,190 expenditures, and $60,702 surplus for the previous fiscal year. The increase in income resulted primarily from an increase in membership; while the increase in expenditures was due principally to the fact that the Washington office was in operation for the entire 1946-47 fiscal year, as against only seven and one-half months during the previous fiscal year. The total revenue surplus of the Association on Aug. 31, 1947 stood at $218,018.92.

President-elect Julien H. Collins, as Chairman of the Education Committee of the Association, reported that training courses for personnel during the last three years have been conducted in 21 cities, but because of absence of need for additional employees, some of these have been dropped. He stated, however, that the experiments conducted with advanced classes have been successful, and the publication of the new text of "Fundamentals of Investment Banking" has brought a steady flow of subscriptions from the Association's members and from colleges and universities. More than $34,000 in purchases have been received.

Regarding student turnover in training courses, the Committee reported:

"During the past year the Committee has been increasingly aware that much of our past and present activity designed to attract and train capable young men will have been unproductive as well as expensive to the participating members if too many of these young men seek other careers after a few months' training in our field.

"In a well-prepared open letter, a group of young men, who have graduated from our training courses in Boston, recently made a critical analysis of the training experience in that city with special emphasis on the rate of turnover and compensation policies. This incident has drawn the attention of our members to the consideration of one of our most important problems.

"The Committee has made preliminary studies of the basic causes for the large turnover of trainees in other cities as well as in Boston, hoping that we might be able to suggest a few possible remedies.

"It is believed that the solution of one part of the turnover problem lies in the more careful selection of trainees. Among the personnel practices which gained wide acceptance and popularity during World War II was the scientific selection of men through the use of intelligence and aptitude tests. The armed services successfully selected men in this manner, and similar techniques have enabled many branches of industry more accurately to determine in advance of employment which men are most likely to succeed."

Savings Bond Committee Reports Success

The IBA Savings Bond Committee, headed by Norbert W. Markus of Smith, Barney & Co., Philadelphia, which was organized in 1947 to cooperate with the Treasury in promoting sales of Savings Bonds, reported success of its activities during 1947 and says it stands ready to cooperate in the forthcoming 1948 campaign. The text of the Committee's report states:

"Your Committee is pleased to report that while IBA participation in this compaign was somewhat hampered by inadequate time for advance preparation, it is estimated that IBA members distributed over 750,000 pieces of Savings Bonds literature by mail or otherwise; that a majority of investment banking houses made wide use of the slogan: "Buy and Hold United States Savings Bonds"; and that a number of firms promoted the sale of Savings Bonds through public advertising. Among the outstanding jobs done by the local IBA Groups was that of the New York Group whose members distributed approximately 275,000 pieces of Savings Bonds literature in addition to carrying on other promotional activities.

"The success of the June-July campaign is indicated by the fact that at the end of August, 1947, 350,000 individuals had subscribed to the "Bond-a-Month Plan" and were purchasing through this medium $22,000,000 of Savings Bonds per month. The Treasury at present plans to expand the distribution of Savings Bonds further through the "Bond-a-Month Plan" and has established a goal of 500,000 Bond-a-Month subscribers who will purchase $30,000,000 of bonds per month by January, 1948, and 1,000,000 subscribers purchasing $50,000,000 of bonds per month by July, 1948.

"Your Committee is advised by the Treasury that the total sales of Series E, F and G bonds for the first ten months of 1947 were $5,795,606,000. Total redemptions for the same period were $3,922,898,000 for a net gain of $1,872,708,000.

"In the first 10 months of 1947, the sales of Series E bonds exceeded redemptions by $165,500,000. This may be contrasted to the first ten months of 1946 which showed a net loss in Series E bonds of $891,000,000.

"The Treasury is presently planning to sponsor promotional campaigns in January and July of 1948 in which it is probable that the IBA will be requested to participate. It is the opinion of your Committee that such participation can be most effectively contributed in the form of promotional activities similar to those carried on during the June-July campaign of 1947."

Committee Chairman, 1947-48

The following are listed as Chairman of the standing Committees for the coming year:

Administrative Review: Nathan D. McClure, Harriman Ripley & Co., Inc., Chicago.

Conference: Charles S. Garland, Alex. Brown & Sons, Baltimore.

Education: John F. Fennelly, Glore, Forgan & Co., Chicago.

Federal Legislation: Edward H. York, Jr., Drexel & Co., Philadelphia.

Federal Taxation: Malon C. Courts, Courts & Co., Atlanta.

Finance: Francis M. Knight, Continental Illinois National Bank and Trust Company, Chicago.

Foreign Securities: Thomas H. McKittrick, The Chase National Bank of the City of New York, New York.

Governmental Securities: Delmont K. Pfeffer, National City Bank of New York, New York.

Group Chairmen's: Hazen S. Arnold, Braun, Bosworth & Company (Incorporated), Toledo.

Industrial Securities: Frank A. Willard, Reynolds & Co., New York.

Membership: George L. Martin, Martin, Burns & Corbett, Inc., Chicago.

Municipal Securities—Emil C. Williams, Chemical Bank & Trust Company, New York.

Public Service Securities: Robert Mason, Central Republic Company, Chicago.

Railroad Securities: Percy M. Stewart, Kuhn, Loeb & Co., New York.

Savings Bonds: Norbert W. Markus, Smith, Barney & Co., Philadelphia.

Small Business: Edward H. Hilliard, J. J. B. Hilliard & Son, Louisville.

State Legislation: George F. Noyes, The Illinois Company, Chicago.

Stock Exchange Relations: Laurence M. Marks, Laurence M. Marks & Co., New York.

The Present Economic Situation

(Continued from page 2)

many companies. It is certainly serious when Mr. Sloan reports that General Motors is unable to operate at more than 65% of capacity because of the lack of steel. The steel shortage is intensified by a tight supply situation in pig iron which, in turn, is due largely to a shortage of coke. Also, there is a severe shortage of steel scrap—an important item in steel production and steel scrap prices set some new peaks this fall as a result of the short supply. Taking account of all of these factors, I believe we shall be short of steel for a considerable period.

Another bottleneck is the freight-car shortage. Freight-car loadings this fall exceeded even the wartime peak, yet the shortage of freight cars has been acting as a serious bottleneck to production. We see it particularly in reports that coal production is hampered by lack of cars and that petroleum distribution is impeded by lack of transportation generally.

Still another bottleneck on the side of supply is the general shortage of fuel. This applies to petroleum, natural and manufactured gas, and to coal, even though all of these are being produced at record levels for peacetime. The shortages of petroleum products are so severe that dealer rationing is taking place in some areas. A neighboring community of mine on Long Island was hit very severely on Thanksgiving Day by the shortage of cooking gas. So many people tried to cook turkeys all at once that the gas pressure went down and there was a lot of cold turkeys.

Electric power production offers another example of the tight supply situation. Output is more than twice prewar levels, but it is barely enough to meet demands. Public utilities are expanding their plants rapidly, but it will take a long time to build them up to the desired levels.

These are examples of shortages on the industrial side. The same kind of thing is true about food. Farm output is at capacity and it is hard to increase the supply of meat, grains and other farm products beyond present levels. Today's supply as a general rule is substantially above prewar experience. The shortages exist only relative to a vastly expanded demand both at home and for export.

The high level of prosperity is changing our food habits. Millions of people have shifted from cheaper foods to more expensive foods. Meat, for example, is being consumed here at home this year at the rate of 155 pounds per capita, or 30 pounds more than the 1935-39 average. Per capita consumption of chickens and turkeys is up about seven pounds above the prewar level. Each one of us is eating almost seven dozen more eggs this year than before the war.

As you know, the same thing is true in the case of canned goods. Per capita consumption of canned vegetables is a little over 46 pounds this year as against an average of 31 pounds in the years 1935-39; per capita consumption of canned fruits is over 20 pounds as compared with 15 pounds. There is a very definite growth pattern for these foods in relation to the increase in income. For every $100 increase in per capita income after taxes over the last 15 years, there has been an increase of about two pounds in the consumption of canned vegetables and about one pound in canned fruits.

As against these increases in demand for more expensive foods, there have been decreases in the consumption of cheaper foods such as potatoes, sweet potatoes, wheat products, corn, dry beans, etc.

These examples illustrate the effect of increased income in changing the demand and, hence of creating shortages in the more desirable foods.

Supply of Farm Products

Next year's overall supply of agricultural products is not likely to be any higher than this year. In recent years, the supply of farm products has been helped by a long period of good weather—although the corn crop this year was hard-hit by too much rain. Agricultural prices could be pushed sharply upward next year if the weather were to turn bad. Wheat is a particularly vulnerable commodity. Plantings of winter wheat were held back this fall by bad weather in the old Dust Bowl area. A large proportion of our wheat comes from this area which has had a long history of extreme prosperity and sudden collapse. The start this fall was not good. An important part of next year's economic situation may hinge on the ultimate weather in this area.

In the case of meat, it is being estimated that the supply next year will be down to 146 pounds per capita from this year's 155 pounds. Obviously, this will tend to push meat prices up even further.

So much for agriculture. The last item on the side of supply I wish to mention is that we have practically no unemployed people in our labor force. Rather, we have almost 60,000,000 employed which exceeds even the peak war figure. Unemployment is down to less than 1,750,000 which is about as low as it can go considering the fact that there are always some people in the process of changing jobs.

Accordingly, we can throw in practically no more human resources to increase our output. It is true that labor efficiency could be stepped up, or longer hours of work adopted to increase output. These methods *could* be used, but I do not look for much help in this direction at this time.

Demand Forces

Now let us turn to the side of demand. What is the outlook for relative demand in the various parts of the economic structure today?

First of all, let us look at consumers. The demand from consumers is very closely tied to the flow of personal income, as I suggested in discussing the agricultural supply a few minutes ago. Total personal income has continued to expand in 1947 to set new peaks. The latest figure we have is for September, when a new high in personal income was reached at an annual rate of $210 billion. This was an abnormal month since it included the first cash-ins of armed forces leave bonds under the arrangement effective Sept. 1. These bonds were not counted as personal income by the Department of Commerce when issued, but are included when cashed.

Even without the armed forces leave bonds, however, the September figure for personal income would have set a new high at an annual rate of almost $200 billion. For perspective, let me remind you that personal income was $85 billion in 1929 and fell to a low of $47 billion in 1933. The highest figure during World War II was $175 billion annual rate in July, 1945.

The continued growth of income has made it possible for consumers to spend more and more. Consumption expenditures reached a new high of $166 billion annual rate in the third-quarter of 1947. This followed a consistent and

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IBA PAST PRESIDENTS

1946-47

E. Hopkinson, Jr.

1945-46

Charles S. Garland

1943-44-45

John Clifford Folger

The Present Economic Situation

(Continued from page 53)

sharp increase since the end of the war. Correspondingly, there was a sharp reduction in new savings made.

The key question here is what will happen to the ratio of savings to consumers' income after taxes. This ratio reached a peak of about 25% at the height of the war. The ratio has been falling steadily ever since and is now about 6%.

Some of the more pessimistic economists think that this savings ratio is abnormally low and will soon increase. This would mean a cut in consumers' demand for goods. A little reduction of this kind might be welcome to ease inflationary pressures, but a considerable reduction would point to a recession. In my opinion, it is likely that the savings ratio will remain low for some time because of the exceptionally broad distribution of income which has been achieved—as is illustrated by a number of observations:

First of all, labor income has grown tremendously and is spread out over more people.

Second, the government is spending large sums on veterans' pensions and other aids which in effect further spread the income base.

Third, the self-employed, including farmers, are receiving exceptionally high incomes and it appears that this prosperity extends to the small as well as to the large units.

Finally, high income taxes have reducing the savings ratio by their heavy impact in the middle and upper income brackets where savings are customarily greater.

For these reasons, it seems to me that the savings ratio will remain low—and consumer spendings high—until there are structural changes in the income flow or tax burden in the opposite direction. This conclusion is backed up by the large volume of liquid assets in the hands of consumers in all income classes.

A Buyers' Strike

In this connection, there is always the question of whether high prices will not reduce sales by pricing consumers out of the market. You may remember the popular movement in 1920 to wear overalls in order to beat the high cost of clothes. This type of thing could happen again, but I do not expect it to be an important factor in the broad economic picture in the near future. It is more likely that as demand for higher-priced products falls off, it will shift to lower-priced goods and manufacturers will change their emphasis accordingly. An example of this is available in the case of department store sales. In the first 10 months of this year, sales in basement stores in the New York Federal Reserve District have risen about 22% over the same period last year, while sales in the main stores went up only about 7%.

This is an obvious indication of a shift in demand from higher-priced goods with their higher markups to cheaper goods with lower markups. Another example is available in the case of women's hats. It is reported that in the months of September and October this year, sales of women's hats wholesaling above $4 were down 1,500,000 units from the same months of 1946, but sales of hats wholesaling under $4 were up 1,600,000 units.

It seems to me that such shifts are very healthy since they are in the direction of keeping up high unit volume. Of course, the same thing could also happen in the case of food—that is, there could be a partial reversal of the wartime trend to more expensive types of food.

So much for demand from consumers. What about the demand represented by the remainder of our Gross National Product today? I mentioned that in the third quarter, consumers' expenditures were running at an annual rate of $166 billion. This was about 70% of the gross product of $232 billion annual rate. The remaining categories were as follows:

	Annual Rate
Government purchases of goods and services	$28 billion
New private construction	10½ billion
Machinery and equipment	18 billion
Inventories (net increase	2 billion
Exports (net)	7½ billion

Let me refer briefly to the demand situation for these various categories. I believe the present level of government purchases of goods and services is here for a long time to come. It will probably even increase as the Federal Government undertakes the European Recovery Program, and I believe we may see increased appropriations to the military services for technical research and some production programs as well. Also, the State and local governments are increasing their expenditures for highways, schools, etc

Government Expenditures to Continue High

It is all very well to talk about economy in government. I applaud that as an objective. But in the interests of realism, we should note that the functions of government have expanded considerably over the years. If we want to cut government outlays, we should start by looking squarely at the functions and tell our representatives in Washington which functions we want them to cut. Meanwhile, I think the total purchases of goods and services by all levels of government will increase above the $28 billion annual rate in the third quarter.

Now, let us turn to construction, which is an element of considerable strength today. As I mentioned, total private construction of all kinds was running at an annual rate of about $10½ billion in the third quarter. Residential construction especially has come up very sharply notwithstanding the price problem — and there were more dwelling units started in September and in October than in August, contrary to the usual seasonal decline. The number of units started in recent months has been reaching back to challenge the all-time high of 1925.

The need for new houses, of course, is enormous. We have had a large increase in marriages coming after a period when housing construction was low. There are several million more families today than in 1940. High prices are an obstacle, but the high level of prosperity is a factor increasing the ability to afford better and more houses. It seems obvious that the relative demand for houses is still very high.

Now let us consider the demand on the part of business for machinery and equipment. The $18 billion annual rate for these expenditures in the third quarter was about three times the 1929 figure. Some people consider the present level highly temporary and expect a decline. Others argue that business needs vastly more capital equipment.

There is no doubt that present capacity is not adequate in a great many industries—as I have already noted. The question is how much will business endeavor to increase capacity and replace equipment with new and better models. I am optimistic on this score.

New Machinery

It is worthwhile remembering that tremendous progress has been made in the development of new machinery, including some pioneer work in the application of electronics as control devices in manufacturing. The technical name of these electronic devices is servo-mechanisms. They provide a means of control and inspection that is far superior to manual operations. It is hardly an exaggeration to say that the whole field of machinery has been vastly extended by the use of servo-mechanisms.

Over the long run, it seems reasonable to expect that business will want to avail itself of improvements of these different kinds, ranging all the way from new and better models of standard equipment to some of the more intricate machinery employing servo-mechanisms. For the short run, of course, there could easily be a decline in business purchases of equipment, but there 's nothing yet to indicate a sharp falling off of demand in this category. We may see some tapering off next year, but I believe equipment purchases will be stimulated by the desire to fight against high labor costs and labor inefficiency. It is interesting to note that machinery prices have risen considerably less than most prices while labor costs, of course, have gone up appreciably over the war period.

Inventories and Exports

The next item of demand is inventories. The peak in inventory growth was in the fourth quarter of 1946 when the physical volume of inventories increased at an annual rate of $5½ billion. The rate of increase was cut in half in the first quarter of 1947 and again in half in the second quarter. The third quarter leveled out with a growth of about $2 billion (annual rate) in inventories.

To many people, the rapid decline in inventory growth this spring looked like the inventory boom of this postwar period was about over. But this was apparently just a breathing spell associated with widespread fears of a recession which were common earlier this year. Recently, the dollar figures on inventories have turned upward again. It would not be surprising to see further inventory accumulation since inventories are low in relation to sales and, in some lines are still tight.

Finally, I should like to refer briefly to the export situation. As you probably know, the sharp growth of exports led to an all-time peak in the spring of this year. In terms of annual rates, privately financed exports exceeded imports by more than $10 billion in the second quarter, but the net exports balance fell to about $7½ billion in the third quarter.

If the net export decline continues further, in line with expectations, there will be some easing of inflationary pressures. In my opinion, this will not be drastic enough to cause a downturn in business since I believe domestic demand is sufficient to absorb the bulk of the probable decline in exports.

In conclusion, I have tried to point out, in this brief analysis, the relative strength of overall demand as against the virtually fixed supply. If my reasoning is correct, the inflationary elements in the business outlook will continue to outweigh possible downward pressures for some time. Also, it is likely that another round of wage increases will be sought by labor, thereby adding further to the inflationary situation.

Of course, we should be prepared for waves of doubt and hesitation. We may easily have another wave of this kind next year, somewhat similar to the one which occurred this year. It would not be surprising to see this occur as the outgrowth of the heavy concentration of tax collections by the Federal Government in the first quarter of the calendar year. Practically all of the government surplus for the fiscal year will be realized in these three months. This is a strong deflationary factor, but it should be remembered that it will be of a seasonal temporary character. Notwithstanding such temporary interruptions, it seems to me that the main stream of economic events will be inflationary for some time ahead.

Barring a backfire from government anti-inflation efforts—and I want to repeat this, barring a backfire from government anti-inflation efforts—I do not see a major recession at hand for some time. As I said at the beginning, we may expect such a recession ultimately, since we have always had them shortly after past wars, but it is well to remember that this is the first time we have finished a fighting war only to go into an extensive political, diplomatic and economic war.

NYSE Awards Bonus

The Board of Governors at its meeting Dec. 11th, approved the payment of a year-end bonus of one week's salary to all employees with one year or more of service. Employees with less than one year's service will receive a bonus based upon length of employment.

The Board also approved recommendations for improvement of the Employee Retirement Plan as developed by a Special Committee after discussions with various employee groups. The changes recommended by the Committee and approved by the Board include substantially increased benefits based upon future service and, also, provide for an additional past service benefit to participating employees, based upon service during the past ten years, to supplement benefits under the present and previous retirement plans. Broader coverage will be provided by lowering eligibility requirements.

The Way Out

(Continued from page 6)

not have been possible for our economy to increase educational, health and living standards of our people over every 20-year period in our history. Despite our historical "boom and bust" economy, although there have been comparatively short periods during which our economy has moved backward, nevertheless there has never been a 20-year period in our national existence during which we have not made material progress.

Business would be encouraged to keep its productive facilities at the highest point of efficiency under the proposed plan, both by a generous trade-in policy and the tax privilege of five-year amortization under Certificates of Necessity. The system of using these certificates was enthusiatically subscribed to by business during the war and it was a potent force in inducing timid capital to acquire productive facilities, without which we could not have won the war.

Business is justifiably irritated by strikes, slowdowns and loafing on the job.

If labor knew that it would receive a tax-free portion of profits, we would see fewer irresponsible strikes and labor would take unto itself the job of disciplining factory loafers, who, it would then realize, were taking money out of their comrades' pockets.

Greater productivity on the part of labor would make it possible to insure lower labor costs in terms of units of production, even though it increased the annual compensation of such workers.

Greater production would insure a freer flow of materials and supplies at fairly stable prices. This condition is essential to a return of normal operating efficiency. It would do much to speed up production and lower the hazards of prospective inventory losses.

Premium pay for overtime strikes, slowdowns and factory loafing, together with an uneven flow of raw material, have been responsible for the mounting break-even point in industry. Many people are inclined to look at break-even ratios as fixed percentages rather than as variables. With a more flexible economy, it is possible to reduce break-even ratios when business declines.

Payment for overtime and profit-sharing in five-year U. S. stabilization bonds would help to defer buying power during this present period of scarcity until later years, when such buying power would be a most welcome addition to our domestic market. The cumulative effect of these bonds would do much to stabilize our economy. As we increase the number of our citizens with substantial savings, we erect our best bulwark against Communism.

Much has been written about the inequity of double taxation of corporate dividends, under which the same profits are subject to a corporation tax when earned, plus an individual tax when dividends are received. Three methods have been proposed to correct this situation:

(1) Allow individuals tax exemption on dividends received.

(2) Allow individuals to deduct from their returns the proportion of taxes on these dividends paid by the declaring corporation.

(3) Allow the corporation to deduct, from taxable income, dividends in the same way that bond interest is now deductible.

The first method is impractical and, even if it could be effected, it would have the disastrous effect of causing a collapse in all municipal bonds, since the interest on these bonds is now wholly exempt from Federal income taxes.

The second method is undesirable, because it would create a tremendous amount of bookkeeping on the part of both taxpayers and the government.

The third plan is simple, equitable and practical and should be enacted into law.

Premium pay for overtime is not as great an inducement to la-

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The Way Out

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bor as it might be, because of the heavy toll exacted by the tax collector. One of the best measures of a man's economic progress is the amount of savings that he can accumulate over a period of years, because this really represents his excess earning power. It is natural for every normal human being to take pride in a job well done. We feel intense pity for the man who loafs on a job, because his working hours drag on endlessly, whereas, for a man doing his best the hours have wings. There was a time when practically every factory had a shop hero, about whose extraordinary production his fellows boasted. The factory hero has become the factory heel, and the result has been frustration.

Hope, faith, and enthusiasm have even a more important effect than carrying men to high places. They do make life more enjoyable. It is only when workers produce more that it is possible in the long run for them to secure an increased portion of the better things of life.

Many workers who bought "E" bonds during the war still have them. If it were not for such purchases, the odds are that the money would have been otherwise spent. Thus, labor is much better off for having purchased these bonds, for it not only has suceeded in accumulating a nest-egg, but it also has this fund readily available to draw on during an emergency. Payment for overtime and profit-sharing in U. S. stabilization bonds would give the worker all the advantages that the purchase of "E" bonds gave him, plus exemption from Federal income taxes on the earnings that paid for these bonds, plus exemption from Federal income taxes on the interest in said bonds. Furthermore, by the time these bonds mature, the chances are that the period of scarcities will be over and the purchasing power of each dollar will have measurably increased. Purchase of U. S. stabilization bonds by employers for payment of overtime and profit-sharing will expedite Federal refunding operations and increase the proportion of national non-inflationary debt.

Under profit-sharing, strikes and loss of pay incidental thereto would be reduced to a minimum, and the worker would feel that he had at last become a partner in the enterprise and was receiving his just share of the profits of his company.

It is our belief that the great majority of union leaders have a sincere interest in the well-being of the workers whom they represent. Under the proposed legislation, these leaders would be able to divert their energies from the destructive policies of strikes to the constructive policies of making time studies in conjunction with management, to arrive at incentive rates, and for the many other constructive functions of adjusting real or fancied grievances. Incidentally, it is well-known in industrial management circles, that the art of the time study man has reached a stage at which time-studies made by union men and company men give almost identical results.

Labor would increase its earning power by having the most modern and efficient tools with which to work.

Under the proposed plan the integrity of the American dollar would be preserved and labor would be spared the disaster, experienced in other countries, of currency devaluation.

Happy, contented workers, who have the satisfaction and feeling of well-being in a job well done, and, furthermore, the knowledge that they are well paid for their efforts, are not an easy prey to Communistic influences. They will welcome the security to their families of the preservation and improvement of our democratic way of life.

Benefit to Fixed-Income Group

Persons with incomes from salaries and/or investments, have been the chief victims of the rising inflationary price spiral. If dividends were deductible from corporate incomes for tax purposes, the amount of such dividends would increase substantially.

Executives in the lower income brackets are usually not paid for overtime, despite the fact that they are given the dubious privilege of being termed a part of management. Many a foreman has been humiliated by the sneers of his subordinates, who have jeered at him with the taunt that they were making more money than he was although they did not share his responsibilities.

The inclusion of all workers, including foremen and white-collar workers, in profit-sharing, would provide relief to this sturdy group in which is the most substantial of the stabilizing elements in our country.

The burden of currency devaluation falls most heavily on fixed-income groups. They will substantially benefit from the proposed legislation which militates against this tendency.

Benefits to the U. S. A.

During and subsequent to World War II, our government has waged a strong campaign to sell as many of its bonds as possible to the groups in the lower-income brackets. One of the main purposes of this endeavor has been to reduce inflationary pressure and to defer the purchasing power of our domestic markets from times of high prices and scarcity to times of lower prices and plenty. The issuance of U. S. stabilization bonds would be a long step in the implementation of this policy.

Every thinking man must realize the futility of attempting to reduce the national debt by cutting income taxes and giving away billions of dollars to foreign nations. Of course, we agree that all unnecessary governmental expenditures should be eliminated.

The tax relief proposed above would not only do the most to correct inequities, but would be highly beneficial to our country as a whole. Loss of revenue, by reason of dividend deductions from corporate profits, would be to a great extent offset by gains in revenues from additional individual taxes on increased dividends.

The only way that we can continue to pay higher wages than the rest of the world is by being always the country with the most productive tools. And there is no better way to maintain national defense than by constantly increasing the efficiency of our productive plant, thus insuring the maintenance of our industrial supremacy.

We have purposely omitted from the above any suggestion as to the percentage of pre-tax profit-sharing that should be paid to employees, as this is a detail that may best be worked out by compromise. On a country-wide basis, an average of 10% of pre-tax profits may or may not be the figure finally arrived at. It should be emphasized that the percentage of profits paid to employees may probably best be set by various industries. For example an industry whose payroll represented 10% of each sales dollar would pay its employees a smaller percentage of its net profits than another industry whose payroll amounted to 80 cents out of each dollar of sales.

Benefits to Other Nations

Gratuities to foreign nations have a tendency to divert them from increasing their own production and relying for their salvation on "Uncle Shylock-Philanthropist." If foreign nations realized that they would obtain no further help from the U. S. until they had inaugurated a back-to-work movement in their own countries and ceased internal strife and fumbling with economic experiments, they would settle down to actual production and be more worthy of our help.

Our well-meaning efforts have inhibited production from the coal mines of England to the rice fields of China.

The best way that we can help foreign nations is to supply them with surplus productive machinery in return for their future exports, which we should agree to accept at tariff concessions as and when they are produced.

Under the above program, foreign nations can stage a comeback whose timing will be limited only by the enthusiasm with which they adopt a program under which every ablebodied available man and woman goes back to work.

In countries where there is actual want and destitution this want should be supplied by the mass distribution by our own army, in the form of breadlines and soup kitchens. There is no reason why we should be more generous to the destitute of other lands, than we were to our own destitute in the early 1930's.

We have heard a great deal about antagonism to members of our occupying forces by our very beneficiaries. Our soldiers would be transformed into agents of good will if they would directly feed the hungry instead of allowing foreign profiteers to benefit by our generosity, to our own detriment.

The present muddled state of affairs has been caused by narrow thinking that was highly colored by the self interest of various groups. It has tended to create conditions that, in the long run, may boomerang.

A flexible dynamic economy has allowed our country to reach its preeminent position. We do not agree with those who would oppose all future changes. They forget that in our development even our constitution has been amended from time to time.

This article has been written in the hope of stimulating constructive thinking, so that we may not only correct present maladjustments but help iron out "boom and bust" tendencies. Success along these lines will render our soil sterile to the seeds of communism.

IBA PAST PRESIDENTS

1942-43

Jay N. Whipple

1941-42

John S. Fleek

1939-40-41

E. F. Connely

Southern California Economists' Recommendations On Curbing Inflation

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are overstated. For example, the owners of corporate securities may be receiving a smaller real income now than in 1939.

What Price Level Is Desirable?

It is changes in relative status which impress those left behind as being unjust. Within each of these three main groups there have been some who have not fared as well as the others; such as the salaried worker, the interest receiver, certain farmers, etc. Inflation has been "unjust" to them. The same is true of annuitants, holders of life insurance, pensioners, and others not mentioned in Table One. But to change back to 1939 prices and incomes would be considered an injustice by those now relatively better off. However the gains of this group are so recent that they are sometimes acknowledged to be "lucky" and probably temporary. A further general increase would likewise be condemned by the former victims of inflation. Our goal, therefore, should be to right some of the recent injustice without creating too much feeling of new injustice. The best compromise probably is to stop further price increases and to reduce them somewhat. Also we must be careful that a future deflation does not so reduce the national output that even those with larger shares can only consume fewer actual goods and services.

Past Policies Responsible for Present Price Levels

The fiscal policies of the federal government during the war are a major cause of today's high prices. Not enough of the cost of financing the war was taken from the current incomes and cash balances of individuals and corporations. Federal taxes were too low. Too many bonds were sold to banks instead of to private buyers. Perhaps the urgency of war demands made this inevitable. At any rate Federal demands increased more rapidly than civilian spending ability was diminished. The total of government, business, and consumer demand rose more rapidly than production could expand. Rising prices and the uncertainties of life in time of war caused incomes to be spent more rapidly than before. Increased civilian savings tended to hold down aggregate demand, but they were not enough. They were more than offset by rising incomes and expanding bank loans to business and government.

As prices, production, and incomes rose, more currency had to be put into circulation to permit the payment of higher and more numerous wages and dividends. This currency came from our banking system. Its expansion was aided by the way in which Federal Reserve Banks were able to count certain government bonds as reserves behind Federal Reserve Notes. An expansion of bank credit was also necessary to help business men meet the requirements of a higher price level and larger outputs. This was financed, not out of the savings of bank depositors, but by the creation of new bank credit. Government bonds which they held were counted as legal reserves against deposits created by loans to member banks. They were also purchased freely from those member banks whenever expanding loans to business made further currency or Federal Reserve deposits desirable.

The result of this expansion of currency and bank credit was that the total money supply rose from $36 billion in 1939, to $102 billion in 1946, and $110 billion in 1947. Such a threefold increase in money stock can be viewed as both a cause and a result of inflation. It is a cause in the sense that demand could never have outpaced supply unless it had been reinforced with extra money. It is a result in part because, faced with a short supply at high prices, the Federal Government and thousands of producers borrowed old and new money from the banking system.

Such an outcome was to be expected. A great war usually brings commodity shortages in its train. The only surprising development has been that the United States, almost alone of all the belligerents, was able to escape many anticipated shortages. For example, the meat "shortage" during the war was a market illusion, with the per capita physical consumption of meat increasing steadily. Also, a great war is always financed in part by new money, although there may be

TABLE ONE

Money and Real Incomes of Certain Economic Groups in 1939, 1945 and 1946

(dollars in millions)

	1939	1945		1946	
	$	$	% Change from 1939	$	% Change from 1939
Workers					
Money income[1])	45,745	(117,551	+ 157%	111,113	+ 143%
Real income[6])		(91,001	+ 98%	79,287	+ 73%
Farmers					
Money income[2])	4,506	(13,465	+ 199%	15,213	+ 238%
Real income[6])		(10,422	+ 131%	10,858	+ 141%
Security Owners					
Money income[3])	9,213	(11,570	+ 26%	13,279	+ 44%
Real income[6])		(8,957	+ 3%	9,476	+ 3%
Cost of Living Index[4]	99.4%	128.4%	+29.2%[5]	139.3%	+40.1%[5]

[1]Source—National Income Supplement to the July 1947 Survey of Current Business, page 19.

[2]Source—National Income Supplement to the July 1947 Survey of Current Business, page 19.

[3]Source—Adapted from National Income Supplement to the July 1947 Survey of Current Business, pages 19 and 46.

[4]Source—Monthly Labor Review, July 1947, Consumers' Price Index, Table D:1, page 124.

[5]Base shifted to 1939, and 100 deducted to obtain absolute change.

[6]Money income divided by cost of living index on a 1939 base. (See note 4)

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IBA PAST PRESIDENTS

1937-38

F. E. Frothingham

1936-37

Edward B. Hall

Rebmann to Be Partner In Laird, Bissell Co.

George B. Rebmann, manager of the Philadelphia office of Laird, Bissell & Meeds, members of the New York Stock Exchange, will be admitted to partnership in the firm on January 1st. Mr. Rebmann will continue to make his headquarters in Philadelphia at the Lincoln-Liberty Building.

P. Lyndon Dodge, general partner in the firm, will become a limited partner on January 1st.

Hay, Fales & Co. Will Admit 3 as Partners

Hay, Fales & Co., 71 Broadway, New York City, members of the New York Stock Exchange, will admit Seth Thayer, Theodore Wechsler and Alfred G. Schmitt to partnership in the firm on January 1st. Mr. Wechsler is manager of the unlisted trading department; Mr. Schmitt is cashier.

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some controversy as to how much of the war budget should have been met from non-inflationary sources. In the main no American statesman is to blame for the present high cost of living. Fundamentally the war was responsible.

Spiraling Inflation an Incomplete Concept

Some people believe that wages must rise when prices rise, and that prices must rise when wages rise, so that an upward spiral is almost inevitable once a general wage or price increase occurs. Such a view is only partly correct. Admittedly, a higher cost of living stimulates trade unions to ask for higher wages, but it does not automatically enable employers to meet these demands. Similarly, when wages and labor costs rise, employers naturally ponder their ability to pass these increases on in higher prices, but paying higher wages does not of itself permit the charging of higher prices. Employers as a whole can charge higher prices without sacrificing sales only if other business men and the consuming public are spending more freely. This requires that the desire for goods has become more urgent and that buyers can get the additional purchasing power either through reduced cash balances, larger incomes, or borrowing. Therefore for the nation as a whole, higher wages can only cause higher prices, if demand and money are increasing at the same time.

Economic Strategy Towards Price Reduction

The causes of inflation, and in turn of high prices, suggest the cures. First, increased production is desirable. Second, a reduction in the rate of spending is desirable. The rate of spending depends upon the desire and ability to spend, the availability of loans, the total of individual cash balances, and the flow of current incomes. These various elements must always be considered together.

On the whole, the government can increase output only indirectly, by removing obstructions and providing incentives. It can do very little to influence the velocity of money because the fraction of income which people choose to hold as cash is mostly an individual decision. However the Federal Government can play a large part in determining the stock of money in the economy. This is the only element of the two over which the government has some measure of control.

The grand strategy of price reduction must therefore be one of lessening inflationary pressures by decreasing the rate of spending. Money should be taken away from consumers and producers by taxation and by decreasing their ability to borrow. Governments must increase their budgetary surpluses by cutting spending and maintaining taxes.

Decreased Federal Spending Is Desirable

The government itself should make all possible economies in its normal operations. Increased efficiency would lessen the size of the payroll. Some of the less important services may be dropped entirely. No new programs should be started now except they are deemed absolutely necessary for our long-range welfare and are financed by current increases in taxation. The Marshall Plan to aid certain countries of western Europe, for instance, seems essential in its general principles, but it must be financed by increased taxes. Otherwise it would be inflationary. Proposals for veterans' bonuses, pensions, Federal aid to state educational systems, and universal military training should be appraised carefully in the light of possible inflationary consequences. And, last but not least, no Federal funds should be spent today for the purpose of supporting prices.

Deferment of Costly Public Works

In the interests of economy all large-scale domestic public works —such as the projected Missouri Valley Authority—should be deferred. However detailed plans should be drawn up at this time and advance paper work should be completed so that projects can be put into full operation when a depression appears to be upon us. The only projects excepted from this policy of deferment should be those which promise an abnormally high output return and those whose output increments would come quickly.

Tax Reduction Only If Prices Fall

People naturally want tax relief, but their wish should not be granted so long as prices continue upwards. However taxes can and should be reduced when prices turn downward again. In order to be ready for quick action at that time, the normal tax on personal incomes should be declared flexible. The rule might be that after a 5% decline in the cost of living as measured by an acceptable price index, the withholding tax and corresponding normal tax should be reduced 2%, from 20% to 18%. Another 5% drop in prices should cut the tax 3%, from 18% to 15%, and so on with a sliding scale to combat too rapid deflation. For those paying all or additional amounts on a quarterly basis, the best procedure would seem to be to compute tax as before and then deduct an equivalent percentage. Thus, 2% on 20% is one-tenth or a 10% reduction in the amount of tax which the Treasury would declare due on estimated income for the quarter. In the second bracket of price declines, the tax reduction for quarterly payers would be 3/18ths or 16.7%, and so on. The foregoing merely states the principle to be followed. It is not intended to be dogmatic or comprehensive, but merely illustrative. The proposal would give hope to those clamoring for tax reduction. It would withhold the soothing syrup until they were sick enough to need it. At present the syrup would merely be fattening, that is, inflationary.

Adjust Corporate Taxes to Encourage Output and to Secure Price Reductions

Prices will be reduced if output rises or if business firms choose to operate on narrower gross margins. To achieve these two results a proposal that merits consideration is a reimposition of the excess profits tax with a proviso remitting the tax in part or whole on a sliding scale. A corporation would have to prove that during the tax year it had achieved **both** of the following results, in comparison with previous tax year: (1) increased its physical volume of sales and (2) reduced its ratio of profits to sales. Other firms which could not show these results through accident or design would have to pay the tax and thus decrease extant purchasing power.

Increase Social Security Tax

It was originally supposed that the Federal government's benefit obligations under the Social Security Act would require pay deductions of more than 1%. Subsequent experiences have not vitiated these earlier estimates. However Congress has repeatedly failed to increase the social security tax as originally scheduled. A higher tax would decrease spending and provide a large budget surplus for reductions in the national debt held by the banks.

Incentive Saving Plan

The current upward pressure on prices would be somewhat relieved if consumers would spend less of their income. High income taxes are one way of reducing consumer outlays. Individual saving would temporarily have much the same effect; but unfortunately, and in part because of high prices, people are not saving as much as they might. Schemes to encourage consumer saving are therefore desirable. A forceful method would be to give income tax rebates in partial exchange for purchases of a special new series of temporarily blocked Treasury bonds.

Such an incentive saving plan should include the following features: (1) The tax rebate must be less than the bond purchases, so that persons who elect to participate will surrender more dollars to the Treasury for the time being; for example, the basic offer might be $1 of cancelled tax liability for each $2 of blocked bond purchase. (2) People with higher incomes will be more capable of investing in blocked bonds and so permanently escaping tax payments; accordingly, there should either be a limit to the possible tax cancellation secured by this means per year, or a sliding scale which requires ever larger blocked bond purchases as the "price" of reduced income tax liability. (3) The blocked bonds should be non-transferable and redeemable only in portions after a lapse of a few years; for example, redemption might be in three equal parts, starting in the third year, and making an average loan of four years. (4) The bond buying price of cancelling tax liability should be altered by Congress each year, in such a way that, in inflationary years, the Treasury's receipts from both income taxes and blocked bond purchases will be considerably higher than the income tax yields would be alone. (5) Individuals' later receipts from Treasury redemptions of the blocked bonds should not be considered taxable income. (6) The blocked bonds need not pay interest as there will be a substantial rate of return in the long run from reduced income tax payments. (7) The funds which the Treasury acquires from the sale of blocked bonds should either be withdrawn from circulation or used to repurchase other Treasury bond issues from the Federal Reserve System.

An incentive saving plan offers several important advantages: (1) Consumer outlays and inflationary pressures will be reduced. (2) Investment in bonds does not discourage people to earn and produce as does a tax on income; tax proceeds are gone forever, but bond payments might be returned in 3 to 5 years. (3) The plan would be administratively simple as income tax liability is already computed for everyone who would be eligible to participate in the plan.

Finally, an incentive saving plan, as outlined above, would reconcile the strong political demand for reduced income taxes with the economic desirability of sopping up consumers' funds for the time being.

Use Budget Surplus to Reduce Bank Ability to Lend

Insofar as the foregoing proposals increase the Federal surplus, the Federal debt should be reduced by buying government bonds from the banks. These bonds could no longer be used to support loans and banks would probably become more discriminating in their lending. The government surplus should not be used to redeem bonds in the hands of private investors, except as required by law; to do so would increase purchasing power in the hands of ultimate consumers with probable inflationary consequences.

Give Federal Reserve System Power to Contract Credit

The Board of Governors of the Federal Reserve System should be given greater authority by Congress to contract demand deposits and the President should encourage the Board to use these extra powers to this end.

The Board should then raise legal reserve ratios above the present maximum levels. The rediscount rate might be raised. Margin requirements in the commodity exchanges—and possibly in the security exchanges—should be 100%.

The Federal Reserve System might seek to distinguish between inflationary and non-inflationary borrowings. Loans for increasing inventories, often sought only to escape higher future prices, have little output effect, and should be discouraged. On the other hand, loans which promise a quick output, or are needed by some going concern to break a bottleneck, should be favored. Long term projects, which will only give production after a considerable lapse of time, should receive less liberal credit treatment. Loans for cost reducing innovations should be given preference.

Restrict Consumer Credit

Regulation W should be restored or equivalent controls be enacted. In fact even stricter regulation of consumer credit facilities might be in order. However several qualifications should be borne in mind. The restriction of credit to consumers should be irrespective of the kind of goods to be purchased; it would be uneconomic and inequitable only to limit the extension of credit for the purchase of durable consumer goods, such as autos. If it can be distinguished, and given special legal treatment, consumer credit which does not have additional bank loans and deposits as a source, should be excluded from control. Lastly, there are always some firms and persons who will lend money at high interest to those who are desperate and can give some security; hence, if the more usual and supervised lending institutions are forbidden to grant consumer credits, many people will resort to more usurious lenders.

Discourage Excessive Speculation

A small group of professional grain speculators has been blamed for the high cost of living. The high price of grain futures is not due to a conspiracy amongst speculators, but to the obvious intimations of bad harvests and grain scarcities during the coming months. The actions of speculators indeed serve a useful purpose in that they have the effect of reserving present supplies until they are needed more urgently in the future. However, in order to discourage excessive speculation, certain steps might be taken; for example, margin requirements might be set at 100%.

Take Action Against Output Restrictions

Many groups in the economy restrict output to raise their own incomes. Many industrial and trade monopolies are already illegal and might be mitigated by (Continued on page 60)

IBA PAST PRESIDENTS

1930-31 1929-30 1927-28

Henry T. Ferriss

Trowbridge Callaway

Henry R. Hayes

Southern California Economists' Recommendations On Curbing Inflation

(Continued from page 59)

a more vigorous enforcement of the law. The Federal Government, often as an incident to its numerous price support schemes, should cease aiding and abetting the curtailment of production. The government might also investigate, publicize, and wherever possible remedy, output restrictions caused by slow-down and make-work policies of labor unions. In general the government should move against outstanding attempts at economic hamstringing by special interest groups.

Reduce Certain Import Duties

The prices of many commodities in the United States are considerably above world prices due to our high import duties. Wheat sells for far less in Canada, beef for far less in Argentina, and wool for far less in Australia. If these goods could be imported at lower or zero duties, their prices, and the prices of many products with which they are in competition, would immediately fall in the United States. (In this connection it is interesting to note that Belgium temporarily suspended all import duties after the liberation in order to undermine inflationary prices.) The Congress, because of its tariff policy, is partly responsible for the continuation of high prices on many important commodities in this country.

Encourage Conservation of Scarce Grains

A major element in the cost of living is the price of food. Many food prices such as bread and meat are fairly closely related to the price of grain. Under present scarcity conditions at home and abroad the prices of these grains have risen abnormally. The Federal Government should do everything it can by persuasion and taxation to discourage the less essential uses to which cereals may be put. For example, the use of grains for alcoholic beverages and superfatted hogs should be drastically reduced so long as Europe is hungry and prices remain high. It is best to effect such a reduction through taxation rather than by means of physically defined quotas. Therefore, rather than attempt to limit the feeding of livestock prior to slaughter, a special tax should be levied on all hogs exceeding certain fat limits at time of slaughter. The taxation of alcoholic beverages made from grains should also be increased. Then, if people insist on using grains extravagantly, they will be penalized, and the Treasury will have additional tax revenues.

Oppose Allocation of Key Commodities

Proposals to allocate meat, cereals, poultry, etc., presumably so that more food can be diverted into export channels, should be opposed as an unsound means to a proper end. For example, the effect of allocating a smaller output of meat to the domestic market, from packers, will be higher meat prices at retail; and, if these are held down by new price ceilings, housewives will find themselves without meat in the absence of consumer rationing. Hence the first step of setting quotas at the processing level is likely to lead to price and rationing controls at the consumer level. On the other hand, if these subsequent price and rationing steps are not taken, the processors would experience a windfall profit from the contracting domestic supply causing higher food prices.

Price Ceilings and Roll Backs Undesirable

Any resurrection of the wartime practice of setting price ceilings below the equilibrium market price should be prevented. During peacetime, widespread evasion would be inevitable, and the same demoralizing and corruptive developments which characterized the prohibition era would return to plague us. The distribution of goods to buyers becomes inequitable or haphazard when ceiling prices are below the competitive level, and rationing brings extra red tape and diseconomies in its train. Moreover, direct action against prices overlooks the vital fact that high prices are a symptom, and so cannot properly be proceeded against directly. Finally, a freely adjusting price mechanism directs the nation's resources into making the goods which the markets most demand, while regulations which freeze price relationships put the economy in a straitjacket.

No Wage Controls

Wages are the price of labor. The same considerations which render commodity price control undesirable also render wage controls undesirable. Wage flexibility hastens the diversion of labor from less to more useful employments. And it would be altogether unfair to set maximum limits on wages without regulating commodity prices in the same manner.

Retain Rent Control on Existing Structures

The rent of already built residential housing is perhaps the only price which should be limited by a ceiling. The supply of residential housing cannot be augmented overnight sufficiently to check substantial rent increases in the near future. Allowing rents to go free would give large windfall profits to landlords who are already benefiting from perhaps the lowest vacancy rate in history. On the other hand the cost to landlords of redecorating, and of janitor and other services in some apartment buildings, has markedly increased, so that some rise in rents from Pearl Harbor days may be indicated. Rent control on new housing units should be administered liberally if it is undertaken at all. At present building costs, often ranging from two to three times the prewar figure, investors are sufficiently deterred from constructing new housing units without the additional discouragement of close rent controls.

General Summary

High prices are a symptom of demand, incomes and money having expanded more rapidly than the supply of goods and services. Demand should be reduced by lessening the ability to spend. Income taxes should not be reduced now, but only when, and to the extent that, the price level declines. The Federal Government should overbalance its budget and use the surplus to retire those of its bonds which support money and credit extension by the banks. Minimum legal reserve ratios should be raised. The banking system should be induced to adopt stricter and more selective policies in regard to new loans. An incentive saving plan might be tried. These indirect measures to reduce spending are preferable — always excepting reasonable rent controls — to renewed attempts to limit prices and wages directly. Supply expansion should also be encouraged whenever possible by production stimuli and imports.

Names and Affiliation of Subscribing University Economists

*Stephen S. Enke, University of California.
*John M. Lishan, University of California.
*Philip Neff, Pomona College and Haynes Foundation.
*Robert B. Pettengill, University of Southern California.
*Kenneth L. Trefftzs, University of Southern California.
*Robert M. Williams, University of California.
Clayton Carus, University of Southern California.
Wiley W. Mather, Chaffee Junior College.
Bernard J. McMahon, University of California.
Albert T. Helbing, University of Redlands.
D. L. Bryan, University of Southern California.
Cecil L. Dunn, Occidental College.
Edwin A. Cottrell, Haynes Foundation.
J. O. McClintic, San Diego State College.
Daniel C. Vandermeulen, Claremont Mens College.
Alice J. Vandenmeulen, Scripps College.
Warren C. Scoville, University of California.
John C. Clendenin, University of California.
George H. Hildebrand, Jr., University of California.

*Members of Drafting Committee.

Indianapolis Pwr. & Lt. Pfd. Offered at 102

Offering of 40,000 shares of Indianapolis Power & Light Co. ($100 par) 5% cumulative preferred stock was made Dec. 17 by a banking group headed by W. C. Langley & Co., Shields & Co. and White, Weld & Co. The stock was priced at $102 per share and accrued dividends.

Proceeds to be received by the company from the sale of the shares will be applied toward the cost of the company's construction program which is estimated to call for expenditures of $35,200,000 over a four-year period beginning Jan. 1, 1947. The balance of the funds necessary to finance this program will be obtained from the company's treasury, from annual operating revenues and from the sale of bonds, notes or other securities having priority over the securities offered hereby or from the sale of additional cumulative preferred stock or common stock.

The new preferred stock may be redeemed at any time on 30 days' notice at the regular redemption price of $105 per share and for the sinking fund at $102 per share, plus accrued dividends in each case. In addition, a sinking fund of 2½% annually has been provided for the benefit of the new stock.

The Indianapolis company is engaged principally in the generation, distribution and sale of electric energy in and about the City of Indianapolis. It also is engaged in the production, distribution and sale of steam for heating and general industrial purposes.

For the 12 months ended July 31, 1947, the company reported net income of $3,487,146. In the calendar year 1946, net income aggregated $3,361,220.

Dillon Reed Offers Northern Nat'l Gas Com.

Offering has been made by an investment banking group headed by Dillon, Read & Co., Inc. of 710,500 shares of Northern Natural Gas Co. common stock at $27 per share.

The shares, constituting 35% of the company's outstanding common stock and owned previously by North American Light & Power Co., were awarded to Dillon, Read & Co., Inc. in competitive bidding Dec. 16. Proceeds from the sale will be applied by North American Light & Power toward the retirement of 109,255 shares of its $6 preferred stock in connection with plans for compliance with the Public Utility Holding Company Act of 1935.

Northern Natural Gas Co., which was formed in 1930, owns and operates a pipe line system of main, lateral and gathering lines, approximately 3,800 miles in length. The company transmits through this system its own natural gas, purchased or produced from the Amarillo (Texas Panhandle), Hugoton (Kansas), and from other Kansas gas fields to points in Kansas, Nebraska, Iowa, Minnesota and South Dakota where such gas is sold. Peoples Natural Gas Co., a wholly owned distribution systems in 84 commutribution systems in 84 communities in Kansas, Nebraska, Iowa and Minnesota and purchases all of its natural gas requirements from Northern Natural Gas Company.

For the 12 months ended June 30, 1947, Northern Natural Gas Co. and subsidiaries had operating revenues of $22,712,117. For the calendar year 1946 the operating revenues were $19,369,222.

For the year 1947 Northern Natural Gas Company paid dividends on the common stock amounting to $1.60 per share, including a year-end dividend of 50 cents payable Dec. 26 to stockholders of record Dec. 2. In 1946 the company paid $1.50 per share and in 1945 the payments were $1.25.

There are 2,030,000 shares of common stock outstanding and funded debt amounts to $35,000,000.

NYSE Erects Xmas Tree

A 48-foot high Douglas Fir tree was erected in Broad Street Dec. 16th by the New York Stock Exchange. It will be the twenty-fourth tree to bring Holiday warmth to the financial community. It was lighted on Dec. 17th and, on Tuesday, Dec. 23, a special program of Christmas Carols will be sung at the base of the tree by the choral group of the Boy's Club of New York.

As in years past, recorded Christmas Carols will be played from the outside gallery of the Exchange at noon and in the late afternoon during the Holiday period.

Orvis Bros. to Admit

Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange on Jan. 1 will admit J. Antonio Zalduondo, William G. Wigton, and Clifford G. Doerle to partnership.

IBA PAST PRESIDENTS

1926-27

Pliny Jewell

1925-26

Ray Morris

1924-25

Thomas N. Dysart

With Jas Richardson & Sons

(Special to THE FINANCIAL CHRONICLE)

MOOSE JAW, SASK., CANADA —William V. Warner is now with James Richardson & Sons, 145 Main Street.

With Mercantile-Commerce

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—William G. Moore, Jr. is now with the Mercantile-Commerce Bank & Trust Co., Locust-Eighth-St. Charles.

IBA PAST PRESIDENTS

1922-23

John A. Prescott

1920-21

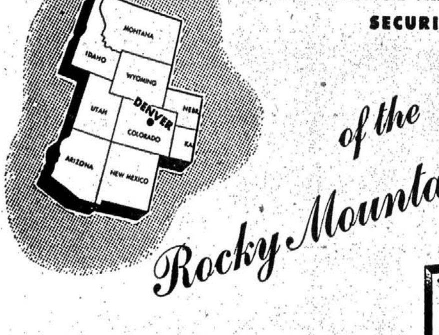
Roy C. Osgood

Firm Changes Name to Shaughnessy & Co.

ST. PAUL, MINN.—Announcement is made of the change of the firm name of Park-Shaughnessy & Company to Shaughnessy & Company. Offices are in the First National Bank Building. Principals of the firm are Lawrence E. Shaughnessy, Wendell P. Harper, George G. Grace, and Paul Baumgartner.

Graham, Parsons to Admit Mason Starring

Mason B. Starring, Jr. will be admitted to partnership in the New York Stock Exchange firm of Graham, Parsons & Co. as of January 1st. Mr. Starring has been with the firm for some time as manager of the stock department of the New York office, 14 Wall Street.



Straws in the Economic Winds

(Continued from page 4)

foods with the utmost care and if the family does not have extravagant tastes, Mrs. America can feed a husband, two children and herself for about 85 dollars. But there can't be much entertaining on this, and the fare won't stand choice steaks very often.

If hubby brings home $200 income each month, he can count on about 40% of it going for eats. This leaves $120 to cover rent; buy clothes and furniture; pay the doctor and the dentist; meet the utilities bills, taxes (not already withheld), and insurance premiums; run an automobile; take care of incidentals and the personal needs of the family, and save for a rainy day. It is tight fit!

About the only item that gives him a break is the utilities. He actually pays less for them now than he did before the war.

But if hubby brings home less than $200 monthly, the part that goes for food is larger than 40%. The squeeze is on other things. The family must be fed.

This gives us a clue to what is happening to many families whose incomes have not increased sufficiently to offset increases in food prices. They have less to spend for other things. And here is an economic maladjustment that will cause trouble.

If we assume no change in consumer prices, then these families can buy more of other things either by digging into savings, or by increasing somehow their current incomes so there will be more left after the food bill is paid, or by buying on credit. Surveys made for the Board of Governors of the Federal Reserve System indicate: (1) a surprisingly large number of families who have little or no savings upon which to draw, and (2) that many families are already drawing down what savings they have.

Consumer credit is expanding and the ratio of collections on accounts is declining throughout the nation. But what is frequently overlooked about consumer credit as a source of current demand is that it reduces future demand when the debt must be paid, unless some effect is generated out of the credit itself to offset this.

The only real and effective relief for families caught by lagging incomes is either through incomes or through lower prices, particularly of foods.

High food prices, despite several years of record-breaking crops, may be attributed to: (1) high demand here at home; (2) large shipments of food abroad; and (3) government price-supporting. No change in either of these seems likely in the near future. Fortunately, a kind Providence continues to smile on us. Farm production in 1947 was abundant again, except production of corn.

Some union leaders are again complaining about high prices and talk of a third round of strikes for more wages. But employers' stock reply is that further wage increases will raise costs and reflect in still higher prices. A modern Alice would be confused in this Economic Wonderland.

The fellow being pinched, however, is the unorganized worker whose wages have lagged all along the line. And he is in the majority in the nation by about three to one.

There is abundant evidence that the politicians are quite concerned about the high cost of living.

A Congressional investigating committee is holding hearings in various parts of the country to find out what or who is to blame for high prices.

When all testimony is taken, and all emotionalism, class-hatred, and political chaff sifted out, the Committee will find what almost any student of elementary economics would find as the real cause of high prices.

Purchasing power has been created in this country at a greater rate than goods available for purchase have been produced. That process began in the depression days when we foolishly thought we could lift ourselves over the fence by our boot-straps—that we could spend ourselves into prosperity. The war accelerated the process as we were forced to spend more than $330,000,000,000 to whip the Axis powers—about $200,000,000,000 of which was on the cuff in the form of a deficit.

The process continues in a vast international WPA, apparently accomplishing little more than did its domestic predecessor in the New Deal days. And the process manifests itself further in $7,000,000,000 being spent for veterans' benefits of various kinds; in the salaries of the unnecessary part of more than 2,000,000 civilian employees still on the payroll of the Federal Government; and in an untimely cashing of veterans' terminal leave bonds the total of which can run as high as $1,800,000,000.

Despite near record highs in total peacetime production, so many dollars have been created that it is impossible to maintain prices at a reasonably stable level. In simple language, the dollar has been cheapened. We have inflation. Too much money has been and still is coming into existence without any equivalent tangible value behind it. As this money is being spent, it finds insufficient goods to buy at a given price level. In a free market the result is obvious and inevitable—higher prices until purchasing power and goods come into balance.

It is possible that we have not yet seen the end. If the American people lose faith in the dollar, we might see a flight from it. Everyone will seek to convert dollars into tangible wealth, thus increasing the velocity of money-turnover. At this stage inflation begins to develop runaway tendencies and wreaks its worst damage.

Much depends upon when and to what extent we cut off the source of inflation poison. The primary responsibility rests with the Federal Government, not with the merchant, or the farmer, or the manufacturer, or the worker, or the speculator, or the consumer.

The answer to the problem of stopping the march of inflation before it is too late is not an easy answer. The nation's economic blood-stream is loaded already with the largest public debt in history; with a record amount of money in circulation; with unprecedented bank deposits; and with a banking system whose credit expansibility is almost limitless. Add to these the burden of carrying not only ourselves but Europe through the coming winter, and the prospect of stopping inflation is not good for the short run.

But much can be done for the long pull by: (1) reducing government spending; (2) retaining relatively high taxes; (3) reducing the national debt; and (4) insisting that the people of Europe go back to work. These are major elements in the whole inflation picture. They are merely a reversal of the forces which have caused inflation and are still operating.

There is one other current topic about which I should like to comment. That is the intense scare of Communism that seems to permeate this country.

I am not half as scared of Communism as you are, because I know it will not work. It is basically and fundamentally unsound and unreal. So far as I am concerned all the countries of Europe can go Communistic. It would only be a short while until their experiments collapsed.

Not long ago a Dallas business man asked me this question: Why does organized labor in England strike against its own Labor Government?

The question is a puzzler. Yet it carries tremendous import right now in America when we are risking economic disruption here to extend aid abroad. Business men and citizens in general, not just in Dallas, but throughout this country are pondering the question.

The answer is not easy. It would seem that English labor would put forth every ounce of effort possible to make its own program of socialization succeed. But the record is otherwise.

English labor must have expected too much from socialization. Or maybe the Labor Party promised too much.

Perhaps the explanation lies in an economic illusion—and illusions are common in economics the world over. Among the most common is that somehow through a neatly arranged system or organization or "ism," carefully and logically worked out on paper, we can change fundamental economic functions.

Basic principles of economics are the same under all conditions. They are identical under Capitalism, Communism, Socialism, Fascism, or Cooperation.

Regardless of system, people must work. Someone will have to save, or there can be no tools, equipment, factories, or other instruments of capital. Risks will have to be borne. There will have to be managers to coordinate the production processes. And men will have to be rewarded, because there must be incentive.

Decisions have to be made. Somehow it must be determined: (1) who shall work and at what jobs, for how long, and under what conditions; (2) who shall manage and direct; (3) what goods shall be produced and in what amounts; (4) who shall consume the goods produced and to what extent.

These are vital decisions in economic life. How and by whom they are made may mean the difference between freedom and enslavement. It may mean the difference between opportunity and caste.

Systems differ in the way these decisions are determined. Under Socialism, Communism, and Fascism they are determined by authority. The authority is the government, and the government becomes all-powerful because it is the authority.

In America we have allowed a relatively great amount of freedom to the individual in determining his role in the economic process. Until recent years expressions were largely made through dollar ballots and not political ballots. There was rough and imperfect relationship between individual reward and individual contribution, but the relationship was present and noticeable. Opportunity favored some over others, but there was opportunity for all. There still is.

Despite all of its shortcomings, the economic scheme in America has made by results its own strong case in its own defense. Extremes are great here, but the masses of people in this country enjoy the world's highest plane of living. We produce far more food than we consume. We are the best clothed and the most adequately housed people in the world. It is estimated that with only 7% of the world's population and about 6% of the earth's surface, we have nearly three-fourths of the world's automobiles, more than half of the telephones, and almost half of the radios.

The role of government in America has increased vastly in this generation. We too have been making more and bigger decisions through governmental authority. Some realists are alarmed by the trend and contend that we too may be seized by the illusion that governments support men.

As political ballots in the election replace dollars in the market-place as the guiding force, the realist wants to know what assurance there is that people will vote more wisely than they spend. England may provide the answer, but to date she has not.

My own view about Socialism and Communism is that they can never succeed. The reason Socialism and Communism won't work is because Socialists and Communists won't work.

Bissell Elected Director

Alfred E. Bissell, of Wilmington, Del., a partner in the stock brokerage firm of Laird, Bissell & Meeds, has been elected a member of the board of directors of Wilson Refrigeration, Inc., a division of the Wilson Cabinet Co., it has been announced by John E. Wilson Jr., president of the company.

Mr. Bissell, a Yale graduate, has been associated with Laird, Bissell & Meeds since Sept., 1926 and became a partner of the firm in 1930. He is a director of Coca-Cola Bottling Plants, Inc., and the Farmers Bank of Delaware. During the last war Mr. Bissell served as a member of the U.S. Army Air Forces.

The Wilson company manufactures home and farm freezers, milk coolers and commercial refrigeration products.

Herrick, Waddell Adds Four

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—E. F Dunkle, Lloyd Wallace, James G. Walsh, and Victor Williams have been added to the staff of Herrick Waddell & Co., Inc., 1012 Baltimore Avenue.

IBA PAST PRESIDENTS

1918-19

W. G. Baker, Jr.

1915-17

Lewis B. Franklin

With Holley, Dayton & Gernon

MINNEAPOLIS, MINN.—Dale R. Wikman is now with Holley, Dayton & Gernon, Rand Tower.

With King Merritt & Co.

MINNEAPOLIS, MINN.—John Abeln, August Willek, and Michael G. Winter have joined the staff of King Merritt & Co., Inc., Pence Building.

IBA GROUP CHAIRMEN

CALIFORNIA

Warren H. Crowell

ROCKY MOUNTAIN

Bernard Kennedy

Meers to Be Partner In White Weld & Co.

CHICAGO, ILL. — Henry W. Meers will be admitted to partnership in the New York Stock Exchange firm of White, Weld & Co. on Jan. 1st. Mr. Meers has been with the firm in charge of their Chicago office, 231 South La Salle Street.

On Jan. 1st Francis M. Weld, general partner in the firm will become a limited partner.

Zuckerman, Smith & Co.

Following the dissolution of Paul S. Zuckerman & Co. on Dec. 31, the New York Stock Exchange firm of Zuckerman, Smith & Co. will be formed on Jan. 1, 1948, with offices at 61 Broadway. Partners will be Paul S. Zuckerman, and Joseph Esposito, both Exchange members; H. Bertram Smith, Lester E. Degenstein, James W. Wolff, general partners, and Samuel M. Goldsmith, limited partner.

Ex-Cathedra

"I know of no better expression than 'terrifying' to characterize the possibility of a third World War as war would be waged today and tomorrow. To think in terms of dollars and cents in this tremendous issue is puerile. The Marshall Plan is the only plan that can even hope to solve the problem."—Joseph Clark Grew, formerly Under-Secretary of State.

"We must realize by now that we can no longer insulate ourselves from the world. Foreign affairs are now our most intimate domestic concern. Poverty anywhere creates poverty here. Economic stagnation anywhere in the world reaches into our economy and our homes. Cold and hunger that result in closed plants anywhere affect each of us here. Controls required to regulate disrupted economies mean controls here."—Karl T. Compton, President of the Massachusetts Institute of Technology.

"If we are not willing or able to help these countries [of Europe] restore their production and purchasing power, we shall have to curtail our output. Our choice is simple—either we help them regain productive pursuits and purchasing power and share prosperity and peace, or we will be forced to share their ruin."—Roger Lapham, Mayor of San Francisco.

It would be interesting to see how these gentlemen would defend such statements as these.

We are certain that we have seen scores of similar assertions. We can recall no cogent argument in support of one of them.

Woodard-Elwood Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Joseph P. O'Grady has been added to the staff of Woodard-Elwood & Co., Rand Tower. In the past he was with Caldwell-Phillips Co. and Wells-Dickey Co.

Joins I. M. Simon & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO. — John M. Longmire and Hunter L. Wolcott have become affiliated with I. M. Simon & Co., 315 North Fourth Street, members of the New York and St. Louis Stock Exchanges.

Brown & Bigelow Stock Offered by Otis & Co.

Otis & Co. of Cleveland on Dec. 18 offered 1,038,207 shares of the common stock of Brown & Bigelow, St. Paul, Minn., the largest manufacturer of remembrance advertising in the world. The public offering price is $9.50 per share.

Under the direction of Charles A. Ward, President, the company's sales increased from $2,700,000 in 1933 to over $30,000,000 in 1946 and in 1947 have already exceeded $34,000,000. Net earnings for the year after taxes are expected to exceed substantially the $2,227,839 reported in 1946. This is equivalent to $1.76 per share on the total of 1,263,645 shares to be outstanding. The company has announced its intention to pay an initial quarterly dividend of 25 cents per share on the new common stock in March of next year.

Brown & Bigelow's business, established in 1896, consists of the design, manufacture and sale of products which, under the trademark "Remembrance Advertising," are sold to business firms ranging from some of the country's largest corporations to the smallest concerns in practically every county in the United States. The company is the largest manufacturer of advertising calendars and also produces a varied line of leather goods, greeting cards, playing cards and many other novelties. The company is doing business with 180,000 customers and has 5,600 employees.

Stockholders Approve Blair & Co. Changes

Stockholders of Blair & Co., Inc. have approved proposals to change the Company's name to Blair Holdings Corporation and to transfer its business of underwriting and distribution of securities to a new and wholly-owned subsidiary under the present name, Blair & Co., Inc. The proposals voted by shareholders will become effective at the close of business Dec. 31, 1947.

The changes were sought in a move to achieve simplification and greater efficiency for the Company which has diversified activities.

The new consolidated corporate structure will have Blair Holdings Corporation as parent company. In addition to the new subsidiary, Blair & Co., Inc., other subsidiaries will be Lucky Stores, Inc., chain food stores; Pepsi-Cola Bottling Co. of Los Angeles, bottler and distributor of soft drinks; Auto-Vend, Inc., vending machine business, and "Pop" Corn Sez, Inc., popcorn business.

IBA GROUP CHAIRMEN

MINNESOTA

Charles R. Park

SOUTHWESTERN

F. H. MacDonald

TEXAS

William N. Edwards

Russia Devalues Ruble

The Moscow radio on Dec. 14 made the expected announcement of the devaluation of the Russian ruble. The extent of the devaluation cannot be definitely determined at this time because of the graduated scale adopted. Savings bank deposits and Russian Government bonds are scaled down about one-third, but actual rubles are reduced in face value as much as 90%. The devaluation is to take place in the week of Dec. 16-22. Along with devaluation it was announced that rationing of food and industrial goods would be abandoned, but price controls would be continued. It is stated that these "reforms" are for the purpose of combating inflation and eliminating black markets and speculation. The text of the official announcement of the devaluation follows:

In Russia, Moscow radio today announced a decree providing for the revaluation of the ruble. The new ruble will be issued at a rate of one for 10 of the old rubles surrendered by citizens. In the case of funds on deposit, however, new rubles will be issued on the basis of one for one up to only 3,000 rubles. In connection with the currency reform the decree also abolished rationing of food and manufactured goods.

The new currency and the basis on which it is to be exchanged were foreshadowed by a wave of panic buying in Moscow and a number of other Russian cities. As reported Dec. 3 by the "Voice of the United States," raids on durable goods reached such proportion that some Moscow stores were forced to close their doors.'

Secretary Snyder on Dec. 15 issued the following statement on the subject:

"I have seen no official report respecting the currency conversion which, according to press statements, is to be carried out in the U.S.S.R. during the current week.

"Currency conversions of a much milder sort have been a part of post-war inflation control in numerous countries, including several non-communist countries of Western Europe. It is interesting to find that the U.S.S.R. is faced with the same problems and must turn to a more severe form of the same device in order to meet them.

"These Western European conversions were aimed solely at soaking up excess purchasing power at a time of extreme shortage of goods. They were *not* linked with action to devalue the currency by changing the foreign exchange rate. So far as can be determined by press reports, this is also true of the projected conversion in Russia.

"In fact, if a currency conversion is effective in slowing down inflation, it may reduce pressures leading to devaluation."

Oliver H. Everett to Be Partner in Hornblower & Weeks

Oliver H. Everett, member of the New York Stock Exchange, will become a partner in Hornblower & Weeks, 40 Wall Street, New York City, members of the leading national exchanges, on Jan. 1. Mr. Everett has been active as an individual floor broker.

Alfred R. Meyer, general and limited partner in the firm, will cease to be a general partner as of Jan. 1, but will remain as a limited partner.

New Hecker Co. Partners

PHILADELPHIA, PA.—Hecker & Co., Liberty Trust Building, members of the New York and Philadelphia Stock Exchanges, will admit Lennington H. Shewell to partnership on Jan. 1.

Reading Tube Stock Placed on Market

Aetna Securities Corp. and associates publicly offered Dec. 17 a new issue of 200,000 shares of 50-cent class A cumulative and participating stock, without par value, of Reading Tube Corp. The stock is being offered at $6 per share.

Net proceeds from the sale of the stock will be used towards the reduction of bank loans which were created for additional plant facilities and to finance increased inventories and accounts receivable.

During the war the company's plant in Reading, Pa., was engaged primarily in the manufacture of cold drawn seamless steel tubing and cast steel flanged fittings. Since December, 1945, the company has been producing copper tubing, which is used widely for plumbing and heating and household utility items and for other industrial purposes.

Net sales for the fiscal year ended March 31, last, totaled $4,526,013 and net profit for the year was $253,368. For the six months ended Sept. 30 sales totaled $3,240,359 and estimated net profit was $279,179.

Upon completion of this financing, the company will have outstanding a funded debt of $303,750; 265,608 shares of 50-cent class A cumulative and participating stock, and 400,000 shares of class B common stock.

New York Stock Exch. Weekly Firm Changes

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

Cecil Barret, general partner in Spencer Trask & Co., will become a limited partner effective Jan. 1, 1948.

William E. Kidd will retire from partnership in J. C. Bradford & Co. on Dec. 31.

Byrd W. Wenman, Jr. will withdraw from partnership in Parrish & Co. on Dec. 1.

Robert S. Scheer will retire from Scheer & Co. on Dec. 31.

James Warnock, Jr. will retire from partnership in A. C. Wood, Jr. & Co. on Dec. 31.

William H. Beaver, member of the Exchange, died on Dec. 9.

Interest of the late Edward J. Duffy in Edward J. Duffy & Co., ceased Dec. 4.

Transfer of the Exchange membership of the late John J. McKeon to Wilbur G. Hoye will be considered on Dec. 23. Mr. Hoye will continue as a partner in Chas. W. Scranton & Co.

IBA GROUP CHAIRMEN

NORTHERN OHIO

Russell J. Olderman

OHIO VALLEY

John G. Heimerdinger

WESTERN PA.

Nathan K. Parker

Two With Kalman & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. PAUL, MINN.—Valentin E. Blacque and Raymond W. Gale have become associated with Kalman & Co., Endicott Building.

Draper Sears to Admit

BOSTON, MASS. — Draper, Sears & Co., 53 State Street, members of the New York and Boston Stock Exchanges, will admit George Draper to partnership on Jan. 1st.

The State of Trade and Industry

(Continued from page 5)

steel market conditions or are willingly fostering propaganda to restore such allocations. With few exceptions, the tight steel supply, the current gray market and the condition of the raw material picture are no different than they have been for months on end, states the "Iron Age," national metalworking weekly, in its current survey of the steel industry.

Hundreds of steel users still find it difficult to obtain as much steel as they think necessary to maintain schedules to meet demand for manufactured products, but on an actual tonnage basis they are getting more steel than they received a year ago.

According to information obtained by the "Iron Age," consumers who are seriously short of material do not favor an imposed allocation control plan. They recall that earlier this year the purely voluntary freight car program under which the steel industry agreed to specific allotments made itself felt among all other types of steel users.

Unless the steel industry and its leaders put up a stronger personal appeal or defense for the current record-breaking output of steel production, the above trade authority observes, it may wake up to find that the pressure for an industrial straitjacket has been too much for Congress.

The current dither about the gray market in steel has expanded all out of proportion to the size of such a market, the magazine notes. This has come about because steel quotas for many customers were slashed to the bone in November and December due to a coal strike last summer coupled with a major labor tieup on a strategic industrial tieline railroad in the Pittsburgh district several months ago.

There is little that the steel industry can do to alleviate the plight of steel users any more than has already been done. The only possible answer during the first six months of 1948 is the maintaining of the present high ingot rate—a feat which will depend on the weather, scrap market and availability of pig iron.

Quotations on scrap have been forced down by lack of large-scale buying which must be resumed soon if steelmakers' inventory of scrap is not to melt away completely. The "Iron Age" heavy melting steel scrap composite price went down 50 cents a gross ton this week and now stands at $39.75 a gross ton. This continues a gradual decline over the past seven weeks from the record level of $42.58 a gross ton reached during the week of Oct. 30.

Steel production in the United States this week is scheduled at the highest rate since the week of April 24, 1944, when output reached 100% of theoretical capacity. The country at that period was waging a two-front war.

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 97.8% of capacity for the week beginning Dec. 15, 1947, and compares with 97.7% one week ago, 97.0% one month ago and 83.9% one year ago.

This week's operating rate is equivalent to 1,711,400 tons of steel ingots and castings as against 1,710,000 tons last week, 1,697,400 tons a month ago and 1,478,600 tons one year ago.

Freight Loadings Up 10.9% Stimulated by Heavy Coal Shipments

Loadings for the week ended Dec. 6 totaled 878,588 cars, according to the Association of American Railroads. This was an increase of 86,249 cars, or 10.9% above the preceding week which included Thanksgiving holiday. They also represent an increase of 149,504 cars or 20.5% above the corresponding week in 1946 and an increase of 102,212 cars, or 13.2% above the same week in 1945.

Electric Production Tops Previous High

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 13, 1947 was 5,327,470,000 kwh., according to the Edison Electric Institute. This figure exceeded by 109,520,000 kwh. the previous high production record of 5,217,950,000 kwh. reached for the week ended Dec. 6, 1947, and exceeded by 11.5% the 4,777,943,000 kwh. turned out in the week ended Dec. 14, 1946. The week ended Dec. 13, 1947 was the seventh week in the history of the industry in which electric production exceeded 5,000,000,000 kwh.

Automotive Output Sets New Postwar Record

Notwithstanding continued low truck production by Ford and Dodge, these producers being in the process of changing over to new models, car and truck output broke through a new postwar high last week of 116,535 vehicles, according to estimates given by Ward's Automotive Reports.

This compares with the previous record of 115,197 units set in the week ended Nov. 22, last.

Last week's output for the industry is made up of 88,625 passenger cars and 22,670 trucks built in the United States and 3,880 cars and 1,360 trucks in Canada. In the comparable week last year, 96,887 vehicles were built, while in the corresponding 1941 period the total was 95,990.

Thus far in 1947, U. S. manufacturers have turned out 3,365,499 cars and 1,175,945 trucks, and Canadian plants have built 159,968 cars and 89,509 trucks, making the grant total 4,790,921, according to Ward's estimates.

Business Failures at Highest Level For Any Week Since May

A sharp rise occurred in commercial and industrial failures in the week ending Dec. 11, Dun & Bradstreet, Inc. reports. Eighty-seven concerns failed, the largest number reported in any week since May. This compared with a total of 60 for the preceding week and 33 for the corresponding week of 1946. More failures were reported than in the same week of any of the years 1943 through 1946, but only one-third as many as in prewar 1939.

Most of the week's failures, 73 out of 87, involved liabilities of $5,000 or more, an increase from 51 a week ago. They were three times as numerous as in the comparable week last year when 25 occurred. Small failures with losses under $5,000 rose slightly from 9 last week to 14 in the week just ended and compared with 8 in the same week of 1946.

The increase in failures during the week was evident in all industry and trade groups with retail failures up most sharply to 38 against 24 in the previous week. Almost five times as numerous as in the corresponding week of last year, retail failures reached the highest level of any week since 1943.

Manufacturing, which claimed the second largest number of failures this week, had only slightly more concerns failing than a week ago. While increases from the previous week and from the 1946 level occurred in wholesaling, construction, and commercial service, failures remained relatively low in these lines, numbering 11, 8 and 5 respectively.

Geographically, the week's failures were concentrated in the Middle Atlantic States with 26 and the Pacific States with 25. While sharp gains occurred in the Pacific States, only mild fluctuations appeared in other areas.

Food Price Index Registers First Drop in Six Weeks

Down for the first time in six weeks, the wholesale food price index, compiled by Dun & Bradstreet, Inc., declined to $7.12 on Dec. 9, from the all-time high of $7.17 recorded a week earlier. The latest index represents a rise of 12.1% above the $6.35 for the corresponding date a year ago.

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 Index Hits New Postwar Peak

After trending lower during most of the week, the Dun & Bradstreet daily wholesale commodity price index advanced to a new postwar peak, aided by a late recovery in cotton, coupled with advances in crude oil and rayon prices. The index closed at 301.89 on Dec. 9, compared with 298.02 on Dec. 2, and with 240.85 a year ago.

Grain markets were nervous and prices developed considerable weakness in contrast to the marked strength of the preceding period. Wheat prices broke sharply under scattered liquidation, absence of government buying in cash wheat markets and the expectation that farmers would be offering grain much more freely after Jan. 1. Recent heavy rains in Kansas improved the outlook for the new crop, but late reports of much colder weather over the winter wheat belt was said to have caught new crop without snow protection. Corn declined in late transactions, reflecting some expansion in country offerings and the anticipation of continued curtailment of usage by distillers and brewers. The domestic flour market was featured by the purchase of large quantities of winter and spring wheat flours by an eastern chain baker.

Butter prices continued to rise sharply with eggs and cheese also moving higher.

Weakness developed in the lard market, resulting from liquidation and hedge pressure. This was largely induced by heavy market receipts of hogs which totaled 628,000 head the past week, as compared with 480,600 for the corresponding week last year.

Cotton prices continued to move irregularly with slight net gains recorded at the end of the week. Trading was moderately active and farmers as well as shippers and merchants were said to be offering more freely. Early strength was influenced by replacement buying and good mill demand for both forward and prompt delivery. Prices declined somewhat at mid-week due to lessened demand but the reaction was only temporary.

In its final crop report of the season, the Crop Report Board of the Bureau of Agricultural Economics estimated total production of cotton for this year at 11,694,000 bales, or 189,000 bales more than the Nov. 1 official forecast of 11,505,000 bales.

This contrasted with a reduction of about 200,000 bales, according to preliminary estimates of private authorities. Sales of cotton registered under the export program during the week ended Nov. 28 were reported at 50,900 bales according to the Commodity Credit Corporation. This compared with 31,600 bales for the previous week and brought total registrations for the season to date to 288,800 bales.

Numerous sales of relatively small lots of domestic wools were noted in the Boston market last week but total volume remained small due to the acute scarcity of choice fine grades. Prices held firm in the Australian wool auctions with demand from the United States showing improvement. Imports of apparel wools into this country held at fairly high rate with Australian wools predominating.

Retail and Wholesale Trade Volume Holds at High Level

Most areas reported that Christmas shopping was in full swing the past week. Retail dollar volume was up moderately from that of the previous week and was moderately to well above that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current review of trade. Consumers were primarily interested in good quality, reasonably priced items.

Food volume declined slightly in the week but was well above that of a year ago. Prices of most foods, especially meat and dairy products, remained high. Canned and frozen foods sold well with fresh fruits and vegetables in steady demand. Poultry, fish and the cheaper cuts of meat were bought heavily.

The supply of almost all food items was adequate and the demand for top grade, high priced foods was noticeably lighter than in recent weeks.

Men's and women's apparel continued to move well, although there were indications that Christmas buying has somewhat reduced clothing sales. Lingerie, gloves and other items suitable for gifts were in good demand. Top coats and sportswear sold well, although some retailers reported sales slightly below those in the similar period a year ago. In some areas men's wear and accessories were in short supply.

Toys, housefurnishings, appliances and luggage were eagerly sought by consumers. Small household appliances were plentiful, but the supply of refrigerators, washing machines and sewing machines was limited. Interest in furniture was directed toward small tables, lamps and kitchen equipment. Paints, building materials and light hardware were heavily purchased.

Retail volume for the country in the period ended on Wednesday of last week was estimated to be from 9 to 13% above that of a year ago. Regional estimates exceeded those of a year ago by the following percentages: New England, 7 to 11; East and Southwest, 8 to 12; South, 6 to 10; Middle West, 9 to 13; Northwest, 10 to 14, and Pacific Coast, 12 to 16.

While slight year-end declines in new order volume were reported in some localities, generally re-orders of seasonal merchandise were numerous. Total wholesale volume the past week remained well above that of the corresponding 1946 week. It was very close to the high levels of recent weeks. Shipments generally were much more prompt than they were a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 6, 1947, increased by 7% from the like period of last year. This compared with an increase of 10% in the preceding week. For the four weeks ended Dec. 6, 1947, sales increased by 9% and for the year to date increased by 8%.

Here in New York last week Christmas shopping found its stride resulting in larger gains in sales volume both for the week and one year ago. In wholesale markets, however, a falling off in activity was noted.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 6, 1947 increased 2% above the same period last year. No change was recorded in the store sales for the week ended Nov. 29 over that of a year ago, according to revised figures. For the four weeks ended Dec. 6, 1947, sales increased 4% and for the year to date rose by 9%.

William Winchell to Be Goodbody Co. Partner

BUFFALO, N. Y.—William D. Winchell will be admitted to partnership in the New York Stock Exchange firm of Goodbody & Co. on Jan. 1st. Mr. Winchell has been with the firm for many years in charge of the Buffalo office, 17 Court Street.

IBA GROUP CHAIRMEN

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T. Johnson Ward R. W. Pressprich, Jr. C. G. Fullerton

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Richard W. Simmons

MICHIGAN

Gerald E. Miller

MISSISSIPPI VAL.

Bert H. Horning

Halsey, Stuart Offers Central Power Bonds

Halsey, Stuart & Co. Inc., heads a group of dealers which was awarded $6,000,000 Central Power & Light Co., first mortgage bonds series B, 3¼%, due Oct. 1, 1977 on a bid of 101.488%. Reoffering of the bonds is being made at 101.93% and accrued interest to yield approximately 3.15%. Proceeds from the sale of the bonds are to be applied to the cost of additions and extensions of the company's properties.

The company is engaged principally in providing electric energy and ice in south Texas. For the 12 months ended Sept. 30, 1947 approximately 77% of its operating revenues of $17,030,809 was derived from the sale of the electricity and approximately 23% from the sale of ice. During that period the company reported gross income, after depreciation and all taxes, of $4,355,051; maximum annual interest requirements on bonds and notes outstanding, including the series B bonds, will be $1,025,250.

Central Power and Light Co. renders electric service at retail in 41 counties, comprising an area of about 42,000 sq. miles and with an estimated population of 606,000. Among the principal cities served are Corpus Christi and Laredo.

Business Conditions and the Banks

(Continued from page 7)

physical output to a point where it could appreciably offset additional inflationary pressures. Foreign demand will continue at a high rate and, in view of conditions abroad, there seems to be no likelihood of a counter inflow of goods from other parts of the world.

Certainly, prospects for an increase in food production are very slim if the latest official predictions as to crop in the United States and Europe are correct. Some increases in steel production are scheduled, but this essential metal, along with labor, are expected to remain in short supply compared to demand, and as a result, our productive facilities cannot add materially to the flow of goods even though many of our plants are operating substantially below capacity.

To attempt to raise production through large-scale construction of new plants will be of no value in the next 12 to 24 months and, in fact, such a move would have the effect of lowering the output of consumer and consumer durable goods through cutting into the supply of raw materials and labor. In which event the price level would be given an additional push upward.

Prospects are thus apparently very bright for 1948 even though many people living on a fixed income, and on certain classifications of "white collar" salaries, will find themselves increasingly priced out of the market for various goods as a result of rising expenditures for food, housing, clothing and other necessities. Further grumbling by labor about the high cost of living can be expected as well. Yet, labor as a group, along with the farmer, should benefit more than any other segment of the population as it did in 1947. Industry, with the assurance of almost unlimited business for some months ahead, will readily give in to demands for higher wages just as it did this year so as to prevent interruptions in production.

Industry itself will benefit from the highest dollar volume on record and earnings, despite narrowing profit margins, should surpass the expected $16 billion for 1947. Though we must take into consideration that the dollar just is not worth what it was before the war when assessing either wages to workers and profits of business.

On a basis of size alone, the present boom is unique, but it also contains two phenomena that make it even more outstanding. First is a widespread feeling of pessimism about the future which can be summed up by a recent remark I overheard that went something like this: "Sure, business is swell and I'm making a pile of dough, but what a mess we're headed for a year or two from now." This attitude is quite prevalent throughout the East and Middle West, and in eastern Canada as well, I know by personal experience, and other observers tell me they have met it in nearly all other sections of the United States. This foreboding of calamity is not confined to trained observers alone, but is common among so-called captains of industry and finance, government officials and laboring people. Because of it I am tempted to define the times as a period of "panic-stricken prosperity."

The other peculiar feature of the present boom is the failure of the stock market to react to record earnings, increased dividends and other favorable signs pointing to prosperity. A part of this can be blamed on taxes, high margin requirements and bitter memories of 1929 and its aftermath. However, I believe the principal cause is that investors have assessed the future and arrived at the conclusion that uncertainties at home and abroad hint of serious difficulties to come.

This lack of faith has manifested itself to a large extent in a resistance to high prices and, consequently, the velocity of money, or the rate of spending, in relation to the money supply has remained low. In a negative way this has acted as an anti-inflationary influence. Unfortunately, people become used to high prices and adopt a fatalistic outlook toward the future and then start spending their money. Lately, there have been some indications of such a trend and the velocity of money has started slowly moving upward. Let us hope it does not go too far and too fast, because if spending really moves into high gear the results will be serious. A 25% rise in the velocity of money could supply the pressure needed to drive prices up so quickly and to such a high level that there would be only one way for them to go and that is down at a rate far faster than they went up.

The causes of, and the principal danger areas of the boom economy, can be summed up under five headings. They are first the oversupply of money resulting from 15 years of deficit financing. Second, is the natural stimulus affecting food prices in prosperous periods, along with unnatural forces, such as crop damage and the government price support program, all of which have contributed to food costs moving to record heights. Third, is the fact that we have full employment which has led not only to high labor costs, but also to labor inefficiency. Fourth, is the tremendous productive vacuum created throughout the world by the war into which a substantial share of our output is being sucked.

Last, but not least, is the inherent inefficiency in our building industry, which along with demand created by easy credit and guarantees has caused the costs of housing to move to new peaks.

The most notable effects of the boom in so far as the banks are concerned have appeared in the field of credit with the exception of securities loans, and in a tendency toward higher interest rates on all categories of risks not excepting obligations of the Treasury. Commercial and industrial loans outstanding at the banks have surged well above the record established after the first World War. In the last 20 weeks alone these commitments at the reporting member banks of the Federal Reserve System in New York City have shown an advance of 27%. At reporting banks in 94 leading cities the gain has been 21% in the same period. The rise in the last four weeks has been definitely a reversal of the usual seasonal decline.

This upward spiral in business loans is a direct reflection of rising prices and business operating costs. So long as the price level continues to go higher it is almost a certainty that loans will continue to move up also. There is no doubt that a major part of these loans have been made for productive purposes, despite accusations of speculation being bandied about in Washington during the last two months.

A substantial part of these loans, it is true, have not added one item to production, but they have been essential to support inventories and receivables in a period of constantly rising costs and prices. Thus they have contributed to maintenance of current rates of production.

If the base of bank credit is cut either through establishment of secondary reserves as proposed by the Federal Reserve Board, or by other too drastic means, there is a strong likelihood that the authorities may accomplish just the opposite of what they intend to do. Instead of reducing inflationary pressures they may increase them by depriving business of some of the credit so vital to present high operating levels.

Along with heavy investment in business loans the banks have expanded their commitments in a highly inflated real estate market in the last 12 months and the trend is moving upward at an accelerated pace. Finally there is that favorite nightmare of the Federal Reserve Board, consumer loans, which are now at a peak, and if Regulation W is not reimposed, these commitments very likely will double in a relatively short period of time.

It is loans to business that bankers must watch most closely as it is in this category that difficulties first will appear, which in turn will be an indicator of trouble in real estate and consumer loans.

One of the principal effects of the rise in loans has been a rapid change in the proportion of risk assets to holdings of riskless government obligations and to the amount of banking capital. Some bankers, like people in all other categories including newspapermen suffer from hardening of the intellect. They still regard their business and other loans in the same light as they did in the middle of the war, when loans were based on production of goods in an assured market and at a fixed price. They have failed to recognize that this set of ideal circumstances has gone with the war, and have yet to face the hard truth that loans made today are largely secured by inventories purchased at record prices and therefore subject to huge losses from any serious decline in the price level. They have forgotten that when prices decline from a peak business failures follow from consequent losses of working capital.

Another factor which makes the present situation dangerous, especially for the banks, is that neither business or the country are psychologically prepared to deal with our new economy. We have yet to become accustomed to the fact that the country has grown enormously since 1939. For example, business in 1939 probably could have adjusted itself quite readily to a 10% drop in national production which would have involved about $9,000,000,000. Today, however, a 10% decline in national product would amount to between $20,000,000 and $25,000 000,000 and I doubt if mentally we have grown to the point where such a drop would be faced with equanimity.

As you all know the growth of bank loan portfolios hase become a subject of political debate, and in some governmental quarters bankers are already being measured for a fine, black, fleecy pelt in which to play the role of scapegoat. You will not be alone in this part, but certainly there is evidence that the stage has been set to blame a large part of the inflation and its consequences on expansion of bank credit. Wasteful government fiscal policies, unnecessary deficit financing, and the major contributions made to credit expansion by various government agencies will of course be passed over.

These political and propaganda difficulties are hard to grasp and will make themselves felt to a greater degree at some time in the future. The only answer to them is for the banks to prove their worth to their communities.

Yet, the impact of the advance in loans, and fears, however, justified, of their inflationary character have received recognition in official and semi-official quarters in a manner that has a direct bearing on interest rates. Both the Treasury and the Federal Reserve Board have permitted short-term interest rates on government obligations to rise, and have readopted a policy of cutting bank reserves through retirement of Federal Reserve held debt, both of which programs have caused an upward movement in the cost of money to borrowers.

Adjustment of short government rates and reduction of bank reserves were adopted by the monetary authorities as a means of forcing the banks to be more cautious in making loans, especially for what are called speculative purposes. It is too early to assess the results of this program. That it has some effect, at least as far as New York City banks are concerned, is evident in the announcement by Bankers Trust Co. of an increase of ¼ of 1% in its lending rate to prime commercial borrowers. In addition all of the major banks in the City are in a tizzy trying to decide whether they should follow Bankers Trust lead.

This was the first time that the basic rate had been changed by a New York City bank in 12 years and it may be significant as an indicator of an acceleration of the trend toward higher interest charges on all classes of bank loans throughout the country. If such is the case, of course, it foreshadows a further rise in bank operating earnings next year over the improved level reported in the last six months of the current one.

This is all to the good but there is an unfavorable side to the interest picture as well. A reaction was set off by the monetary authorities when they eased short-term Treasury rates, that may make it costly to the banks, and which has already caused sleepless nights to managers of bank investment portfolios and of funds left in trust to the banks.

Repercussions of the change in short rates and the squeeze on bank reserves have been evident all along the line. Long-term government bonds have fallen to new lows, and might have gone below par if it were not for substantial support from the Federal Reserve Banks. There has been no such support for non-government securities and in the last two months high grade investment bonds have dropped below par, and blue chip preferred stocks have declined as much as 20 points and more, and the bottom does not yet appear to be in sight.

There are some observers who consider the move to higher yields and lower prices entirely due to action by the monetary authorities regarding short-term rates. I am of the opinion that the authorities' action may have been the straw that broke the camel's back, but that the real cause is a demand on the part of investors for a greater return on their money in relation to the risks involved in investing in a highly inflated financial and business structure. It is the start of a definite move toward higher interest rates on investment and is a reflection of the tremendous demand for capital to support an economy that has grown larger than any of us realize.

Thus conditions affecting both loans and investment are very fluid and it will require all of your care and ingenuity to come out unscathed, and the future of banking as a free enterprise will depend to a large degree on how successful you are in dealing with credits and investments acquired in what is undoubtedly an unstable period in the country's economic development.

When you take risks, which all bankers must do, make sure that they are not for speculative accumulations of inventories and that the financing is necessary to either maintain or increase production. If you break this rule your enemies will be supplied with additional ammunition which they will use to demand further control over the banks and ultimately the banks may be nationalized at least in fact if not in name. Also, when you assist speculation with bank funds at a time like this you certainly are not helping either the community or the country.

It is well to rebember that a recent poll showed that a substantial part of the population reported they could not remember a time when banks were of service to them, and a number of replies were received that indicated that many people are indifferent to or approve of nationalization of the banking system. Under circumstances like this it is essential that a good job be done by our bankers and that they inform the peoples of their respective communities of the fact.

Each and everyone of you must be your own economist as you are the best judges of conditions in the areas which you serve. Get to know not only your customers but also all the people that some day might be customers if a friendly and confident relationship is built up before-hand. But most of all beware of too rapid rises in prices within the next year or two and carefully watch inventories at the same time because if a crash is coming it will first appear in these two indicators.

Vander Noot & Schwerin To Be Pell Partners

Harry Vander Noot and Frederick W. Schwerin will be admitted to partnership in Pell & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, as of Jan. 1st. Mr. Schwerin in the past held partnership in the firm, with which Mr. Vander Noot has been associated for some time.

On Dec. 31, William M. Erb will withdraw from partnership in Pell & Co.

IBA GROUP CHAIRMEN

SOUTHEASTERN

George D. List

SOUTHERN

Harry H. White

Canadian Securities

By WILLIAM J. McKAY

Canada's most important economic drawback is not her current lack of U. S. dollars, her dwindling gold production, or her foreign market difficulties, but the glaring inadequacy of her population in relation to the known national resources. To some extent the Dominion's cautious approach to a definite immigration policy has been induced by political motives. The false conception has also existed that Canada could not support a population greatly in excess of the present total. Furthermore there have been basic doubts as to the wisdom of boosting to any degree the volume of agricultural production.

There has been recently a slight change in the official attitude towards this problem and the previously rigid immigration restrictions have been relaxed to some extent, but this is not enough. Never has there been a better opportunity for a young country such as Canada to attract a large-scale flow of desirable immigrants. It is true that the housing situation presents a formidable obstacle but this problem has arisen mainly as a result of the lack of appropriate manpower. Also the decline in mining production and of gold in particular can be principally ascribed to labor deficiencies. Less would be heard of the current hardships of the gold mining industry and the desirability of a devaluation of the Canadian dollar if an adequate volume of labor were available. Thus disregarding the question of the exploitation of Canada's undeveloped natural wealth, there is now a definite shortage of manpower for the maintenance of the Dominion's present scale of production.

When consideration is given to the tremendous scope for development in the vast empty spaces of the Canadian Northern Empire the urgent necessity of a bold, imaginative immigration policy is all the more apparent. Apart from the tremendous economic advantages that would result from the opening up of the northern frontier, it is also becoming increasingly clear that the peopling of Canada's rich hinterland is now vitally important from the point of view of military strategy.

This is not a Canadian responsibility alone. The fact can no longer be avoided that the Dominion's vast unguarded northern border presents an embarrassingly difficult problem for the entire Western Hemisphere. Also with the diminishing importance of the previous strategic sea-lanes and the dynamic growth of air-power, the advantage of the command of the aerial approaches across the northern top of the world takes on added significance. The value of military outposts in this remote area is considerably lessened however in view of its distance from the established centers of civilization. For this reason attention could be very well given to the example set by Russia in establishing new industrial cities in the heart of the hitherto Siberian wilderness. Fortunately as far as the Canadian North is concerned a number of appropriate sites could be selected automatically. To cite only a few—the areas containing the iron deposits in Northern Quebec and Labrador, the coal and oil in northern Alberta and British Columbia, and the base and precious metals and oil in the North West Territories. Thus the Canadian immigration problem has far-reaching implications the importance of which far outweighs the immediate domestic considerations.

During the week the market for both internal and external securities displayed a steadier tendency after the recent general decline and appeared to have reached a levelling-out stage. The liquidation pressure appeared to have spent itself for the time being and for the most part operators remained on the side-lines. Stocks on the other hand were more active with the gold issues still in retreat following further disappointment concerning the recently announced revised relief measures for the gold-mining industry. Western oils displayed greater strength and this section now appears to have replaced the golds as the popular medium of speculative interest.

Observations

(Continued from page 5)

would be discriminatorilly removed from the market and replaced by other, wealthy consumers at home and by American-subsidized cash buyers from abroad.

Threat to Employment

Not only do consumer credit curbs thus anti-socially discriminate against the wage-earner in depriving him of needed goods, but they also embody a potential threat to employment. Recognizing this, Local 20940 of the American Federation of Labor, one of the AFL's largest locals, has appealed to Senator Flanders to desist therefrom, thus:

"If you drive the instalment purchaser out of the market for the products with which we make a living, these consumers will not have any less money to spend.

"If you cut down the sales of durable products by driving credit purchases out of the market, the results are not going to be at all what you may think—it is going to cost a lot of us our jobs and our income. It is going to decrease the production and distribution of consumer durable goods, furniture, refrigerators, washing machines and all such products. If you drive the instalment purchasers out of the market for these products with which we make a living, the would-be consumers thereof will not have any the less money to spend. They will merely go into other markets where they will not have to buy on credit. They will increase their pressure on the food markets for they will have more ready change to buy things they would do without.

"They will spend their income no matter what you do. . . . Why some people don't realize that when families have to lay aside money each week to meet a credit account, they have less to pressure food and other prices, we cannot see. . . . The price pressures which have to do with inflation are not in the consumer durable goods market to any great degree. You are not bringing down the price of foods by denying people the right to buy durable products with their incomes. Actually, if you do this, you will leave these consumers unsatisfied as to durable products but with plenty of cash in their pockets with which to bid up the price of other goods where inflation really seems alarming. Put back credit controls and you will push up the price of food and at the same time endanger the employment of our members."

Thus, there is the probability that this supposedly constructive act of "management" would have the generally unexpected and unwanted effect of threatening employment and actually accentuating the scarcity of necessaries that are already in short supply.

The Unrealized Implications

Another unlooked-for result likely to ensue from credit control is a harmful reduction of prudent, relatively uninflationary consumption, occasioned by the fact that a potential buyer with ready cash in his pocket is far more apt to buy an article at an over-priced level than is a credit-purchaser who is constrained to stop and look to his future budgeting arrangements.

At the very best, certainly the selective imposition of curtailment on instalment buying, while leaving the balance of the consumer credit field unrestricted—which is the Administration's present program—would at least shift any bidding-up of prices from one section of the sales market to another.

Hence it is evident that it behooves the public to realize how very harmful is a narcotic of "control" even if used in merely one small segment of the economy. If makeshift palliatives are imagined to be indispensible, let there at least be universal application of them.

If there were any doubt about the efficacy of even an over-all application of authoritarian management and air tight control, it must be definitely dispelled by this week's official news from Moscow, where not even the nth degree of police-statism was able to hold the inflation line.

As We See It

(Continued from first page)

and in what is generally termed prosperity—probably more or less temporary. Conceivably it might precipitate a real depression—though that appears doubtful at the moment. Neither would profit the nation anything. The fundamentals of the situation would remain much as they are now. In a fully free economy a period of depression usually corrects the ills which produced it, but there is not the slightest reason to suppose that government in this day and time would let nature take its course.

The cynic would say, indeed is daily saying, that those responsible for public policy in the coming election year are much less interested in economic statesmanship than in attracting votes. There are, however, a great many individual citizens whose primary interest is that of the country in general and of business in particular. Obviously the best remedy for the kind of politics the cynics think they now see being played is an informed public whose votes cannot be attracted by any such sham battles as are thus suggested. For this reason it would appear worth while to inspect these proposals which otherwise might scarcely be worth much notice.

Inflation, Past and Present

The futility, or worse, of such measures as these will best be understood if certain fundamental truths are constantly kept in mind. The first and most fundamental of these is the simple fact that the danger now is not inflation nearly so much as the natural result of the inflation which has already taken place and already been permitted to eat its way into our economic system at almost every point. The fact of inflation is to be read in the financial statistics published from day to day, in which is disclosed the circumstance that the money supply is now three times that of 1929, while the total volume of business even at current prices is only about twice that of the earlier year. The record breaking volume of business being conducted today is able to keep total money supply far less active than was the case even in the depression years of the 'Thirties. Little or nothing that is being done or proposed has much, if any, bearing upon such relationships as these. What is sought is some means by which it may be possible to prevent these conditions from having their normal, natural effects.

Both Democrats and Republicans alike appear, moreover, to be slaves of the basic fallacy that production, and ever more production will immunize the community against the ravages of this inflationary virus already in its system. Now, of course, the largest possible production of those goods and services men and women really want is an excellent thing. In particular sections of the economy it will even tend presently to prevent any further rise in price or at the least temper further increases—or tend to do so at all events. Unless the economists have been universally wrong for a century or two in supposing that human wants are insatiable, it is, however, certainly no sure mode of preventing inflation from taking its natural effect, since larger production means correspondingly larger purchasing power. Indeed, in the early postwar days competent observers were heard saying that enlarged production might well serve to activate accumulated cash holdings then idle and thus tend to act as a spur to prices. The experience of the past year seems to have substantiated this reasoning.

Saving vs. Hoarding

A second false notion now current appears to be almost as fundamental. It is that somehow "saving" tends to reduce the upward pressure on prices. Of course, it need do nothing of the kind. Indeed, it will do nothing of the kind unless the savings are really hoardings. While economists differ somewhat in their concepts of "saving," it may be said in general that all agree that saving occurs when and only when some part of current income is not expended for consumer goods. According to some definitions, a man who has bought an automobile for 2,000 dollars out of current income has "saved" $2,000. The family which has paid for a washing machine out of current income has "saved" the price of the equipment, according to such conceptions of savings. All, or practically all, economists agree that any current income which goes into the construction of a dwelling house has been "saved." Of course, any funds spent to enlarge, or improve old plant, or construct new facilities — if they come from current earnings — are savings. Only when savings are hoarded —that is not spent at all either by the saver or by some

one else to whom he may have entrusted his savings—does the act of saving relieve pressure upon prices. Normally and naturally it merely transfers the pressure from one sector of the economy to another.

When the anti-inflation proposals now being brought forward in Washington are examined with these two basic truths and their full implications in mind most of them appear as futile and as foolish as they really are. Those which rely upon fiat control must condemn themselves in the minds of all those whose personal experience dates two or three years into the past. Black markets—even now existing largely because primary producers believe it long run wisdom not to take all the traffic will bear—misdirected and curtailed production, consequent scarcity of goods at any price—these are the prices we have had to pay in the past for such attempts at arbitrary control of these natural forces. There is no good reason to suppose that we should not have to pay them again.

Money Market Fol-de-Rol

As to most of the money market proposals, it is often difficult to regard them as really bona fide. Present gold certificate holdings of the Reserve banks are today far beyond anything the Republicans would require of them. The Treasury could at any time—and it could now at any moment—"sterlize" incoming gold. The Federal Reserve is making much of its efforts to tighten up short-term money market rates, but it is buying as many long-term Treasury's as it is selling short-term. And so it goes.

"Open mouth" policies are not helpful.

Canada's Need for Manpower

(Continued from page 12)

to bring to its full statute in a world of progress.

Canada's International Trade

If Canada is to find and keep her proper place in global affairs, there is no single factor more important than her ability to keep abreast of the nations in international trade. No country is more abundantly blessed with the natural resources necessary to that end than we are.

Rich as those assets are, the extent to which they can be transformed into terms of actual foreign and domestic trade depends plainly upon our ability to man our basic industries. We must produce to the utmost, so long as we aspire to an economic position in the world which is obviously beyond the physical means of our present-day population of 13 millions.

The amazing expansion of Canadian industry during the war threw a new light upon the productive capabilities of the nation, however. It is interesting to note that a great deal of the responsibility for our current development plans rests in the capable hands of the Right Hon. Clarence D. Howe, whose driving ability brought us through the problems of war production and through the rapid transition period between war and peacetime operation. The energetic steps already taken to expedite the movement of displaced persons from Europe to Canada indicate that he and the government which he serves are fully seized with the importance of fresh manpower in our growing economy.

We already have unlimited opportunity in Canada, or so I believe, and the framework of a highly efficient industrial entity. With these, there are no foreseeable limitations to our progress as a world power (not through force of arms, but by peaceful trade) in the next half century.

I would like to refer, if only briefly, to one avenue of foreign trade which Canada found during the war and which the country was quick to develop as a promising item of the future.

That is, the supply of rolling stock to the war-shattered railways of Europe, the Commonwealth and other parts of the globe.

Arising out of measures taken by the Combined Production and Resources Board of Canada, Great Britain and the United States, a Canadian Transportation Equipment Committee was continued as a Canadian institution under the Department of Reconstruction and Supply.

Carrying on a program initiated during the war, this Committee has been able to utilize Canadian plants to the extent that hundreds of railway locomotives, thousands of cars and a large supply of component parts have been exported to railways in process of reconstruction in many countries.

Born in emergency, there is little doubt that this commerce, hitherto untouched by our home industries, will continue for many years to provide an outlet for but one type of the commodities which Canada can supply in an over-all program of world trade.

The Effect of Immigration

The effect of immigration upon our domestic markets and affairs is obvious. We are self-reliant and largely self-sufficient people, even though events of the past few years have clearly demonstrated that no nation can successfully shut itself off from the rest of mankind. In the trade structure which we have erected within our own borders there are latent means to provide the major necessities of living, and many of the luxuries, for a population many times larger than that which we now possess.

It would seem to go without saying that the opportunity to utilize to the full the production and trade channels which are already in existence must provide a sure pathway to prosperity for every industry and every individual. Let me point to one Canadian industry in particular, that of transportation, in which you and I are engaged, as an example of a structure designed to handle a far greater volume of business than now presents itself. It is one which is capable of great expansion if and when the need arises.

Canada, for all her sparsity of population, has one of the greatest and most efficient transportation systems in the world, if not the greatest. I include in this general statement, which has never been seriously challenged, all forms of transport, not rail alone, but air, water and highway. That the monetary return to this industry has not, in recent years, been wholly commensurate with the services which it renders is due to many factors. Not the least of these is the definite limitation placed upon the profitable volume of the traffic by vast distances between our scattered centres of population and the complementary fact that many unprofitable services have had to be carried out in the cause of settlement and nation-building.

Inadequate Railroad Rates

Another barrier to the progress of an industry which is vital to the welfare of the nation, and every shipper and traveler in it, is that rigid control of transport revenues, particularly those of the rail carriers, has taken little or no account for many years of the inevitable and uncontrollable increases of operating every industry, including the railways of Canada. This condition has been recognized and adjusted to some extent in almost every other country in the world except in Canada a nation which has for many years enjoyed the lowest freight carriage rates in the world.

It is to be hoped that some adjustment of a situation which has become intensely serious to carriers, shippers, investors, and the great army of men and women who depend upon railway employment for their livelihood, will be made shortly and that the railways, with other necessary forms of transport, will be able to move into the new development era without the shackling handicap of unfair and inadequate revenues.

The matter is now in the hands of the proper tribunal, the Board of Transportation Commissioners for Canada, and while the examination of the railways' needs has been long drawn out, I believe that their necessity, and its certain effect upon the nation's business, has been made very clear.

It is perhaps superfluous to mention to an audience of railroaders such as yourselves the further fact that the increases in cost which were laid before the Board at the beginning of this year, have been aggravated since that time, and that further such increases are in sight. Demands for payroll increases which are excessive and if acceded to would add over sixty millions of dollars to the annual expense bill of the Canadian Pacific Railway alone, are now before us. That, I can assure you, is an added expenditure which the company could not possibly meet under present revenue conditions. The full 30% increase in freight rates which the Board of Transport Commissioners is considering will not come near meeting it.

I would be unfaithful to my trust if I did not bring out these vital influences upon the course which Canada is plotting for the future and upon her ultimate success, particularly in the light of the more favored position of our friendly but very active competitors in the railroad business in the great nation to the south.

Canadian Pacific's Role

I have spoken in a very general way of the needs of Europe and how they affect the present and future position of Canada, with some of the domestic implications which naturally follow in the train of any such discussion. Specifically, I am happy to be able to say that the company which I have the honor to represent has taken, and will take, every possible step toward full participation in any constructive program.

We do not lightly regard our previous record in the knitting together of the British Commonwealth of Nations through the Canadian Pacific fleet, and our part in wider world trade of prewar days. Nor have we forgotten the obligations which we long ago assumed toward the commerce between Canada and the Mother Country and which is now in the process of restoration.

Our fast freight service on the Atlantic has been restored through construction and purchase of ships for the famous Beaver Line, our passenger services between Canada and Europe have been partially restored and will be further augmented. It is expected that shortly after the first of the year we will be able to offer further facilities to the government in their program of moving displaced persons to this country by means of a fine ship which is being specially converted for that purpose and which left here a few days ago.

When the time comes, and I am convinced that it must, for a new colonization plan which will enlarge our existing frontiers, we feel that we are ready to resume the role which the company played in the earlier days of Canada's development and, in common with the whole transportation network of the nation, march on to a still greater future.

Securities Salesman's Corner

By JOHN DUTTON

A good salesman is temperamental. If this were not so he wouldn't have the qualities necessary for success in sales work. A good salesman is sensitive to his surroundings also to the moods and the ups and downs of those around him, and his environment. In order to convey conviction and the enthusiasm to others which cause them to follow the power of his suggestive influence, he has to control his own emotional reactions to the negative ideas which constantly are brought to bear upon him. Because salesmen who have this unusual power of projecting their own positive ideas to others are themselves highly susceptible to outside suggestive influences, it behooves such a man to be constantly on his guard against pessimistic forces.

In the securities business this is more important than in almost any other type of sales work. Selling securities is in itself an emotional operation. However, most people who own investments and who therefore talk about them, do so in terms of "up markets" and "down markets." Market psychology today has become a very important factor in the timing of investment procedure. Talk is therefore of prime importance in this business. But pessimistic talk can ruin a salesman's chances of doing business. Once you begin to believe the things you hear during periods of dull business and falling markets, you lose your enthusiasm, your drive, and your ability to motivate others along positive and constructive channels.

The following is an actual illustration of the power of right thinking which was related to the writer just last week. It seems that one salesman met another on the street. They had lunch together and at the same restaurant they met a partner in the firm with which one of the salesmen was connected. They discussed the usual topic during luncheon—slow business. The two salesmen did most of the bellyaching. The partner, after listening to them a while, invited them both to accompany him back to his office. In his mind a plan had been formed. He wanted to see whether or not he could turn their thinking around. He asked them to come into his office. Then he told them both that he thought very much of what they had been saying was true—yet he was certain that they were wrong in thinking that business was as difficult to obtain as they seemed to imagine. In fact he told them that he believed that other people in other lines of business were doing so well that most of them couldn't believe that business was at such a low point in Wall Street. He said he knew he was right because that very morning he had talked to several of his clients and had done some business with them.

Then he told these salesmen about a very attractive stock which he liked because he believed that it was much undervalued. He next invited these two doubting Thomases to sit around awhile because he wanted to make a few telephone calls. Then he picked up the phone in their presence and started to talk to several more of his customers about the excellent "buy" that he had to suggest to them. Much to the surprise of both salesmen he obtained several orders in succession for sizable amounts. Both salesmen began to feel better. Finally one said to the other, "You know, it looks to me like we've been missing something, I think we can do some business on this one too." And they did!

A Formula Plan That Always Works

(Continued from page 4)

its own record of price fluctuations under definite mathematical rules and tables. The Formula, however, is subject to change as the record of price fluctuations develops. That is, starting with an initial commitment in a certain stock today at a price of 50, the next lower level for scale-down purchasing might be 20% below at 40, but that percentage could be different at a future date. The buying levels are on a logarithmic (equal percentage) scale. The percentage for scale-up purchasing. however, is ordinarily smaller than that for scale-down buying.

In principle, the Plan operates as follows. It may be applied at any time and at any price, the first step always being to purchase at the market an amount of the stock which will use 25% of the total fund allocated to that particular issue. From there on, the buying scale percentages control further purchases.

The Plan in an Unbroken Decline

In order to illustrate how all contingencies are met, the very unusual example of a stock immediately losing most of its market value after the first purchase, and without any worthwhile recovery during its decline, will be used. Let us call the stock X which is selling at 50 at the time the Plan goes into effect with an allocated fund of $4,000.

The first move would be the purchase of 20 shares for $1,000, or one-fourth of the money available. It is assumed that the fluctuation record of X is such that the purchase scale on the way down is on each 20% decline. Therefore, the second lower buying level is at 40 which results in the purchase of 25 more shares at that price, again costing $1,000. The third and fourth buying units of $1,000 each then purchase 31 shares and 39 shares at 32 and 25½, respectively. A total of 115 shares would finally be held, and the fund would be fully invested.

Supposing still further decline, however, a course of action would be called for under the Burlingame Plan which is totally unlike any of the other Formula Plans. On a fifth 20% decline from 25½ to around 20, it would sell at a loss 29 shares of X, or one-fourth of the total held. Proceeds of this sale would then be reinvested on a sixth 20% decline in 36 shares at about 16, making an average cost of 32¾ for 122 shares. Further operations would then await a return to that price which should occur sooner or later. If not, it would illustrate the "risk" of a stock going down and staying down permanently. In that case, there would be an irretrievable loss, to be sure, but it would still be less than if a fully invested position had been taken in the beginning.

Probably nothing like that would occur once in a thousand times, but this extreme example has been used to show how the Plan would function under the most adverse circumstances. Actually, even in the tremendous drop from 1929 to 1932, the Plan showed a small gain (11.4%) on 10 active leading stocks which declined 77% between Aug. 1, 1929 and Sept. 1, 1932. This was because the whole decline was not unbroken, but was interrupted by temporary recoveries on the way down which forced the realization of profits on some of the scale-down purchases.

The Plan in a Straightaway Advance

Now, let us see how the Burlingame Plan would cope with the opposite set of conditions where the critics have assumed that a Formula Plan would put the investor entirely out of the market. It will be assumed that the price rises steadily after the initial one-fourth commitment of 20 shares at 50. The procedure in such a case also sets the Burlingame Plan off from all the other Formula Plans because of the fact that it can buy as well as sell on a scale up.

When the original purchase was made at 50, two orders would actually have been entered immediately afterward. One, of course, would have been the order to buy 25 additional shares at 40 which was assumed to have been executed in the first illustration of X dropping steadily. The second order, however, would have been to buy 17 shares "on stop" at 60 "on stop," meaning that the order would be executed at the market when the price touched that figure on an advance.

In taking the next higher buying level as 60, or 20% above the starting point at 50, it was arbitrarily assumed for the sake of convenience that the percentage scale on the way up was the same as on the way down. As previously pointed out, however, it is usually smaller in actual practice.

Now, assume that this order to buy 17 shares "on stop" at 60 is executed. This automatically calls for the cancellation of the lower order to buy at 40. Another difference between the Burlingame Plan and most Formula Plans enters in at this point, because—unlike purchases made on a scale down—each commitment made on a scale up is regarded as a separate unit in itself.

Thus, at the time that the second order to buy at 60 was executed, a profit-protecting order would be entered to sell "on stop" at 57 the shares bought at 50. Similarly, the second unit bought at 60 would receive a protective stop order at 68, after the price had advanced another 20% to the third buying level of 72. There would also be additional one-fourth purchases on a further advance as, in this case, 14 more shares at 72 and 12 more at 86. The stop orders are figured on a definite scale linked to the buying levels and are raised proportionately as the price may advance between such points. Stop orders are not ordinarily adjusted to compensate for a stock being ex-dividend or ex-rights (rights would always be sold) which is contrary to usual brokerage practice on limit orders.

On a straightaway advance. therefore, from 50 to 86, the result would be a fully invested position with 63 shares at an average cost of about 64½. Let us say that the stock is on its way to a "permanent new era" of prices (perhaps it is going to 1,000). The only thing that would happen under the Burlingame Plan in that event would be that the profit-protecting orders to sell each unit "on stop" would be raised each time that the price advanced another 20%. This effectively disposes of the charge that Formula Plans will "eventually get the investor out of the market." The reasons are that the Burlingame Plan can buy on a scale up, and that profit-realizing sales take place only on stop orders rather than at predetermined top limits as in the case of most Formula Plans.

The Plan in Ordinary Fluctuations

In the two examples used so far, very extreme cases have been taken in order to illustrate the principles involved, and it has been assumed that the price continued in the same direction without even temporarily reversing—obviously a very unlikely type of movement. In either a decline or an advance, temporary reversals of sufficient extent would change the operations.

For example, go back to the first two steps on the scale-up purchasing of X—20 shares at 50 and 17 at 60. Assume that instead of continuing on to the third point of purchase at 72, the price movement reversed itself at 63 and began an important decline. In that case, the first unit bought at 50 would be sold on the stop order at 57, while the second unit of 17 shares bought at 60 would become the first-quarter of a new purchase plan at 48, 38½, etc. Stock so purchased on a scale-down is regarded as a unit. That is, in the foregoing example, if the third purchase at 38½ were made, the total of 64 shares then held would be subject to one profit-protecting stop order on the average cost.

Thus, at all times, there are orders placed to meet any contingency that may arise except the unbeatable one of a stock losing almost all of its market value and never recovering. Protection against such a contingency can be obtained in several ways. One would be the exercise of judgment in abandoning operations in an issue that seemed to be fundamentally "going sour" for individual reasons such as deterioration of management or obsolescence of product. A second "protection" would be to spread operations over enough issues so that unexpected individual trouble in one or two would not affect total results materially. A third would be to use closed-end investment trusts as a medium, thus automatically obtaining protective diversification. Incidentally, using U. S. and Foreign Securities as such a medium, the profits under the Plan were equal to the original capital in the complete price cycle from the end of 1936 to the end of 1946. (About 175 to 175 in the Dow-Jones Industrials.)

An Average Example

An actual record taken more or less at random from recent operations will show how the Plan is likely to work in practice on an active stock with fairly wide fluctuations like Flintkote. This is not handpicked to make a good showing. In fact, the start is quite disadvantageous, because the rising trend for the first 15 months forces commitments at successively higher levels, whereas — all other things being equal — the near-term profits are better when the initial commitments can be made on a scale down. Notice from the chart of actual operations below that the last purchase on the way **up** is **almost exactly** at the 1946 peak.

Some other stocks have afforded better results. The fluctuations of American Car & Foundry, for instances, have happened to fit the Plan very well, but that might or might not continue to be true, and to give ACF's record could be misleading. Flintkote, on the other hand, may be regarded as more representative of average results.

The table below shows the complete details of all orders actually placed and executed or cancelled, while the chart of the monthly price ranges shows only the executed orders. Other pertinent facts are as follows:

(1) Capital allocated to operations—$4,000.

(2) All dollar figures are net after broker's commissions and similar expenses.

(3) Incidental dividends received (not shown in table) totaled $175.80.

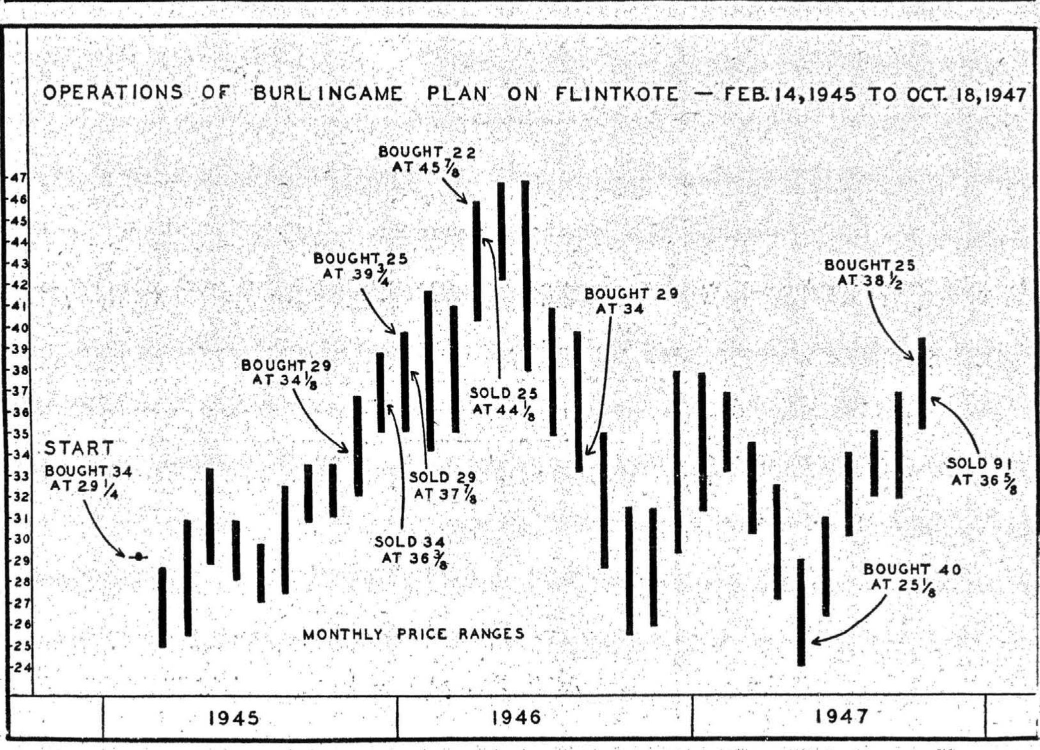
(4) Dividends and realized profits were withdrawn; there is no reinvestment of profits.

(5) Of realized capital gains, $499.60 was long-term from a tax standpoint, and $182.34 short-term.

(6) Combined capital gains and dividends taken out for the period Feb. 14, 1945, to Oct. 28, 1947, were $857.74 on the $4,000 of capital, or an average annual return of approximately 8%.

MECHANICS OF BURLINGAME PLAN
ON FLINTKOTE—FEB. 14, 1945 TO OCT. 28, 1947

ORDERS ENTERED			ORDERS EXECUTED			SHS.	DOLLAR	%
DATE	TO BUY	TO SELL	DATE	BOUGHT	SOLD	HELD	COST	INVESTED
FEB.14,1945	34 SHS. AT MARKET	———	FEB.14,1945	34 SHS. AT 29 1/4	———	34	1003.28	25
" " "	42 SHS. AT 23 5/8	———	NOV.15,1945	ORDER CANCELLED	———	—	—	—
" " "	29 SHS. AT 34 ON STOP	———	NOV.15,1945	29 SHS. AT 34 1/8	———	63	2001.75	50
NOV.15,1945	———	34 SHS. AT 32 3/4 ON STOP	NOV.15,1945	———	ORDER CANCELLED	—	—	—
" " "	39 SHS. AT 25 1/4	———	JAN.15,1946	ORDER CANCELLED	———	—	—	—
" " "	25 SHS. AT 39 5/8 ON STOP	———	JAN.16,1946	25 SHS. AT 39 3/4	———	54	1998.32	50
NOV.20,1945	———	34 SHS. AT 34 5/8 ON STOP	DEC.11,1945	———	ORDER CANCELLED	—	—	—
DEC.11,1945	———	34 SHS. AT 36 1/2 ON STOP	DEC.17,1945	———	34 SHS. AT 36 3/8	29	997.47	25
JAN.15,1946	———	29 SHS. AT 38 1/8 ON STOP	JAN.18,1946	———	29 SHS. AT 37 7/8	25	1000.86	25
" " "	34 SHS. AT 29 1/4	———	APR.17,1946	ORDER CANCELLED	———	—	—	—
" " "	22 SHS. AT 45 5/8 ON STOP	———	APR.17,1946	22 SHS. AT 45 7/8	———	47	2016.70	50
APR.17,1946	———	25 SHS. AT 44 1/8 ON STOP	APR.20,1946	———	25 SHS. AT 44 1/8	22	1015.84	25
" " "	29 SHS. AT 34	———	AUG.28,1946	29 SHS. AT 34	———	51	2009.67	50
" " "	19 SHS. AT 52 1/2 ON STOP	———	AUG.28,1946	ORDER CANCELLED	———	—	—	—
AUG.28,1946	40 SHS. AT 25 1/8	———	MAY 17,1947	40 SHS. AT 25 1/8	———	91	3024.85	75
" " "	22 SHS. AT 45 ON STOP	———	MAY 17,1947	ORDER CANCELLED	———	—	—	—
MAY 17,1947	52 SHS. AT 18 1/2	———	OCT. 3,1947	ORDER CANCELLED	———	—	—	—
" " "	25 SHS. AT 38 3/8 ON STOP	———	OCT. 3,1947	25 SHS. AT 38 1/2	———	116	3994.64	100
OCT. 3,1947	———	91 SHS. AT 36 7/8 ON STOP	OCT.28,1947	———	91 SHS. AT 36 5/8	25	969.79	25
OCT.28,1947	35 SHS. AT 28 1/2	———	———	———	———	—	—	—
" " "	22 SHS. AT 44 3/8 ON STOP	———	———	———	———	—	—	—



Scott & Stringfellow Admit

RICHMOND, VA. — Scott & Stringfellow, Mutual Building, members of the New York and Richmond Stock Exchanges, will admit L. Thornton Fleming, R. Eldridge Longest, and Joseph J. Muldowney to partnership on Jan. 1.

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. 21	97.8	97.7	97.0	83.9
Equivalent to—					
Steel ingots and castings produced (net tons)	Dec. 21	1,711,400	1,710,000	1,697,400	1,478,600
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 6	5,264,789	5,257,250	5,239,550	4,694,750
Crude runs to stills—daily average (bbls.)	Dec. 6	5,26[illegible],000	5,309,000	5,189,000	4,686,000
Gasoline output (bbls.)	Dec. 6	16,051,000	16,667,000	16,270,000	14,820,000
Kerosine output (bbls.)	Dec. 6	2,113,000	2,324,000	2,089,000	1,858,000
Gas oil and distillate fuel oil output (bbls.)	Dec. 6	6,525,000	6,382,000	6,256,000	5,631,000
Residual fuel oil output (bbls.)	Dec. 6	8,745,000	8,405,000	8,650,000	7,816,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 6	86,968,000	86,319,000	82,007,000	88,086,000
Kerosine (bbls.) at	Dec. 6	19,273,000	20,619,000	22,593,000	19,718,000
Gas oil and distillate fuel oil (bbls.) at	Dec. 6	58,241,000	61,988,000	63,358,000	66,028,000
Residual fuel oil (bbls.) at	Dec. 6	55,556,000	56,747,000	57,172,000	56,887,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 6	878,588	792,339	910,160	729,084
Revenue freight rec'd from connections (number of cars)	Dec. 6	6[illegible]9,898	706,018	730,961	5[illegible]8,228
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Dec. 11	$95,623,000	$214,014,000	$159,327,000	$126,931,000
Private construction	Dec. 11	29,589,000	137,329,000	73,741,000	103,741,000
Public construction	Dec. 11	66,034,000	76,685,000	85,586,000	23,190,000
State and municipal	Dec. 11	37,226,000	55,860,000	64,537,000	22,398,000
Federal	Dec. 11	28,808,000	20,825,000	21,049,000	792,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 6	13,300,000	*11,970,000	12,810,000	2,308,000
Pennsylvania anthracite (tons)	Dec. 6	1,181,000	1,057,000	1,185,000	1,251,000
Beehive coke (tons)	Dec. 6	140,700	*126,300	141,200	9,300
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 6	507	367	347	475
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 13	5,327,470	5,217,950	5,084,340	4,777,943
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 11	87	60	84	33
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 9	3.18925c	3.18925c	3.18925c	2.72122c
Pig iron (per gross ton)	Dec. 9	$36.56	$35.95	$37.03	$20.14
Scrap steel (per gross ton)	Dec. 9	$40.25	$40.25	$41.50	$25.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 10	21.200c	21.200c	21.200c	19.275c
Export refinery at	Dec. 10	21.425c	21.525c	21.425c	18.675c
Straits tin (New York) at	Dec. 10	80.000c	80.000c	80.000c	70.000c
Lead (New York) at	Dec. 10	15.000c	15.000c	15.000c	11.800c
Lead (St. Louis) at	Dec. 10	14.800c	14.800c	14.800c	11.650c
Zinc (East St. Louis) at	Dec. 10	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 16	101.86	101.64	102.03	103.95
Average corporate	Dec. 16	111.07	111.07	112.93	116.41
Aaa	Dec. 16	116.22	116.02	118.00	120.84
Aa	Dec. 16	114.66	114.08	116.02	119.20
A	Dec. 16	110.34	110.34	113.12	116.41
Baa	Dec. 16	103.97	104.14	105.17	109.97
Railroad Group	Dec. 16	105.52	105.86	107.80	112.37
Public Utilities Group	Dec. 16	112.93	112.75	114.66	117.40
Industrials Group	Dec. 16	115.24	114.46	116.41	119.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 16	2.37	2.38	2.37	2.24
Average corporate	Dec. 16	3.11	3.11	3.01	2.83
Aaa	Dec. 16	2.84	2.85	2.75	2.61
Aa	Dec. 16	2.92	2.95	2.85	2.69
A	Dec. 16	3.15	3.15	3.00	2.83
Baa	Dec. 16	3.51	3.50	3.44	3.17
Railroad Group	Dec. 16	3.42	3.41	3.29	3.04
Public Utilities Group	Dec. 16	3.01	3.02	2.92	2.78
Industrials Group	Dec. 16	2.89	2.93	2.83	2.66
MOODY'S COMMODITY INDEX	Dec. 16	456.9	456.0	448.3	376.6
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Dec. 13	237.9	237.4	223.5	216.4
Fats and oils	Dec. 13	275.6	282.0	280.7	262.5
Farm products	Dec. 13	274.9	272.9	259.0	234.7
Cotton	Dec. 13	342.4	339.2	313.3	304.9
Grains	Dec. 13	315.2	310.9	300.3	203.5
Livestock	Dec. 13	260.1	258.9	245.2	237.0
Fuels	Dec. 13	198.2	198.2	198.2	157.6
Miscellaneous commodities	Dec. 13	178.1	178.9	175.4	159.9
Textiles	Dec. 13	226.0	224.6	218.6	214.2
Metals	Dec. 13	159.3	159.3	159.5	137.3
Building materials	Dec. 13	236.4	236.4	235.3	207.0
Chemicals and drugs	Dec. 13	156.4	157.1	157.1	152.9
Fertilizer materials	Dec. 13	136.8	136.8	136.4	124.0
Fertilizers	Dec. 13	140.6	140.6	140.6	125.6
Farm machinery	Dec. 13	129.3	129.3	128.3	116.7
All groups combined	Dec. 13	219.4	219.1	214.3	191.6
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 6	229,231	171,580	222,903	207,137
Production (tons)	Dec. 6	179,582	170,175	185,873	172,417
Percentage of activity	Dec. 6	98	93	102	99
Unfilled orders (tons) at	Dec. 6	466,628	420,456	467,636	578,742
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Dec. 12	150.1	150.7	148.8	150.1
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Dec. 6	161.0	159.8	157.9	139.1
Farm products	Dec. 6	193.6	190.3	186.1	169.2
Foods	Dec. 6	179.6	178.3	176.3	161.7
Hides and leather products	Dec. 6	204.0	203.3	198.7	166.9
Textile products	Dec. 6	145.3	144.7	142.9	131.7
Fuel and lighting materials	Dec. 6	119.4	119.1	118.4	96.0
Metal and metal products	Dec. 6	151.3	151.3	151.3	132.2
Building materials	Dec. 6	187.6	187.2	185.2	145.2
Chemicals and allied products	Dec. 6	138.4	138.0	129.1	124.0
Housefurnishings goods	Dec. 6	134.8	134.8	133.4	118.7
Miscellaneous commodities	Dec. 6	120.1	118.7	117.9	103.9
Special groups—					
Raw materials	Dec. 6	180.0	177.9	175.2	154.4
Semi-manufactured articles	Dec. 6	157.3	157.1	155.2	131.6
Manufactured products	Dec. 6	153.3	152.5	151.0	134.0
All commodities other than farm products	Dec. 6	153.7	153.1	151.0	132.5
All commodities other than farm products and foods	Dec. 6	143.1	142.6	141.3	121.6

*Revised figure.

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR—Month of September:			
All building construction	$557,000,000	*$566,000,000	$347,000,000
New residential	308,000,000	*302,000,000	193,000,000
New non-residential	159,000,000	*180,000,000	95,000,000
Additions, alterations, etc.	90,000,000	*84,000,000	59,000,000
Non-Federal—all building construction	552,000,000	*538,000,000	316,000,000
New residential	306,000,000	300,000,000	173,000,000
New non-residential	157,000,000	*155,000,000	90,000,000
Additions, alterations etc.	89,000,000	*83,000,000	53,000,000
Federal—all building construction	5,000,000	28,000,000	31,000,000
New residential	2,000,000	2,000,000	20,000,000
New non-residential	2,000,000	*25,000,000	5,000,000
Additions, alterations, etc.	1,000,000	*1,000,000	6,000,000
BUILDING PERMIT VALUATION — DUN & BRADSTREET, INC.—215 CITIES Month of October:			
Geographical Division—			
New England	$19,405,887	$15,900,563	$7,506,159
Middle Atlantic	67,119,632	55,934,317	31,117,572
South Atlantic	35,249,962	35,178,826	17,651,785
East Central	73,536,100	68,282,995	39,868,398
South Central	40,700,752	43,990,713	22,383,670
West Central	20,833,432	20,361,413	11,481,950
Mountain	4,964,165	8,416,198	5,267,887
Pacific	64,072,237	61,495,415	35,935,816
Total United States	$325,882,167	$307,560,440	$171,213,237
New York City	36,213,495	33,267,078	13,889,555
Outside of New York City	289,668,672	274,293,362	157,323,682
COAL EXPORTS (BUREAU OF MINES)— Month of September:			
U. S. exports of Pennsylvania anthracite (net tons)	855,416	*852,902	717,361
To North and Central America (net tons)	395,969	*365,436	552,345
To South America (net tons)	10,864	------	75
To Europe (net tons)	448,581	485,018	161,572
To Asia (net tons)	------	------	3,369
To Africa (net tons)	2	2,448	------
COTTON GINNING (DEPT. OF COMMERCE) —Prior to November 14:			
Running bales	9,295,641	8,361,685	6,532,829
COTTON SEED PRODUCTS—DEPT. OF COMMERCE—			
Crude Oil—			
Stocks (pounds) Oct. 31	95,356,000	57,307,000	92,387,000
Produced (pounds) Aug. 1 to Oct. 31	333,291,000	135,457,000	256,828,000
Shipped (pounds) Aug. 1 to Oct. 31	-------	105,599,000	-------
Refined Oil—			
Stocks (pounds) Oct. 31	107,882,000	92,081,000	165,869,000
Produced (pounds) Aug. 1 to Oct. 31	226,746,000	81,765,000	164,246,000
Cake and Meal—			
Stocks (tons) Oct. 31	62,121	37,844	58,395
Produced (tons) Aug. 1 to Oct. 31	504,514	203,144	367,095
Shipped (tons) Aug. 1 to Oct. 31	489,334	212,216	340,328
Hulls—			
Stocks (tons) Oct. 31	71,842	48,427	54,989
Produced (tons) Aug. 1 to Oct. 31	249,376	104,286	191,862
Shipped (tons) Aug. 1 to Oct. 31	213,342	91,343	162,798
Linters—running bales—			
Stocks Oct. 31	153,761	114,960	144,832
Produced Aug. 1 to Oct. 31	339,333	136,827	262,760
Shipped Aug. 1 to Oct. 31	265,316	101,298	152,982
Hull fiber (500-lb. bales)—			
Stocks Oct. 31	1,498	762	2,392
Produced Aug. 1 to Oct. 31	3,931	1,204	4,700
Shipped Aug. 1 to Oct. 31	2,734	591	2,811
Motes, gabbots, etc. (500-lb. bales)—			
Stocks Oct. 31	14,725	11,931	6,900
Produced Aug. 1 to Oct. 31	11,532	5,068	9,773
Shipped Aug. 1 to Oct. 31	7,320	3,385	4,603
FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX JAN. 2, 1931=100 (COPYRIGHTED) AS OF NOV. 1—			
Composite index	137.2	136.4	128.2
Piece goods	137.4	135.9	133.2
Men's apparel	135.9	135.4	124.1
Women's apparel	132.3	131.4	127.3
Infants' & children's wear	127.8	126.7	114.7
Home furnishings	144.6	143.8	132.9
Piece goods—			
Silks	123.5	122.9	132.0
Woolens	134.4	134.1	132.4
Cotton wash goods	159.7	156.3	135.4
Domestics—			
Sheets	173.8	172.3	152.0
Blankets & comfortables	139.5	139.1	132.5
Women's apparel—			
Hosiery	106.8	105.4	118.2
Aprons & housedresses	145.3	145.2	133.2
Corsets & brassieres	132.6	132.2	125.1
Furs	150.9	149.5	160.8
Underwear	132.6	132.0	121.1
Shoes	132.4	131.1	117.2
Men's apparel—			
Hosiery	137.6	137.6	126.8
Underwear	145.9	145.3	130.6
Shirts & neckwear	129.6	129.4	121.0
Hats & caps	126.6	126.6	120.3
Clothing, incl. overalls	128.6	128.0	120.9
Shoes	161.7	159.7	125.6
Infants' & children's wear—			
Socks	129.8	127.9	115.8
Underwear	119.7	119.2	109.8
Shoes	140.6	139.7	122.5
Furniture	148.0	147.0	139.3
Floor coverings	149.3	149.3	136.6
Radios	125.0	125.0	117.9
Luggage	128.0	128.3	124.4
Electrical household appliances	136.9	135.8	120.7
China	131.1	129.6	119.1
PRICES RECEIVED BY FARMERS — INDEX NUMBER—U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of Nov. 15:			
Unadjusted—			
All farm products	287	289	263
Crops	268	261	230
Food grain	312	302	220
Feed grain and hay	283	284	187
Feed grain	324	327	198
Tobacco	354	357	399
Cotton	257	247	236
Fruit	151	166	186
Truck crops	272	238	207
Oil-bearing crops	349	344	342
Livestock and products	304	313	294
Meat animals	338	360	313
Dairy products	293	283	307
Poultry and eggs	242	251	230
Seasonally adjusted:			
Fruit	167	174	204
Truck crops	307	314	222
Dairy products	273	270	285
Poultry and eggs	214	227	203

Europe Can Be Put on Self Sustaining Basis

(Continued from page 9)

strict to a minimum their expenditure for military, for civil, and even for construction purposes. To the extent that government expenditure is maintained, it should be met out of current tax receipts. In this way there will be assurance that the money income of the community available for consumption and investment will be reduced to the same extent as the government uses resources for its purposes.

It is obviously capital in a stabilization program to balance the budget. Such a balancing of the budget must be comprehensive. However useful and desirable it may be to distinguish between ordinary and extraordinary budgets, or between current and capital budgets, the fact of the matter is that at this stage only the balancing of all government expenditure by tax revenues will limit inflation. Nor can governments continue to provide large subsidies for cheaper consumption unless their revenues are adequate for the purpose. Otherwise the lower prices for these consumption goods can be maintained only through increasing pressure on the prices of other goods. This is not only a matter of direct subsidies, but of indirect subsidies through unremunerative prices for goods and services sold by the State. State enterprises too must be placed in balance with their current receipts equaling their costs of production.

Modalities of Marshall Aid

The aid from the Marshall Plan offers European countries an unique opportunity to stabilize their economy. The import surplus represents an addition to the supply of goods available for consumption and investment. Beyond that it facilitates a program of monetary reform. You must remember that the import surplus provides a country with goods that are sold for local currency without the counterpart of a local cost of production. The local currency received either from the sale of import goods (or for the foreign exchange made available to pay for import goods) comes into the hands of the monetary authorities. It therefore reduces the supply of currency and deposits. If these receipts are immobilized they will reduce the money supply and bring it into relation to the flow of goods available to the community at stable prcies.

In my opinion this import surplus and the corresponding local currency receipts are an important key to the stabilization problem. If aggregate expenditure is not permitted to rise with the increased supply of goods, the tendency towards higher prices will be reduced and stopped. If the local currency receipts are not used to meet budgetary deficits or to sustain an uneconomic level of investment, aggregate expenditure in the community will not become excessive.

It seems to me, therefore, that every country that participates in the Marshall Plan ought, as a matter of policy, to limit government expenditures for all purposes to actual tax receipts without depending in any way on the local currency proceeds of the import surplus to meet government expenditure. Furthermore, even the level of investment must be limited. It would be desirable to permit the use of local currency proceeds for investment, provided that contributes directly and promptly to expanding the supply of goods. It is undesirable to have the local currency proceeds used to expand construction in public works which may not affect the level of output for years to come.

I place so much emphasis on the problem of monetary reform because it is the key to the achievement of exchange stability without onerous restrictions. Under ordinary circumstances, the exchange rate for a currency is designed to encourage exports and to limit imports so that aggregate payments and aggregate receipts from foreign transactions are in equilibrium. During this period in which Europe is bound to have an extraordinary need for goods of all kinds, it is quite impossible for countries to depend on exchange rates to limit imports. The fact that domestic rationing is necessary is in itself an indication that import restrictions and exchange controls are also necessary.

This does not mean countries can be indifferent to the effect of the exchange rate on their international economic position. On the contrary, at a time when all countries are short of free exchange, an overvalued currency which hampers exports is itself a factor impending economic recovery. When exports are too low, imports are reduced and vitally needed materials, equipment, and consumer goods cannot be obtained. The restoration of a functioning world economy will not be possible until exchange rates are adjusted to a level which will allow world trade to flow.

International Fund Policy

The International Monetary Fund accepted last year the exchange rates proposed by its members for the parities of their currencies. A number of countries quite properly postponed the determination of parity until their monetary situation could be clarified. When these exchange rates were set, the Directors of the Fund had no illusion—and they said so in their first annual report—that those parities would remain suited to the economic situation of the members, but they were regarded at the time as meeting reasonably well the test of permitting exports to flow. That they did meet this test until quite recently is proved by the fact that every country in Europe experienced a remarkable expansion in its export trade until the summer of this year. So far as I know the most conservative Central Bankers in the world, in New York, in Ottawa, and in London, agreed wholeheartedly that the policies of the Fund in accepting the pattern of exchange rates was a wise one. In fact if, at the height of this seller's market, we had wanted some member of the Fund to fix another parity for their socalled overvalued currency, it would have been practically impossible for us, at that time, to suggest, with accurate and sound justification, that new parity.

The fact that these exchange rates were suitable when they were adopted does not mean that they will always remain suitable. The continuance of inflation in some countries makes it difficult for them to export as much as they should. Already in one or two countries a significant fall in exports is taking place. At some time a change in the parities of such currencies will be necessary. The fact that this change can be made in an orderly way through consultation with the Fund is an assurance that it will not lead to an unnecessary disturbance in the delicate inter-relationship of currencies. One of the worst things in the matter of devaluation—a thing which was often witnessed between the two world wars is that too often they are devised as a means of easy competition, and call for retaliation from other countries, in the shape of other competitive devaluations, thus increasing the general unrest and uncertainty.

In my opinion there is no advantage in adjusting exchange rates until a country is prepared to make sure that the new exchange rate can be maintained without burdening the country's economy. If a country is in the midst of inflation, a change in the exchange rate without taking other steps to stabilize the currency can only lead to a further breakdown in confidence. Obviously, a change in the exchange rates must be a part of a comprehensive program for currency stabilization along the lines that I have discussed—budgetary balance, credit control, and limitation on aggregate expenditure for consumption, investment and government. It is an illusion to imagine that devaluation is an easy method. To keep the new par value, to prevent it from being submerged and absorbed by wage and price increases, much energy of governments and Central Banks is needed.

The Fund feels that it has a special responsibility in this connection. This was made clear to the Finance Committee of the Paris Conference. We have made it clear to our members with whom we are in continuous consultation on monetary problems. The Fund will not hesitate to approve a proposed change in exchange rates which can be helpful to a country and which will not harm its neighbors. But the Fund will hold to the view that such a proposal should be part of a stabilization program that can eliminate the forces that disturb the currency and prevent a parity from being maintained.

It is very easy to be pessimistic in these times and say that Europe is in a hopeless mess. I know Europe well. I have been intimately associated with its financial problems for three decades. As a participant in the discussions on measures for international cooperation after the first two World Wars, I know European financial problems from the international side. As a finance minister before the war, as a finance minister during the war and as a finance minister after the war, I know European financial problems from the national side. I would be the last to minimize the difficulty that Europe now faces. At the same time I feel there is a reasonable basis for believing that Europe can put itself on a self-sustaining basis.

We must not overlook the strong side of the European picture. In Western Europe there is a group of countries with modern and efficient methods of production, not of course comparable to those of the United States and the English speaking British dominions, but far ahead of other large areas of the world. Before the war Western Europe was able to supply nearly half of the goods that flowed in international trade. It provided markets for more than half the raw materials and semiprocessed goods in international trade. The resources, the skill, the equipment, and even the enterprise of Western Europe can be rebuilt. The progress already made in restoring production is evidence of this.

I believe there is a good chance that Europe will again become a self-sustaining part of the world economy. The aid already given by the United States and other countries, the aid that may still be forthcoming under the Marshall Plan is invaluable. It is invaluable on one condition, but one essential condition: it must be used to the right purpose, in the right direction, to bolster up comprehensive, intelligent and courageous plans as those I mentioned one minute ago. It is too valuable to be squandered amidst political chaos. This is why I say that certainly the work that is being and will be done on international currency, investment and trade cooperation through the International Monetary Fund, the World Bank and the ITO can be very helpful, but that ultimately, it must be Europe that does the big job of restoring the European economy. What these countries themselves do on expanding production, stabilizing currency and balancing trade will be the decisive factor in the future of Europe. That is a job in which others can help, but only the countries themselves can do.

In my opinion the countries of Europe can put themselves into a position to do their job by starting with the cleaning up of their currency and financial problems. We at the Fund have been especially close to this problem. During this year, as Chairman of the Fund, I have visited every member of the fund in Europe, with the exception of Greece and Turkey. We have discussed with them their exchange, balance of payments and stabilization problems. I think it is revealing no secret when I say that we have urged on them a comprehensive program for combating inflation through the measures I have outlined tonight. In some countries a start has been made along these lines. But a good deal more remains to be done.

Of course, I mention Europe because Europe is my subject tonight. But I visited, too, countries of Latin America and discussed with them their problems, which are important too.

The Fund will continue to consult with its members, to offer its technical assistance, and in every way it can contribute toward the solution of this basic European problem. We have placed such stress on monetary reform because we believe that if it is achieved, the way will be easier to expand European production and in time to balance Europe's trade. The aid under the Marshall Plan makes this the most favorable occasion to deal successfully with this problem. I hope that all concerned will do their share to see that this opportunity is not lost.

International Monetary Fund Forces Revision Of Canada's Gold Subsidy Plan

It was announced by Canadian Finance Minister Douglas Abbot on Dec. 11, that in view of the objections interposed by the International Monetary Fund, the Canadian Government would abandon its plan to give a direct subsidy for each ounce of gold produced within Canadian borders and would substitute, instead, a production incentive plan whereby a bonus would be given to such mines as actually increased their output by two-thirds over production in the year ended June 30, 1947. Under the proposed plan, which must be approved by the Canadian Parliament, the bonus payment will be determined by taking half of the amount by which the mine's current cost of gold production exceeds $18 an ounce and applying this to the amount by which production in the current year exceeds two-thirds of production in the base year.

The Canadian plan of gold production subsidies has been opposed by the U.S. Treasury and Secretary of the Treasury Snyder, on behalf of the National Advisory Council, issued the following statement on Dec. 12:

"The United States Government welcomes the statement of the International Monetary Fund respecting measures to subsidize the production of gold. The expressed intention of the Fund to keep under review the gold policies of its members in the light of a sound international gold policy is an important forward step in the field of international financial cooperation.

"The United States, as the largest gold buying country, has a peculiar and continuing interest in the role which gold subsidies may come to play in the production, movement, and price of gold. In particular, the United States would view with disfavor any tendency for countries to become dependent on subsidized gold production as a solution to the problem of arriving at and maintaining equilibrium in their balances of international payments.

"In the view of the Council there are no grounds which would justify instituting a subsidy to encourage the production of gold in this country. The present monetary gold stocks of the United States amount to no less than $22.7 billion. In the first 11 months of 1947 gold purchases by the U.S. from foreign countries amounted to $2.7 billion."

In connection with the Canadian Government's proposal to subsidize gold production, the International Monetary Fund, under whose by-laws a member government is prohibited from altering the price of gold in its own currency without previous approval of the Fund, issued on Dec. 10 the following statement:

"The International Monetary Fund has a responsibility to see that the gold policies of its members do not undermine or threaten to undermine exchange stability. Consequently, every member which proposes to introduce new measures to subsidize the production of gold is under obligation to consult with the Fund on the specific measures to be introduced.

"Under article IV, section 2 of the Articles of Agreement of the Fund members are prohibited from buying gold at a price above parity plus the prescribed margin. In the view of the Fund, a subsidy in the form of a uniform payment per ounce for all or part of the gold produced would constitute an increase in price which would not be permissible if the total price paid by the member for gold were thereby to become in excess of parity plus the prescribed margin. Subsidies involving payments in another form may also, depending upon their nature, constitute an increase in price.

"Under article IV, section 4(a) each member of the Fund 'undertakes to collaborate with the Fund to promote exchange stability, to maintain orderly exchange arrangements with other members, and to avoid competitive exchange alterations.' Subsidies on gold production regardless of their form are inconsistent with article IV, section 4(a) if they undermine or threaten to undermine exchange stability. This would be the case, for example, if subsidies were to cast widespread doubt on the uniformity of the monetary value of gold in all member countries.

"Subsidies which do not directly affect exchange stability may, nevertheless, contribute directly or indirectly to monetary instability in other countries and hence be of concern to the Fund.

"A determination by the Fund that a proposed subsidy is not inconsistent with the foregoing principles will depend upon the circumstances in each case. Moreover, the Fund may find that subsidies which are justified at any one time may, because of changing conditions and changing effects, later prove to be inconsistent with the foregoing principles. In order to carry out its objectives, the Fund will continue to study, and to review with its members, their gold policies and any proposed changes, to determine if they are consonant with the provisions of the Fund Agreement and conducive to a sound international policy regarding gold."

Wages, Prices and Business Outlook

(Continued from page 2)

holdings of cash and demand deposits has been even greater—about 4.4 times.

(2) The accumulation of unsatisfied needs. Although people spent liberally during the war, there were many goods which they could not buy. Even as late as the beginning of 1947, for example, the country had 2,000,000 fewer passenger automobiles than at the time of Pearl Harbor—though the number of families had increased by 4,000,000. In the last seven years the number of families increased by about 500,000 more than the number of dwelling units. Even during 1947 the number of families increased faster than the dwelling units. To the accumulated needs of consumers should be added a huge backlog of demand for industrial equipment because enterprises during the war were unable to replace equipment as rapidly as it wore out.

(3) Although industry is producing at a record-breaking rate, at least for a time of peace, the physical volume of production in 1947 has been only about 45% above 1940.

With physical output about 45% above prewar and the money supply about 3.4 times prewar, is it any wonder that the upward pressure on prices has been strong? The extraordinary thing is that prices are not higher than they are. Although personal holdings of cash and bank deposits are over four times as large as prewar, expenditures on personal consumption are only running two times the rate in 1940. The consumer price index is only about 60% above 1940 and the wholesale price level 100% above 1940. If money was being spent at the same rate as in 1940, one would expect the general level of prices (wholesale and retail) to be roughly 135% above 1940.

III.

Despite the strong upward pressure upon prices, little has been done by the community to control inflation. In fact, during most of the last year opinion has been sharply divided as to whether the immediate problem was controlling inflation or preventing deflation. Many businessmen, economists, and forecasting services were predicting a recession by the spring of 1947 or the fall of 1947. The opinion of businessmen is reflected in the stock market which began slowly drifting downward in May of 1946 and turned downward more rapidly after September. Nearly every convention of a trade association heard a prominent executive warn that the sellers' market was nearing an end. Meetings of economists to appraise the business outlook usually resulted in a preponderant opinion that an early recession was to be expected. Polls of economists showed the same result.

Several important developments during the last year added to the inflationary pressures:

1. Consumers contributed to inflation by reducing their rate of saving from about 8.2% of disposable income in the third quarter of 1946 to 5.2% in the second quarter of 1947. In the third quarter of 1947 savings rose to 7.1% of disposable income, but this was probably because there was not time for the money from the veteran's cashing of terminal leave bonds to be spent.

2. Business concerns contributed to inflation by raising dividends from an annual rate of $5.6 billion in the third quarter of 1946 to $6.5 billion in the third quarter of 1947 and by expanding inventories—though the increase in inventories was moderate.

3. Trade unions contributed to inflation by forcing up wages. In manufacturing, for example, hourly earnings increased from $1.13 in October, 1946, and $1.16 in January, 1947, to $1.26 in October, 1947.

4. The government contributed to inflation by continuing to support the markets for intermediate and long-term bonds, thus encouraging the banks to expand their loans. The government also contributed to inflation by encouraging corporations to pay out profits in dividends.

5. The banks contributed to inflation by increasing both commercial loans and consumer credit approximately one-third. Since industry was already producing at capacity, the growth of bank credit merely gave people more dollars with which to bid up prices.

To all of these domestic influences upon inflation there was added, of course, the influence of foreign buying which was running at an annual rate of over $10 billion in the second quarter of 1947, and over $7.7 billion in the third quarter.

In view of the many influences adding to inflationary pressures, it is remarkable that prices have not risen more rapidly. For this the country may thank three principal causes—the widespread, but mistaken belief, that any early recession was about to occur, the large cash surplus of the government, which was running at an annual rate of over $10 billion a year in the first quarter of 1947 and nearly $8 billion in the second quarter, and the high rate of corporate saving which, after allowance for inventory adjustments, was running at the rate of $10 billion a year.

IV.

What is the outlook for 1948? And what should be done about it? I have said that 75 out of 100 economists polled by the F. W. Dodge Corp. expect a recession and that the most frequently mentioned time for the recession to begin is February and March. Forty-one of these economists believe that a recession would be "mild"; nineteen, "moderately serious"; eleven, "serious." If these economists are right, it is unnecessary to do anything except possibly to take steps to prevent the expected recession from becoming severe.

The economists who expect a recession in the early part of 1948 will turn out to be mistaken. Inventories are small in relation to sales and the accumulation of inventories does not seem to be going on rapidly. Hence, a drop in the rate of inventory accumulation is not likely to precipitate a recession. Both business debts and consumer debts are small in relation to incomes. A recession is not likely to start from a drop in the rate at which business and consumer debts are incurred. The needs for housing, for many forms of durable consumer goods, and for industrial equipment are large and pressing. Demand in this field is likely to persist even in the face of unfavorable developments. A substantial drop in net foreign investment is a possibility, though such a drop would have little effect upon the domestic economy provided it occurs within the next few months while the demand for goods is in excess of supply and while industry has huge backlogs of orders.

The following seem to me to be the principal elements which will determine the course of business during the first half of 1948:

(1) Supplies of foodstuffs will be scarce—definitely scarcer than in 1947.

(2) Wages will continue to rise as the third round of wage increases spreads throughout the economy. This means that the shortage of foodstuffs will be accompanied by rising incomes.

(3) Corporations will continue to disburse a larger proportion of their incomes in the form of dividends, thereby reducing corporate saving, raising individual incomes, and adding to inflationary pressures.

(4) The rising prices which will naturally result from the above conditions will stimulate the further expansion of business and consumer credit which, in turn, will bring about further price increases.

(5) There is a good prospect that Congress will reduce taxes, increasing the amount of money available to buy goods and accentuating the rise in prices. The rise in prices will, of course, increase the demand for a third round of wage increases. Thus, the more that Congress reduces taxes, the greater will be the demand for wage increases.

V.

What should be done? Any anti-inflation measure must be designed either (1) to increase output, or (2) to increase the demand for goods. During the last two months the index of industrial production has shown an encouraging gain over a year ago. At last the huge expenditures of business on new equipment during the last year seem to be showing results. These results, however, are limited by shortages of raw materials and by various bottlenecks. Progress is being made in overcoming these impediments to production, but it is slow.

For example, the best increase in steel output which can be expected for next year seems to be only about 2 million tons. Perhaps the index of industrial production next year will average almost 200, in comparison with about 187 which will be the average for 1947. This is the best that can be expected, and there is no assurance that agricultural output will be as large. In 1948 as in 1947, much of the increased output of durable consumer goods industrial plant, and equipment is sold on credit. Hence a rise in these types of output is inflationary rather than deflationary. All of this means that a large part of the attack upon inflation must take the form of limiting the demand for goods.

Is the United States capable of limiting the demand for goods? Every proposal hurts some special interest, and this seems to be sufficient to prevent action. Will it turn out that nothing is done? No one knows the answer to this question, but everyone must agree that there is a good chance, possibly an even chance, that no real curbs on inflation will be imposed. People are quite ready to suggest that some one else' activities be controlled, but are adament against restraints on their own activities. It is common, for example, to hear businessmen criticize labor for demanding a third round of wage increases. The other day a leading Boston newspaper printed an editorial under the title, "An Appeal to Labor" in which it asked labor not to press for higher wages. Nevertheless, I recently read in the monthly review of a large New York bank an argument that commercial credit is not too large because bank loans are smaller in relation to income than they were before the war or inthe period of the 'twenties. Furthermore, I recently read a speech by the head of a large consumer credit company opposing restrictions upon the expansion of instalment buying. When bankers, who are supposed to be good at understanding business, talk this way, how can one expect garment workers, textile workers, steel workers and coal miners not to press for a third round of wage increases? The directors of business corporations ought to know better than to increase dividends under present conditions, but dividends are being raised. When the men who are wise enough to direct corporations add to inflationary pressures by increasing dividends, can one expect factory workers not to ask for higher wages? Finally, the Treasury, which looks at matters from the standpoint of the national interest, views the danger of inflation so lightly that it regards the maintenance of low interest rates on government securities as more important than controlling the rise in prices. When the Treasury takes such a complacent view of the danger of a further rise in prices, can one expect factory workers to be worried over the consequences of a third round of wage increases?

Let us proceed to analyze the business outlook, therefore, on the assumption that there will be a third round of wage increases probably varying from 8 cents and 15 cents an hour. If nothing is done to check the rise in prices, the third round of wage increases will do employees little or no good. The main beneficiaries from it will be the farmers and, to a less extent, the manufacturers of consumer goods. The wage increases will probably not be large enough to induce a drop in employment except in a few marginal plants. Hence the workers will have more money to spend on food and other products. Since industry is already producing at capacity, the increased expenditures by workers will bid up the price of goods. Hence the workers will lose in a higher cost of living what they gain in wage advances. Farmers will be able to sell their goods for more than they would otherwise obtain. This gain to them will not be offset to any great extent by a rise in payrolls. The consumer goods industries will also gain. The demand for consumer goods will rise by the increase of payrolls in both the consumer goods and the capital goods industries minus the increase in the tax liabilities and the additional savings of workers in those industries. This amount is pretty certain to be larger than the rise of payrolls in the consumer goods industries. The capital goods industries will probably break even or perhaps come out ahead. The rise of labor costs will enable manufacturers of equipment to charge more for their products and the increase of profits in the consumer goods industries will further help the capital goods industries obtain more for their products.

Of course, the recipients of interest and pensions and such part of the workforce as does not participate in the third round of wage increases will suffer. Undoubtedly a large part of the white collar workers, if not most of them, will share in the third round of wage increases, some of them promptly, others after a little delay. The persons who would suffer from the third round of wage increases receive only about 20% of all personal incomes. Unless something is done to prevent the money from a third round of wage increases from being spent for goods, most of the community would be neither appreciably better off nor worse off after the third round than before.

Does it follow that nothing should be done about a third round of wage increases, or about the effect of a third round of wage increases on prices? In particular, would it be wise to adopt restrictive credit policies or other arrangements, such as a bond selling campaign, in order to prevent the third round of wage increases from raising prices, or, at least, to limit its effect upon prices. This is a difficult question, and there is much to be said on both sides of it.

A rise in prices in itself is not a bad thing. If the rise is more or less evenly distributed over all commodities, if it is accompanied by a rise in wages, and if it is not accompanied by the accumulation of inventories and by a considerable expansion of business credit or consumer credit, it does not lay the foundation for a recession. It is a highly uneven rise in prices, and particularly a rise which is not accompanied by wage increases and which stimulates the accumulation of inventories and substantial increases in short-term debt, which lays the foundation for a possible recession. A broad rise in prices produced by a third round of wage increases would not, therefore, be particularly undesirable provided it were not accompanied by the accumulation of inventories and a rise in short-term debts. The essential thing is not to prevent the rise in prices, but to prevent an increase in inventories and a substantial increase in business and consumer debts. Probably the two cannot be separated, but it is important to realize that real elements of instability are not the change in the level of prices but unevenness in the advance of prices and the rise in inventories and credit.

A restrictive credit policy or a successful bond-selling campaign, occurring in conjunction with a third-round of wage increases would produce a drop in profit margins and possibly a mild contraction in business. Some people may fear that a drop in profit margins would produce substantial unemployment. This I am inclined to doubt. There are not large inventories or large short-term commercial or consumer debts to be liquidated. Profits are so large that even some decrease in them would not be regarded by business managers as disastrous. Furthermore, there is still a tremendous backlog of demand for industrial equipment which is more or less independent of the immediate outlook for profits. Consequently a wage-price "squeeze," induced by restrictive credit policies or a bond-selling campaign, would not precipitate an appreciable contraction in production or employment. Indeed, a contraction at some points might relieve shortages of raw material and transportation at other points so that little or no net drop in production and employment occur.

The principal danger of a wage-price "squeeze" is that it would cause large and disastrous strikes. Especially a large and prolonged strike in the steel industry or numerous strikes in the building trades would be a calamity. On the other hand, a shutdown in the automobile industry would be far less serious.

This indicates that the prospect of a third round of wage increases should not deter the government from adopting credit policies or fiscal policies designed to discourage a rise in prices. Sooner or later the spiral of wage-price increases must be stopped. There is no reason to let the spiral of wage-price increases continue longer because full employment has already been attained. The longer the spiral goes before it is stopped, the greater is the danger that it cannot be halted without inducing a drastic contraction. This is particularly true if inventories and short-term debts are allowed to become large and if the brakes are not applied until there is a sharp drop in foreign demand or until the great backlog of domestic demand has largely been met.

VI.

There may be some preference as to how the wage-price spiral is halted—whether merely by tightening bank credit or whether, in addition, by reducing consumer demand. I believe that both the method of tightening bank credit and the method of directly limiting consumer demand should be used. Of course, limiting consumer demand by sales of bonds to individuals would enable the government to reduce the reserves of member banks and thus to restrict bank credit.

Tightening of bank credit might appreciably retard the expansion

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of consumer credit—though the banks might be reluctant to give up this profitable business. It would probably have little effect upon the expansion of the highly inflationary real estate loans. Its principal effect would be upon spending by business enterprises. It would tend to limit the amount available to them for increasing inventories and it would discourage banks from making term loans to finance expenditures on equipment and construction. Reductions in the amounts available for expenditure on inventories would diminish the demand for raw materials and, to some extent, check the rise in the prices of farm products. The demand for capital goods would be limited to enterprises which had spare cash, which were willing to sell government securities, or which could borrow from insurance companies or savings banks—the difficulties of raising capital from the general public would be enhanced. The bidding for capital goods would be somewhat moderated, the prices of capital goods would be kept lower than would otherwise be the case, the profits of the capital goods industries would be kept down, and the dividend disbursements of these companies would rise more slowly. To some extent the volume of employment and payrolls in the capital goods industries would be diminished, but in the main the effect would be upon the prices of capital goods and the profits of enterprises in those industries. All of this means that under present circumstances the effect of a tigher credit policy upon the demand for consumer goods and upon the vost of living would be rather limited and, in considerable measure, rather slow in appearing. The results would be different, of course, if there were large inventories to be liquidated or if the tightening of credit went so far as to induce the banks to contract loans. The probable mildness of the effects of restrictions on bank credit under present conditions will be regarded by many persons as an advantage. Such policy would tend to halt the rise in prices rather than precipitate a contraction.

More effective in limiting the rise in the cost of living than the restriction of bank credit would be arrangements for directly reducing consumer demand for goods. The best plan for accomplishing this purpose would be either a forced saving levy or an aggressive campaign to sell government savings bonds. I do not intend in this paper to discuss the pros and cons of a small forced saving levy. Certainly such a levy should be associated with any reduction in income taxes. I wish, however, to explore briefly the possibilities of substantially increasing the sales of government savings bonds.

During the first ten months of 1947, the people of the United States purchased about $3.5 billion of class E bonds, and presented for redemption almost the same amount. Let us suppose, however, that the people were to buy government savings bonds (above the quantities presented for redemption) at the rate of 5% of their personal incomes after taxes and after other forms of saving. People would be spending about 5% less on consumer goods and would be buying government savings bonds at the rate of about $8 billion a year over redemption.

What would happen? Would people suffer privation? Would their standard of living go down? The answer to these questions is "no." Industry would still continue to produce the same amount of goods. There might be a slight shift of production from consumers' goods to capital goods, but this shift would not be large. It is the physical output of consumer goods which determines the standard of living of the country. Since this output would continue substantially undiminished, there should be no change in the country's *standard* of living.

The *cost* of living would drop. It would drop by the amount which people spent on government savings bonds—by over $8 billion a year. In addition, the people would have the bonds—an increase of over $8 billion of them. These bonds would represent future purchasing power. They would be available to the owners to buy houses, automobiles and many other things after the present acute shortage of goods has passed. The purchasing power represented by the bonds would help to support markets at a time when the problem is a shortage of purchasing power, not a shortage of goods. An increase of $8 billion in government savings bond holdings during the next year would substantially protect the whole country against an ultimate recession in business and employment.

Could people be induced to buy about $8 billion of class E bonds a year in excess of redemptions—or even $4 billion or $6 billion. Most people will promptly say that at present commodity prices, they cannot afford to buy government savings bonds. It would be more realistic, of course, for them to say that at present prices they cannot afford *not* to buy bonds. By not buying bonds they keep commodity prices up. By buying bonds they would force commodity prices down. This logic, however, does not prove that people would be willing to buy bonds. How can this security be made attractive to millions of buyers?

A radical improvement in government savings bonds is required. This improvement should encourage people to hold their present bonds as well as to buy new ones. The most practical improvement, I think, would be to make government savings bonds payable in purchasing power rather than in dollars. In other words, instead of giving the holder of class E bonds $4 at maturity for every $3 which he paid, let him be given $4 in terms of the purchasing power of the dollar as of the date of his bond purchase. This means that if the price level doubled between purchase and maturity, the bondholder would be given $8 for every $3 spent for the bond. On the other hand, if the price level were to fall by half, he would be given $2 for every $3 he spent for the bond.

Government savings bonds were sold to millions of people on the assertion that they were a safe security of the very best quality. As a matter of fact, purchasing government savings bonds is a speculative decision which exposes the buyer to great loss in case the price level rises. Millions of persons who bought government savings bonds in 1942, 1943, 1944, or even 1945, could not get back today as much purchasing power as they put into the bonds.

Obviously, this injustice to millions of bondholders needs to be corrected. Furthermore, it must be corrected if the government expects to sell savings bonds in large quantities during the next year. If it is corrected, however, there is good reason to believe that the government could sell $4 billion, $6 billion, or possibly even $8 billion, government class E bonds above redemption during the next six months. This would directly exert a wholesome pressure upon consumer prices and, in addition, would put the government in a good position to limit the expansion of credit by the commercial banks. Finally, as I have indicated, it would build up liquid assets in the hands of millions of consumers, thus strengthening the resistance of the economy to any future recession in business.

VII.

Let me conclude these remarks by several observations upon methods of controlling the upward pressure on prices. There are two principal ways of restricting bank credit. One is the more or less "orthodox" method of withdrawing, in whole or in part, government support to the intermediate and long-term government bond markets. The other is Mr. Eccles' proposal for special additional reserves to be held in government securities. Of these two methods, I prefer the orthodox one. One objection to Mr. Eccles' method is that it would undoubtedly affect some banks far more than others. Consequently, if it were applied with sufficient vigor to have a marked effect, it might precipitate an undesirable contraction of bank credit. Another objection to his method is that it would be less effective that the orthodox procedure in raising long-term interest rates. Mr. Eccles undoubtedly regards this as an advantage, but to me it seems to be a disadvantage.

Interest rates have been artificially depressed. During the next few years the country will have a golden opportunity to raise long-term interest rates without unfavorable effects upon employment. This opportunity should not be lost. After a few years the country may well need to obtain the stimulating effect of falling long-term interest rates. If the country does not take advantage of the present opportunity to get long-term rates up, it will lack a useful instrument for stimulating the economy at a time when such stimulation may be badly needed.

Many people believe that a cut in income taxes would reduce the upward pressure on prices. I am afraid that in this thinking the wish is father to the thought. Under existing conditions a reduction in income taxes would aggravate rather than mitigate inflationary pressures. It would give people more money to spend for food and other articles in scarce supply. Hence, it would raise the cost of living to the detriment of the people in the very lowest income brackets—the people who pay no income taxes at all. The rise in the cost of food and other necessities of life resulting from lower income taxes would accentuate the pressure for increases in wages.

The effect of a reduction of income taxes in the upper brackets raises more complicated questions. One of the reasons for strong inflationary pressures at the present time is the reluctance of people to save. In fact, a rise of $18.3 billion of personal incomes after taxes in the last year has brought no increase in saving. A large and quick expansion in the willingness to save would reduce the demand for consumer goods and would enable business concerns to meet most of their capital needs without borrowing from the commercial banks. The reluctance of people to save, it is said, stems largely from the fact that it is not worthwhile. So small a return is left to them after taxes on their investment that they prefer to spend their money on consumer goods. A drastic reduction in surtaxes at the present time would lead to a greatly increased willingness to save. Thus, the problem of inflation might be largely or entirely solved.

With this view I disagree. Sooner or later the country will undoubtedly have to stimulate saving and investment by making drastic reductions in surtaxes. Certainly it seems unreasonable for the government to prevent persons from receiving at least half as much from their savings or from the sale of their services as willing borrowers or buyers consider these savings or services to be worth. The time will undoubtedly come when a reduction in surtaxes will stimulate the willingness to save. At the present time, however, all members of the community have a huge backlog of needs which accumulated during the war and which they have been unable to satisfy. Under these conditions a reduction in surtaxes would have only a limited effect upon the volume of saving and would greatly enhance the demand for consumer goods. Consequently, it would simply add fuel to the fires of inflation.

VIII.

Let me conclude these remarks by asking a few basic questions about the operation of the economy. Let us suppose that the government is successful in halting the rise in prices. Is that the end of the matter? In another year's time, will not the unions be seeking a fourth round of wage increases? Possibly technological progress will be sufficiently rapid so that industry can satisfy the demands of labor and make a fair profit without raising prices. If technological progress is not sufficiently rapid, there will be a clash between the price policies of the government and the wage policies of the unions. The government will be compelled to choose (1) whether to abandon its efforts to hold down prices, or (2) whether to permit the encroachment of wages upon prices to force the country into a recession.

So long as the backlog of urgent demand is large, wage-price relationships have very limited effect upon employment. Consequently, a fourth round of wage increases a year hence may not raise a serious clash between union wage policies and government price policies. Possibly this clash will not become acute until the fifth or sixth round of wage increases has been reached. Nevertheless, in the new collective bargaining economy of the twentieth century which has succeeded the free market economy of the nineteenth century, the relationship between the wage level and the price level is one of the basic issues which must be faced. Shall wages and prices be left to themselves? Shall union wage policy be permitted to determine community price policy? Or shall community price policy determine union wage policy? Shall the community tolerate a fairly rapid rise in prices from year to year in order to avoid a clash between union wage policies and community price policies? A rise in the price policy of only 2% a year would reduce the purchasing power of the dollar by one-fourth in 10 years and by over half in 40 years.

These are new and somewhat disturbing questions. They are questions, however, which inevitably arise in the operation of a collective bargaining economy. The present discussions of the relationship between wages and prices are a preview of the kind of discussion which will soon become commonplace. Let us hope that the present discussion of inflation will better prepare all of us to approach the problem of wage-price relationships with an appreciation of the issues at stake with an awareness of the importance of basing judgments upon knowledge, and particularly with a recognition of the necessity of placing the interests of the community ahead of the interests of bankers, businessmen, trade unionists or other special groups.

Represents Amott, Baker & Co.

UTICA, N. Y.—Miss Ellen M. Roberts, formerly of Victor D. Strivings & Co., and Mohawk Valley Investing Company, has joined the firm of Amott, Baker & Co., Incorporated, as their Utica, New York Sales Representative.

Col. Allan Pope Heads Finance Committee of NYU Council

Colonel Allan M. Pope, until recently President of The First Boston Corporation, has been elected Chairman of the finance committee of the New York University Council, Chancellor Harry Woodburn Chase announced.

Allan M. Pope

Colonel Pope, a member of the governing council (board of trustees) of the university since 1931 and Vice-President since 1935, will devote his entire time to the new position, the announcement stated. He recently retired as President of The First Boston Corporation after 13 years.

"The greatly increased financial undertakings of New York University, as a privately controlled institution, now necessitate the Chairmanship of the finance committee becoming a full time position," Chancellor Chase explained.

The university is one of the largest in the world, with an enrollment estimated to reach 65,000 this year and an annual budget of $18,000,000. In addition, a tremendous building program, including the building of the New York University-Bellevue Hospital Medical Center and the new Law Center, will greatly add to the responsibilities of the finance committee, particularly the Chairman.

"Colonel Pope has been a member of the Council for nearly 20 years and has been its Vice-President for almost as long, so that he is entirely familiar with the university and we are fortunate in having his full time services available to us," Dr. Chase added.

Colonel Pope, a graduate of West Point in the same class with General MacArthur, resigned from the Army as Colonel of the General Staff upon his return from France after World War I and since then, in addition to his banking responsibilities, has been active in public works.

He was President in 1929 and 1930 of the former American Acceptance Council and later he was President of the Investment Bankers Association of America.

He resigned about a year ago the Presidency of the Welfare Council of New York City, after serving in that capacity for three years, and is at present completing his third year as President of the Commerce and Industry Association of New York.

Moore New Pres. of Junior Bankers-Brokers

Philip Moore, First Boston Corporation, New York, has been elected President of the Junior Investment Bankers and Brokers Association of New York, to succeed William Lofft of Smith, Barney & Co.

Frederick J. Carr Dead

Frederick J. Carr, retired investment dealer, died at his home at the age of 78, after a long illness. He was one of the founders of Reagan, Morris & Carr, and was a principal in Reagon, Carr & Gaze in Pasadena. In the past he was an Executive Vice-President of the American Bankers Association.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

NEW ISSUE CALENDAR

December 22, 1947
Elliott Co.________________Preferred

December 23, 1947
American Insurance Co.__________Capital Stock
Dee Stores, Inc.________________Common

January 5, 1948
Americana Furniture, Inc.______Pref. and Common
De Wart, Inc.__________________Common

January 6, 1948
Dayton Power & Light Co.________Common, Bonds

January 8, 1948
Gulf States Utilities Co.______________Common

February 2, 1948
Iowa Power & Light Co.________________Bonds

Acme Broach Corp., Ann Arbor, Mich.
Dec. 2, (letter of notification) 40,000 shares ($5 par) common. **Price**—$5 a share. **Underwriter**—Dean W. Titus and Co., Ann Arbor. To build factory, pay obligations and for working capital.

• **Aeronca Aircraft Corp., Middletown, Ohio**
Dec. 5 (letter of notification) 2,689 share of common stock (par $1) and 2,689 warrants. **Price**—$10. **Underwriter**—F. Eberstadt & Co. Proceeds to selling stockholder.

• **Air Power Publishing Co., Inc., Tenafly, N. J.**
Dec. 15 (letter of notification) 35,000 shares of capital stock (par $1). **Price**—$1. **Underwriting**—None. To provide working capital.

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **Underwriter**—Herrick, Waddell & Co., New York. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind.

• **Amco Athletic Apparel Corp., N. Y.**
Dec. 15 (letter of notification) 2,475 shares of preferred stock (par $100). Stock will be sold by salesmen at $100 per share, who will receive 1/10th of one share of preferred as commission. For expansion of business.

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.

Americana Furniture, Inc. (1/5-48)
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 Heating Equipment Co., Seattle**
Dec. 5 (letter of notification) 73,886 shares ($1 par) Class A common and 100,000 shares ($1 par) Class B common. **Price**—$1 a share each. No underwriting. For working capital.

American Insurance Co., Newark, N. J. (12/23)
Nov. 14 filed 662,504 shares of capital stock (par $2 50). **Underwriter**—The First Boston Corp. **Offering**—Offered for subscription by stockholders of record Dec. 1, on basis of one new share for each two shares held. Rights expire Dec. 22. **Price**—$13 per share. Unsubscribed shares to be publicly offered by underwriters. **Proceeds**—To be used for capital funds.

• **American Mining & Refining Corp., Nampa, Ida.**
Nov. 28 (letter of notification) 7,500 shares ($10 par) common and 1,500 shares ($10 par) 4½% preferred. **Price**—$4 per share of common. The preferred is to be distributed as a bonus. No underwriting. For mine development.

• **Bell & Gossett Co., Morton Grove, Ill.**
Dec. 8 (letter of notification) 500 shares ($5 par) common, on behalf of R. Edwin Moore, Vice-President of the company. To be sold at market through Ames, Emerich & Co., Inc., Chicago.

• **Bev Co. of America, Inc., Hoboken, N. J.**
Dec. 10 (letter of notification) 10,000 shares of 6% cumulative convertible preferred ($10 par). **Price** — $10 a share. No underwriting. For expansion and improvement purposes and for working capital.

California Union Insurance Co., San Francisco
Nov. 28 filed 99,700 shares of common stock (par $10). **Underwriter**—None. **Price**—$25 a share. **Proceeds**—For working capital.

Central Illinois Pub. Serv. Co., Springfield, Ill.
Dec. 8 filed $10,000,000 30-year first and refunding mortgage bonds, series B. **Underwriters**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc.; Kidder, Peabody & Co., and Smith, Barney & Co. (jointly); Glore, Forgan & Co.; Lehman Brothers; Salomon Bros. & Hutzler; Kuhn, Loeb & Co. **Price**—To be determined by competitive bidding. **Proceeds**—To finance construction program.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. On Dec. 3 only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. Underwriting to be determined by competitive bidding. No bids received at competitive bidding Dec. 15. Sale may be negotiated. **Proceeds**—For property additions and expenses.

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 of record Jan. 15 on the basis of one new share for each 10 shares held. Rights expire Feb. 2. 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.

• **Clinton (Ia.) Industries, Inc.**
Dec. 15 filed 210,000 shares ($1 par) capital stock. **Underwriting**—None. **Offering**—Shares are to be offered in exchange for 300,000 shares of Obear-Nester Glass Co., St. Louis. **Business**—Manufacture of corn products.

• **Club Cottages, Inc., New York**
Dec. 12 (letter of notification) 2,000 shares of 4% cumulative non-convertible preferred stock (par $100) and 40 shares of common stock (no par). To be offered in units of 50 preferred shares and one common share at $5,000 per unit. **Underwriting**—None. Erection of cottages.

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.

Dayton (Ohio) Power & Light Co. (1/6/48)
Dec. 5 filed 170,000 shares ($7 par) common and $8,000,000 30-year first mortgage bonds. **Underwriting** — The common shares will not be underwritten but the bonds will be sold at competitive bidding. Probable Bidders—Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Blyth & Co., Inc., and The First Boston Corp. (jointly); Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane. **Offering**—The com. shrs. will be offered for subscription by stockholders on the basis of one share for each nine shares held. **Price**—Price of bonds will be determined by competitive bidding and price of the common will be supplied by amendment. **Proceeds**—To finance construction program. Expected about Jan. 6.

• **Dee Stores, Inc., Olean, N. Y. (12/23)**
Dec. 15 (letter of notification) 90,000 shares of common stock (par $1). **Price**—$3 per share. **Underwriters**—Willis E. Burnside & Co., Inc., and Otto Fuerst & Co., New York. **Purpose**—Working capital. **Business**—Retail jewelry.

• **Detroit Edison Co.**
Dec. 12 filed 450,000 shares of capital stock (par $20). **Underwriters**—Stock to be sold at competitive bidding by American Light & Traction Co. Probable bidders: The First Boston Corp.; Dillon, Read & Co. Inc.; Coffin & Burr, and Spencer Trask & Co. (jointly). American Light & Traction plans to use the proceeds to finance a natural gas pipeline from Texas to the Detroit area.

De Walt, Inc., Lancaster, Pa. (1/5/48)
Dec. 5 filed 110,000 shares ($2.50 par) common. **Underwriter**—Reynolds & Co., New York. **Price**—By amendment. **Proceeds**—Company is selling 20,000 shares and the remaining 90,000 shares will be offered by stockholders. The company will use its proceeds for plant construction and for working capital.

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. (12/22-26)
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, retirement of demand note, working capital.

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.

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.

Frigidinners, Inc., Philadelphia
Dec. 4 (letter of notification) 75,000 shares ($2 par) common and 15,000 shares of common reserved for issuance upon exercise of warrants. **Price**—$2 a share. **Underwriter**—Woodcock, McLear & Co., Philadelphia. To pay off loan and for working capital.

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.

Gamble-Skogmo, Inc., Minneapolis
Dec. 4 (letter of notification) 2,000 shares of ($5 par) common. To be sold at market through Carl M. Loeb, Rhoades & Co., New York, as principal underwriter.

General Instrument Corp.
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 early in January.

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)

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common. To stockholders at $14 a share. No underwriting. To pay construction loans.

Gulf States Utilities Co. (1/8/48)
Nov. 13 filed 272,352 shares (no par) common. **Underwriter**—Stone & Webster Securities Corp. and others. Offered to common stockholders of record Dec. 16 on the basis of one new share for each seven held. Rights expire Jan. 7, 1948. **Price**—$12.50 per share. Company also plans to sell privately 50,000 shares ($100 par) preferred $4.50 series. **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.

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. Indefinitely postponed.

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.

● **Italian Republic**
Dec. 15 The Italian Republic registered $39,651,900 30-year external sinking fund bonds: (Italian) Credit Consortium for Public Works, $37,243,200 of 30-year guaranteed external sinking fund bonds, and (Italian) Public Utility Credit Institute, $55,076,600 of 30-year guaranteed external sinking fund bonds. **Underwriting**—None. **Offering**—The bonds are to be issued in exchange for outstanding bonds.

Johnson Automatics, Inc., Boston
Oct. 10 (letter of notification) 95,000 shares of common. To be sold at market. **Underwriter**—George F. Breen, New York. For additional working capital. Issue will be placed privately.

Johnson Bronze Co., New Castle, Pa.
Nov. 10 filed 150,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account J. P. Flaherty, a stockholder.

Kansas Soya Products Co., Inc., Emporia, Kans.
Dec. 3 (letter of notification) 3,157 shares ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

● **Kerite Co., New York**
Dec. 10 (letter of notification) 4,000 shares of common on behalf of Lee Higginson Corp., New York. To be sold at market. **Underwriter**—Chas. W. Scranton & Co., New Haven, Conn.

● **Kootenai King Mining Co., Inc., Coeur d'Alene, Ida.**
Dec. 10 (letter of notification) 1,000,000 shares (10¢ par) stock. **Price**—12½¢ a share. To be sold through officers and other representatives of the company. For development of mining property.

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.

● **McColl-Frontenac Oil Co., Ltd., Montreal, Can.**
Dec. 16 filed 900,000 shares (no par) common. **Underwriting**—None. **Offering**—The shares will be offered for subscription by stockholders on the basis of one for each two shares held. No plans have been made for unsubscribed shares. **Price**—By amendment. **Proceeds**—For building expenditures and to repay bank loan. **Business**—Refinery business.

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.

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.

● **Mid-West Abrasive Co., Owosso, Mich.**
Dec. 8 (letter of notification) 28,571 shares (50¢ par) common. **Price**—$3.50 a share. No underwriting. To pay off bank loan.

Monsanto Chemical Co., St. Louis
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. Offering postponed due to market conditions.

Northern Indiana Public Service Co.
Oct. 29 filed 272,694 shares ($20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders on basis of one preferred share for each eight common shares held. Unsubscribed shares will be offered publicly. **Price**—$21 a share. **Proceeds**—To improve its public utility system.

● **Nutrine Candy Co., Chicago**
Dec. 9 (letter of notification) 1,000 shares of common stock (par $1). Price at market. **Underwriter** — Stifel, Nicolaus & Co. Donated to selling stockholder—Jewish Welfare Fund.

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.

● **Pacific Outdoor Advertising Co., Los Angeles**
Dec. 8 (letter of notification) 2,000 shares (no par) common. **Price**—$50 a share. No underwriting. The shares are being offered on behalf of Wagenseller & Durst, Inc.

● **Patterson (C. J.) Co., Kansas City, Mo.**
Dec. 11 (letter of notification) 5,000 shares no par common. **Price**—$50 a share. No underwriting. To purchase securities of subsidiary companies and for working capital.

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.

Pittsburgh Steel Co.
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. Expected after Jan. 2, 1948.

● **Potomac Edison Co., Hagerstown, Md.**
Dec. 16 filed $4,000,000 30-year first mortgage and collateral trust bonds. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Blyth & Co., Inc. and Smith, Barney & Co. (jointly); Harriman Ripley & Co.; White, Weld & Co.; Glore, Forgan & Co.; Kidder, Peabody & Co., and Merrill Lynch, Pierce, Fenner & Beane (jointly). **Proceeds**, together with $1,000,000 from sale of 50,000 shares of common to parent, West Penn Electric Co., will be used to repay bank loan and for new construction. **Business**—Public utility.

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.

● **Ross-Smith Corp., New York**
Dec. 10 (letter of notification) 18,200 shares (5c par) common. **Price**—$3.75 a share. **Underwriter**—Cohu & Torrey, New York. All of the shares are being sold by stockholders of the company including A. M. Ross-Smith, President.

● **Russell Carburetor Co., Inc., Shawnee, Okla.**
Dec. 5 (letter of notification) 200 shares of common. **Price**—$200 a share. No underwriting. For equipment and operation of business.

● **St. Elmo Mining Co., Inc., Porterville, Calif.**
Dec. 8 (letter of notification) 40,972 shares of capital stock. **Price**—$1 a share. No underwriting. For working capital in mine operation.

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.

● **Samplizing Plann, Inc., Jackson Heights, L. I.**
Dec. 10 (letter of notification) 2,000 units of profit distributing assignments, each equal to 1/2000th part of 40% of the net profits. **Price**—$100 per unit. No underwriting. To establish plan for distribution of samples for manufacturers cooperatively through an advertising campaign which is copyrighted.

● **Sherwood Furniture Corp., Portland, Ore.**
Dec. 12 (letter of notification) 200 shares of 6% cumulative preferred stock ($100 par). **Price**—$100 a share. No underwriting. For working capital.

● **Silver Mountain Mining Co., Seattle, Wash.**
Dec. 8 (letter of notification) 500,000 shares of common. **Price**—25 cents a share. To be offered through officers of the company. For mine exploration and development.

South Carolina Electric & Gas Co., Columbia, S. C.
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. 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.

Southern Acid & Sulphur Co., Inc., Richmond, Virginia
Dec. 4 (letter of notification) 6,464 shares of common. **Price**—$40 a share. To be initially offered to stockholders and employees and then to the public. **Underwriter**—Hill Bros., St. Louis. For working capital.

Southwestern Gas & Elec. Co.
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. Expected early in January.

● **Sprouse Realty Corp., Portland, Ore.**
Dec. 12 (letter of notification) 30,000 shares of 5% cumulative preferred ($10 par). **Price**—$10 a share. No underwriting. For construction of buildings and for working capital.

● **Stahly Inc., South Bend, Ind.**
Dec. 11 (letter of notification) 22,248 shares ($10 par) preferred and 46,220 shares (10¢ par) common. The offering includes $165,000 worth of stock being sold to reimburse J. W. Esterline, a director, who purchased the stock in November with the verbal understanding it would be offered for sale. **Price**—$100 per unit consisting of one share of preferred and five shares of common. May be sold through brokers. For working capital.

● **Standish Chard Radio Productions, Inc.**
Dec. 15 (letter of notification) $250,000 3-year 6% debentures and 10,000 shares of capital stock (par $1). **Price**—$100 per unit of four shares of stock with each $100 of debentures. Production of radio broadcast programs.

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.
Nov. 12 filed $40,000,000 20-year 3¾% sinking fund debentures and 250,000 shares 5% cumulative convertible second preferred stock, series of 1947 (par $100) and 2,500,000 shares of common stock (par $1) reserved for conversion. **Underwriters**—Eastman, Dillon & Co. heads a group of underwriters. **Purpose**—To financing merger of Pacific Western Oil Corp. and Mission Corp. into Sunray.

● **Thomas Robinson Co., Inc., New York**
Dec. 10 (letter of notification) 10,000 shares of common to be sold publicly at $3 a share and 55,000 shares of common, to be offered in exchange for stock of Lancaster Processes, Inc. No underwriting. For working capital.

● **Trenton (Mich.) Chemical Co.**
Dec. 12 filed 250,000 shares ($1 par) convertible preference stock. Underwriting: The present offer is a rescission offer on stock sold through the undewriting firm of Carr & Co., Detroit, between July 25 and Aug. 11. **Offering** — The offer affords persons who bought the stock either the right to rescind their order or affirm their original purchase.

● **Twin Lakes Corp., Carson City, Nev.**
Dec. 11 (letter of notification) 25,000 shares ($10 par) preferred and 2,500 shares ($10 par) common. **Price**—$110 per unit, consisting of 10 shares of preferred and one share of common. To be sold through officers of the company. For organization of business and its operation.

● **Udylite Corp., Detroit.**
Dec. 10 (letter of notification) 825 shares ($1 par) com-

mon. To be sold at market. **Underwriter**—Shader-Winckler Co., Detroit. To be added to capital.

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. Dealer-Managers—New York area, The First Boston Corp.; Washington area, Alex. Brown & Sons. **Price**—$20 per share. **Proceeds**—To be added to general funds for current construction program.

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.

Prospective Offerings

● **Dresser Industries, Inc.**

Dec. 8 H. N. Mallon, President, states that "if we continue at the rate of business established in 1947's fourth quarter, further working capital will be essential if we are to resume common dividends and are to remain in a well balanced financial position. Plans are in progress along this line." **Traditional Underwriter**—Harriman Ripley & Co.

● **Iowa Power & Light Co. (2/2/48)**

Dec. 12 company has applied to SEC for authority to sell $6,000,000 additional 1st mortgage bonds, series due Aug. 1, 1973. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co. Bids would be received up to noon Feb. 2, 1948.

● **Jay Manufacturing Co.**

Dec. 12 directors authorized sale of 185,000 shares of common stock to an underwriting syndicate to be headed by Hallgarten & Co., R. W. Pressprich & Co., and Adamex Securities Co.

● **Louisiana Power & Light Co.**

Dec. 15 the SEC clarified two preliminary questions looking to the ultimate proposal of company to issue 59,422 shs. of new pfd. stock in exchange for outstanding $6 old preferred. The SEC held company was not entitled to an exemption from the Commission's competitive bidding rule merely because the financing involves an exchange of securities. The SEC said, however, that when hearings on its refunding program are completed and the new preferred is ready for sale, if the company can demonstrate that market conditions existing at the time make it inappropriate to sell the new preferred at competitive bidding, it would consider another request for exemptions based on those factors. The Commission also granted the company's request to depart from SEC's expressed policy of limiting premiums on issuance of new securities to 2¾%. The company proposes to fix the dividend rate on the new preferred so as to produce an initial market price of at least $110 a share, or a premium of 10% above par.

● **Minnesota Power & Light Co.**

Dec. 17 the SEC granted company authority to submit for preferred stockholder approval charter amendments including reclassification of its 2,000,000 shares ($10 par) common stock. Company is engaged in a construction program which will require expenditures of about $12,000,000 through 1949. About $8,000,000 of the total expenditures will be raised from proceeds of securities proposed to be issued and sold in 1948 and 1949. As a first step, Minnesota plans to sell 100,000 shares of common shortly after adoption of proposed charter amendments. Further funds are to be provided through a $1,800,000 temporary bank loan in 1948 and through sale of $5,000,000 of bonds in 1949. The company plans to employ Georgeson & Co., New York, to assist in solicitation of proxies from its preferred holders in connection with the planned charter amendments.

● **Ohio Public Service Co.**

Dec. 22 SEC will hold hearing on company's petition for authority to borrow $3,000,000 from three banks and use the proceeds to repay a note of a like amount and to sell at competitive bidding $10,000,000 of new first mortgage bonds, proceeds to be used for construction and other purposes. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co.

● **Philadelphia Electric Co.**

Dec. 15 company is planning $40,000,000 new financing in February, 1948, if market conditions are favorable. This will provide funds needed through 1948 and the early part of 1949 in connection with company's large construction program. Under present plans the new issues will consist of $20,000,000 of preferred stock and $20,000,000 of bonds. Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); Morgan Stanley & Co.; Glore, Forgan & Co., and W. C. Langley & Co. (jointly); The First Boston Corp.; White, Weld & Co.

● **Squibb (E. R.) & Sons, New York**

Jan. 5 stockholders will vote on authorizing 120,000 shares $4 cumulative preferred stock, series A (no par). Company plans to sell 90,000 shares to an institutional investor.

● **Toledo Edison Co.**

Dec. 15 company in applying to SEC to borrow $6,200,000 from banks stated that $14,000,000 would be raised through bond financing between 1948-1950 to meet construction expenditures. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.

Our Reporter's Report

Unseasoned corporate equity undertakings may find the going rough these days and in some instances the senior shares of well-known companies have not fared too well in the new-issue market.

As Emil Schram, President of the New York Stock Exchange, pointed out only a day or two ago, hardly a day passes that does not bring news of the abandonment or postponement of projected equity deals. The basic trouble, he charged, is the "arbitrary" credit policy of the Federal Reserve Board.

While there is no gainsaying the foregoing observations, the fact remains that the week brought one of the most successful equity operations yet attempted as a consequence of the "death sentence" clause of the public Utility Holding Company Act.

Bankers bought 710,500 shares of common stock of the Northern Natural Gas Co., through competitive bidding from the North American Light & Power Co., which was obligated to dispose of its holdings.

Bidding was extremely close, only 4½ cents a share separating the $25.80 price of the successful group from that of the competing syndicate which offered $25.75½ a share.

On reoffering at $27 a share, with an allowance of 70 cents to dealers, the winning syndicate was swamped with orders. The stock, listed on the Stock Exchange, was selling a small fraction above the offering price when prospective oversubscription was announced.

Union Oil Co. of Calif.

The tendency on the part of borrowing corporations toward the medium of private placement has been picking up momentum of late. A number of such deals have made their appearance in recent weeks.

The latest of these undertakings was expected to be made public today for the account of the Union Oil Co. of Calif.

One of the "big five" insurance companies is understood to have purchased an issue of $15,000,000 of 25-year sinking fund notes from the coast producer with a 2.8% interest rate.

Philadelphia Electric

There are indications that the early part of the New Year will bring a pickup in corporate financing, particularly in the utility filed.

Philadelphia Electric Co. is planning to enter the market, probably some time in February, for a total of around $40,000,000 to provide funds needed for construction through 1948 and into early 1949.

The usual preliminaries are already underway with regulatory bodies looking toward the offering of $20,000,000 in bonds and $20,000,000 in new preferred stock. Investment bankers already are forming groups to enter into competitive bidding for these securities.

Clearing the Calendar

Had it not been for Northern Natural Gas stock turnover, this would have been a relatively quiet week in the new issue market.

Two small utility offerings, one a bond issue and the other a block of preferred stock, made up pretty much the balance of the list, although a large industrial common stock issue was reported waiting the "green light."

The Street reported a satisfactory demand for the two utility undertakings, the $6,000,000 of 3¼% bonds of Central Power & Light Co., and 40,000 shares of $5 preferred of Indianapolis Power & Light Co.

But Central Power & Light which sought bids on a block of 40,000 shares of new preferred failed to get a single tender on that part of the program and decided to let it go over at least until next month.

To the Public

It was expected that the bulk of 1,038,207 shares of new common stock (after ten-for-one split-up of old shares) of Brown & Bigelow, might be placed on the market today.

Of the total, 874,562 shares were being sold by a group of shareholders who would receive the proceeds, the stock going to the public.

The balance of 162,645 shares was earmarked for issue in exchange for outstanding stock of the Quality Park Box Co.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

Dr. GOP's easy inflation remedy and cure for the pox which the party caught from Mr. Truman's anti-inflation message, was not intended to be taken seriously for itself. It is doubted Republicans expected it to pass. Hence the final answer of either the Administration or the Republican Congressional majority to the riddle of "inflation, inflation, who's to blame for inflation," must not be expected until well into next year. The closer it gets to national convention time, the more careful will be the thinking and planning to evade blame for the high cost of living. This probably is true even if by some odd turn of fate the present Republican program should actually come to be law, a prospect which undoubtedly would give the GOP leaders apoplexy.

* * *

There was every sign that the GOP program was as carelessly shot from the hip as the Truman program. Everybody here takes it for granted that Mr. Truman did not expect Congress to go along with his program. Republicans—just a few of the boys—got together to think up THE ANSWER. The leaders did not expect Mr. Truman to go along with them, either. The House Banking Committee, which originated the program, did not hold a day's hearing on the Republican bill. There is no evidence that any informed industrial or business brains was consulted on whether the proposal was workable.

* * *

Plan of the "voluntary agreements" was for industry to channel and allocate materials, so that industry would itself decide who was going to be put out of business or be cut down. Objective of the thing was that industry by concerted action also would hold down or cut prices.

Industry spokesmen here see little chance for agreements to cut prices in the face of the threatened drive of the unions for the next round of higher wages. And unless there are to be more shortages accompanying more strikes, some higher wages will have to be paid. Any businessmen's agreement to bail politicians out of their worries by cutting prices would run against the hard fact that food prices will not be cut in the face of buying for foreign feeding. Food prices, it is pretty well admitted here, could not be touched by a voluntary program.

* * *

Another objection which industry would see in the Republican program is the putative exemption from the anti-trust laws. The theory of the GOP program was that it would recreate the wartime exemption from the anti-trust laws for concerted, voluntary action of industry. Some say the particular bit of law worked well; others that it worked indifferently. In any case most business remembers the famous "Madison cases," in which the Department of Justice successfully prosecuted oil companies for practices which they undertook at the behest of NRA, and after NRA allegedly at the instigation of the Secretary of the Interior.

* * *

Mr. Truman's droll boner on that point would not dissipate business caution about concerted action for any high and noble purpose. Apparently forgetting that his own program contemplated voluntary action first and compulsion afterward, Mr. Truman said never, never, while he was President would he condone violation of the anti-trust laws. This, as is well known, was in the Administration program, too. Since then Mr. Truman's aides have been trying hard to explain off this boner.

* * *

Then there was that little business about increasing the gold coverage behind Federal Reserve notes and deposits. With gold reserves billions higher this would neither presently restrain bank credit nor handicap the Federal Reserve in pegging interest rates low.

There were two facets to the gold reserve proposal. Chairman Eccles of the Federal Reserve Board dared Congress to wipe out the pegging of present low interest rates. His dare was none the less real because it was put in reverse English. He said he would like to have a "direction from Congress" if Congress wanted that situation changed. The GOP majority didn't take up the dare. Instead it wrote in the innocuous gold reserve proposal in the hope that Mr. Eccles would get the idea Congress didn't exactly like the firm grip the Reserve system is keeping on the interest rate level. Eccles probably won't take the hint.

The other facet, of course, was that the Congressional leaders hoped that the idea would go over with the lay public this boosting of the legal reserve was something presently anti-inflationary.

* * *

Republicans intended that their "anti-inflation program" would be defeated. Then they could blame the Administration or the Democrats. They were even so careful initially as to avoid any possibility that Mr. Truman, just to fox them, might approve their program. They adopted the procedure in the House of asking for a suspension of the rules to pass their bill. This requires the two-thirds majority, which they could not get. If they had wanted the thing passed they would in the first place have followed the usual procedure of getting a rule. The comedy of the situation is that Democratic votes within the House Banking Committee reversed to let the Wolcott bill out for consideration.

* * *

Chairman Knutson's ambition to get a tax cut of $5.6 billion approved in January will fail. This is too much for the Congressional majority. It will invite the charge the Republicans are responsible for Treasury deficits returning. The sum approved may be cut down to even lower than the $4 billion—the goal up until recently.

* * *

Canada's abundance of aluminum production may provide one of those ideal answers to somebody's prayer. The Commerce Department Office of Materials distribution has estimated the 1948 aluminum deficit of this country at around 200 million pounds. The U. S. industry is producing up to its economic capacity of around 1 billion pounds. Canada's capacity is just about as big, but is currently running at about half. Industry believes that from the Dominion this country probably can pick up about all needed to overcome the prospective shortage. Under the new trade agreements the tariff on raw aluminum is cut from 3 to 2 cents per pound; on most aluminum products, the reduction is 50%, effective Jan. 1. Despite the tariff cut, Canadians probably will get the same price, or around 14 cents, for this is what the traffic will bear. Besides supplying a commodity which otherwise would be short, the Canadian production will ease just a little the Dominion's exchange problem.

* * *

Soon a drive will get under way to nail down a permanent annual expenditure of $500 million per year for federal aid highways, including secondary roads and improvement of city streets. A bill for this purpose has been drafted by groups interested in highway development, and friendly Congressmen. Idea would be to have the Public Roads Administration proclaim each state's quota in December, "in time for meetings of state legislatures." Then if the legislatures acted quickly enough to appropriate the state share of costs, the Federal Government would be obligated. Congress then could not duck the ensuing appropriation.

This may have some trouble hurdling an economy minded House which has no interest in sewing up a long term expenditure.

* * *

Even without a "voluntary" industry program that anti-trust business is worrying the oil industry. Senator Wherry's Small Business Committee is trying to cajole oil companies, especially the majors, to pool their supplies with "small business" distributors, to spread the supplies evenly. Committee members directly call upon Company A to share its supplies with outlets B, C, and D. The companies point out that pooling supplies and knowledge violates the anti-trust laws. "To heck with the anti-trust laws, this is an emergency," say the Senators. All this is done without benefit of any statute clearing the oil companies from later punitive action The oil companies are worried at this official advice to risk trouble later.

* * *

There are more Congressional committees and subcommittees studying the oil shortage than an ordinary man can keep track of. Despite all the hullabaloo, the industry expects the country to get by without fuel shortages, except local and isolated, unless the winter is unduly severe. Next year? Industry spokesmen forecast an increased production of 10% in petroleum products, over 1947. Question then will be whether consumption again presses this added output.

* * *

Despite the statement of the Commissioner of Internal Revenue, that the Bureau will not be harsh in applying Section 102—the penalty on retention of earnings—there will be a drive to clarify this section. The Commissioner indicated that the Bureau of Internal Revenue will no more be harsh in applying the penalty but will largely respect the judgment of corporation executives in determining whether more than 30% retention is or is not in the best interests of business, and not just a dodge to evade income taxes for stockholders. In Congressional quarters there is a feeling that the burden of proof should be shifted from the taxpayer to the government before the penalty sticks.

Note: Chairman Eccles and Treasury Secretary Snyder, in agreeing that the budgetary cash surplus made it unnecessary to pass the Reserve Board secondary reserve proposal this year, made a noteworthy statement. They declared that under "present and prospective conditions" it is necessary to maintain the 2½% rate on Treasury long-terms. This "prospective" condition is taken as a long time commitment to hold the 2½% rate.

* * *

Time permitting, the House Banking Committee will study housing finance, in hearings early next year. These hearings not only will decide the fate of the Taft-Wagner-Ellender public housing program, but also the future of the easy money housing insurance under Title VI of FHA. Incidentally, the House Banking Committee made certain that Mr. Truman will have to ask for a few hundred millions for this insurance, and not just get it on a silver platter. The Committee saw to it that the President would have to take the initiative to allocate the insuring authority if it is used. Since Mr. Eccles said that inflationary home financing was one of the biggest inflation factors, this puts Mr. Truman on a little spot.

BUSINESS BUZZ

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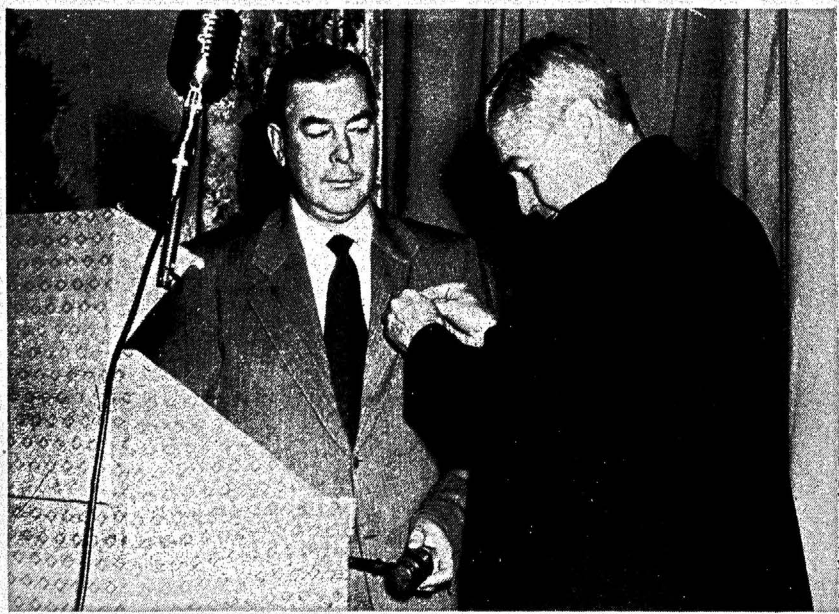
New President Takes Office



Julien H. Collins, *Julien Collins & Co.*, Chicago, new IBA President receiving the badge of office from Edward Hopkinson, Jr., *Drexel & Co.*, Philadelphia, the retiring President

E. F. Dunstan, *International Bank*, New York; Eugene R. Black, *International Bank*, Washington, D. C.

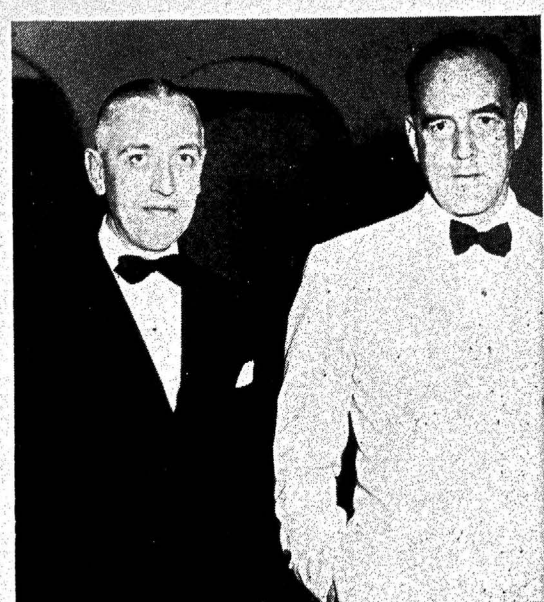
Willard L. Thorp *Department of State*, Washington, D. C.

Alden H. Little, *Investment Bankers Association*, Chicago; Edward H. Hopkinson, Jr., *Drexel & Co.*, Philadelphia; Mr. and Mrs. Julien H. Collins, *Julien Collins & Co.*, Chicago

Dr. John M. Cassels, *Department of Commerce*

Charles S. Garland, *Alex. Brown & Sons*, Baltimore; John Redwood, Jr., *Baker, Watts & Co.*, Baltimore

Harry A. McDonald, *Commissioner of the Securities & Exchange Commission*, Philadelphia; Harry A. McDonald, Jr., *McDonald-Moore & Co.*, Detroit



Joseph Ludin, *Dillon, Read & Co.*, New York; Salim Lewis, *Bear, Stearns & Co.*, New York

At IBA Convention

Mrs. and Mr. Dudley Baker, *Bosworth, Sullivan & Co.*, Denver; Mrs. Henry Hallowell, Philadelphia

Charles B. White, *Chas. B. White & Co.*, Houston, Tex.; J. R. Postlethwaite, *Irving Lundborg & Co.*, San Francisco; Mrs. Charles B. White; John H. Rauscher, *Rauscher, Pierce & Co.*, Dallas

Lewis Miller, *First National Bank of Chicago;* Mr. and Mrs. William H. Morton, *W. H. Morton & Co.*, New York; F. D. Farrell, *City National Bank*, Kansas City

Carnival Night

Mrs. Thomas Beckett; guest; Thomas Beckett, *First Southwest Co.*, Dallas

Mr. and Mrs. Anthony E. Tomasic, *Thomas & Co.*, Pittsburgh; Mrs. and Mr. Homer Browning, *Marine Trust Co.*, Buffalo, N. Y.

Amyas Ames, *Kidder, Peabody & Co.*, New York, delivering report as Chairman of the Federal Tax Committee

Mr. and Mrs. J. F. McCloud, *Kirkpatrick-Pettis Company*, Omaha, Neb.

R. A. Bigger, *R. S. Dickson & Co.*, Charlotte, N. C.

In Hollywood Beach, Fla.

John W. Corrington, *Paine, Webber, Jackson & Curtis*, Chicago; J. Russell Postlethwaite, *Irving Lundborg & Co.*, San Francisco; Harry W. Hurry, *Bingham, Walter & Hurry*, Los Angeles; Andrew M. Baird, *A. G. Becker & Co.*, Chicago

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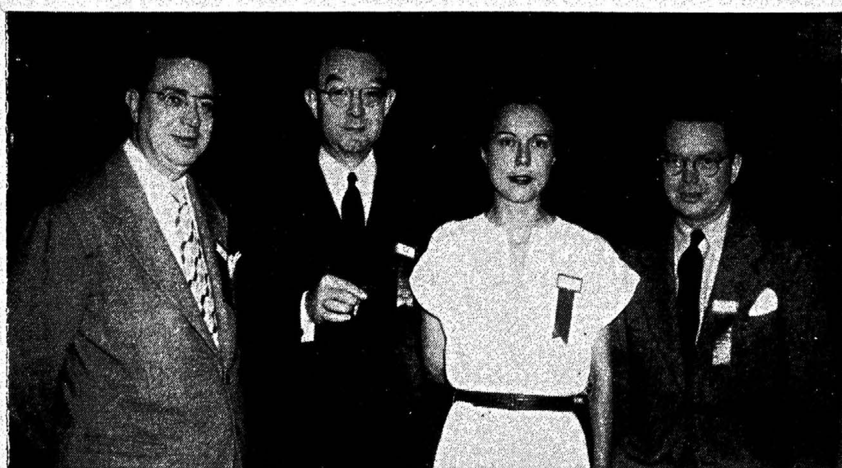

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E. Kenneth Hagemann, *G. H. Walker & Co.*, St. Louis; Mr. and Mrs. G. H. Walker, Jr., *G. H. Walker & Co.*, New York; Robert H. Matthews, *G. H. Walker & Co.*, St. Louis

William K. Barclay, *Stein Bros. & Boyce*, Philadelphia; Charles Thackera, *Bear, Stearns & Co.*, New York; Walter A. Schmidt, *Schmidt, Poole & Co.*, Philadelphia; Edward K. Dunn, *Robert Garrett & Sons*, Baltimore

Francis M. Knight, *Continental Illinois National Bank & Trust Co. of Chicago*; Mr. and Mrs. Jean C. Witter, *Dean Witter & Co.*, San Francisco; John S. Linen, *Chase National Bank of New York*

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Mr. & Mrs. Jack M. Bass, *Jack M. Bass & Co.*, Nashville, Tenn.

(On the train) Mrs. Eugene P. Barry, New York; Mrs. Cornelius Shields, New York

November 30 to December 5, 1947

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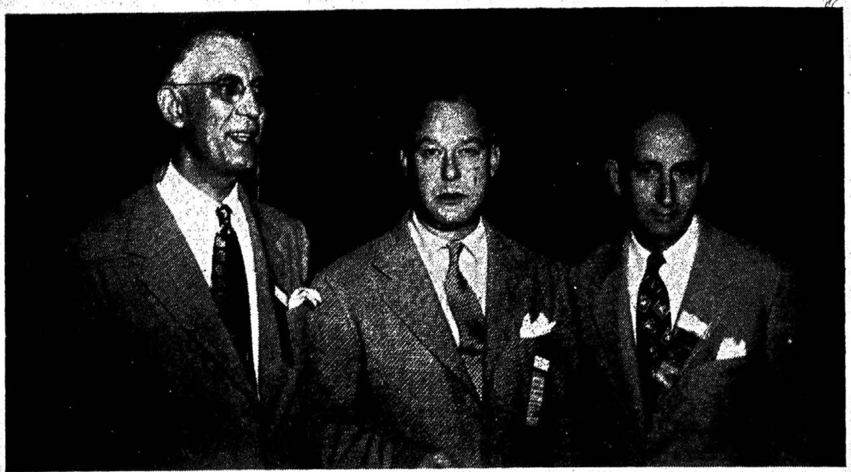

Wayne Martin, *Milhous, Martin & Co.*, Atlanta; T. George Van Hart, *Salomon Bros. & Hutzler*, New York; Joseph L. Morris, *The Robinson-Humphrey Co.*, Atlanta

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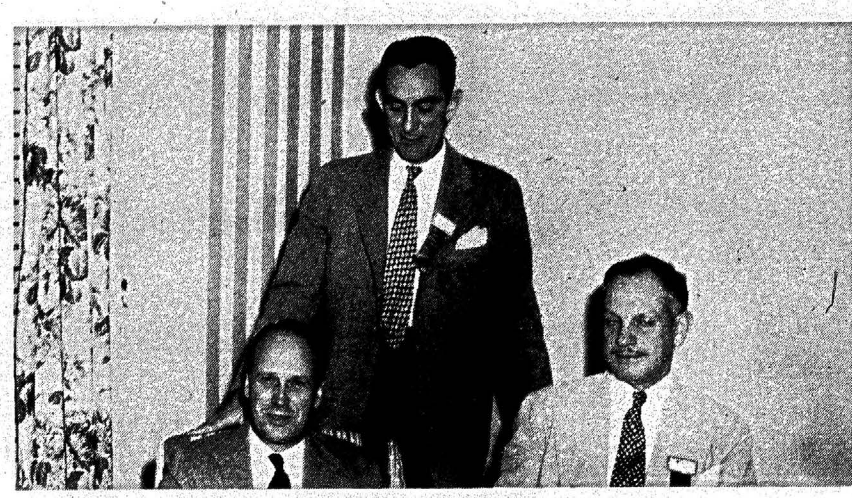
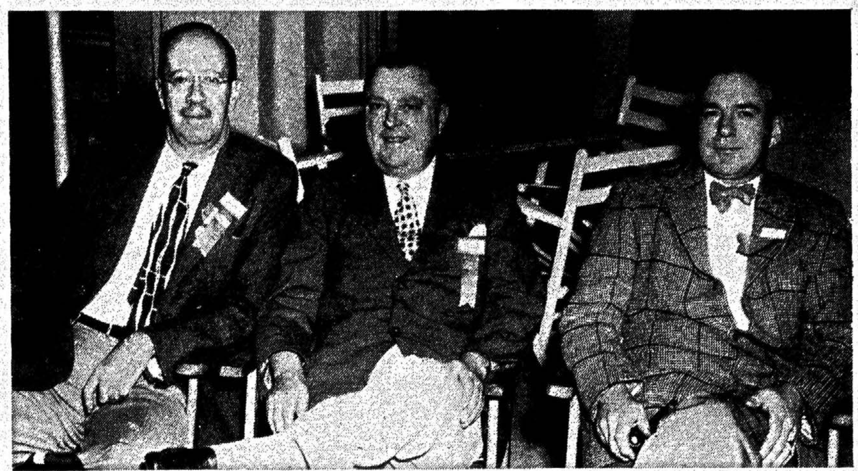


E. Norman Peterson, *Equitable Securities Corporation*, New York; Edward H. Robinson, *Schwabacher & Co.*, New York; Ralph Owen, *Equitable Securities Corporation*, Nashville (standing)

A. W. Schlichting, *Bankers Trust Co.*, New York; Craig Simpson, *Bankers Trust Co.*, New York; Wells Laud-Brown, *Bankers Trust Co.*, New York



Carl T. Naumburg, *Stern, Laurer & Co.*, New York; Conrad H. Liebenfrost, *Stern, Lauer & Co.*, New York; Francis B. Bowman, *Chase National Bank of New York*

John Prescott, IBA President 25 years ago, addressing the Convention

Sherman Ellsworth, *Wm. P. Harper & Sons & Co.*, Seattle; Herman L. Lind, *Camp & Co.*, Portland, Oreg.

Richard Courts, *Courts & Co.*, Atlanta, delivering address

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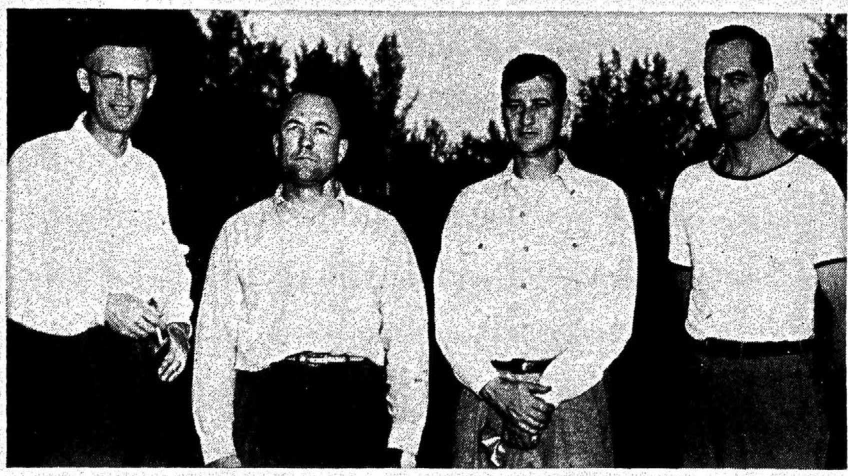
Henry Parish, *Carl M. Loeb, Rhoades & Co.*, New York; Howard A. Emig, *Farwell, Chapman & Co.*, Chicago



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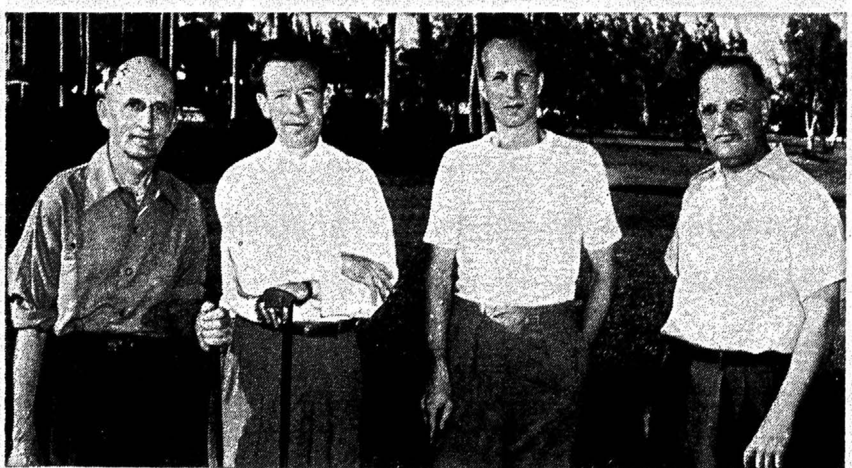

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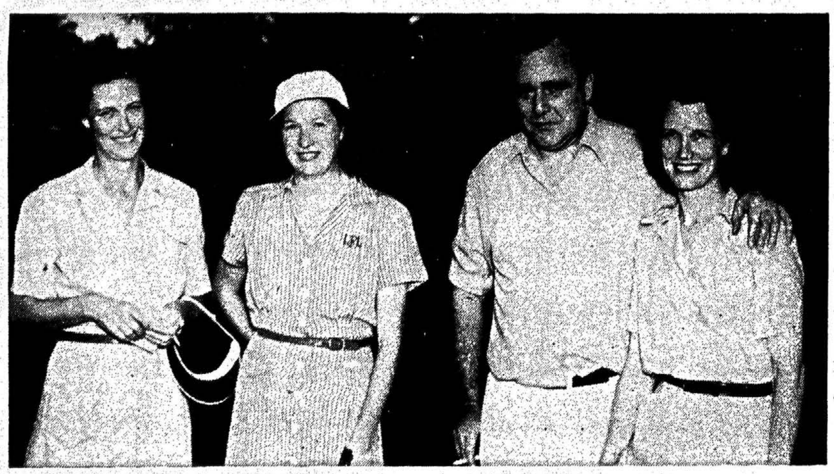
R. H. Johnson, *R. H. Johnson & Co.*, New York, awarding I. B. A. of Canada Golf Trophy to Herman L. Lind, *Camp & Co.*, Portland, Ore.



Mrs. William Rex, New York; Mrs. Paris Scott Russell, Jr., New York; Davis Kales, *Commerce Union Bank*, New York; Mrs. Carl H. Doerge, *Wm. J. Mericka & Co.*, Cleveland

Golf and Tennis Order of Day

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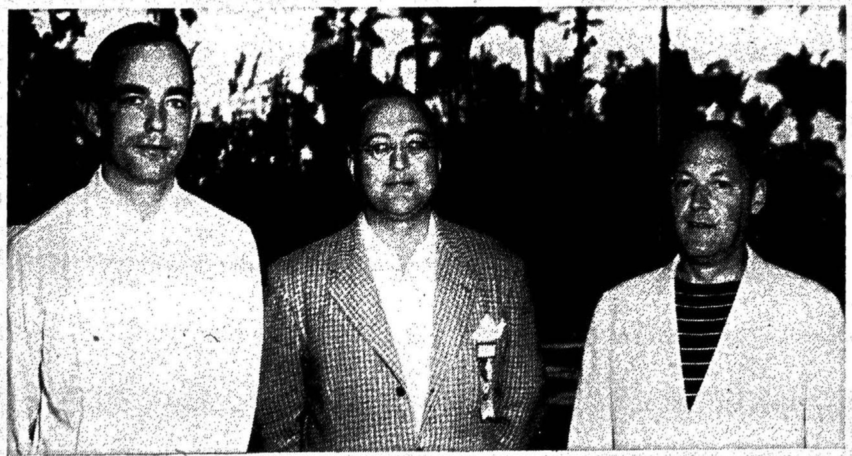

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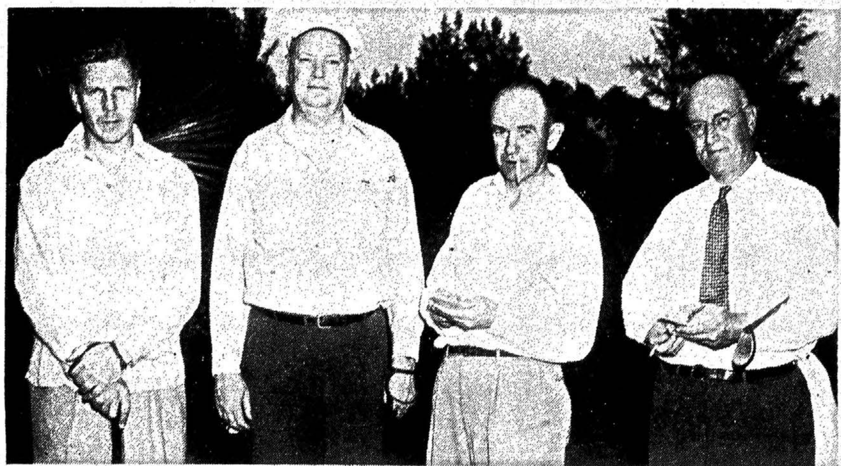

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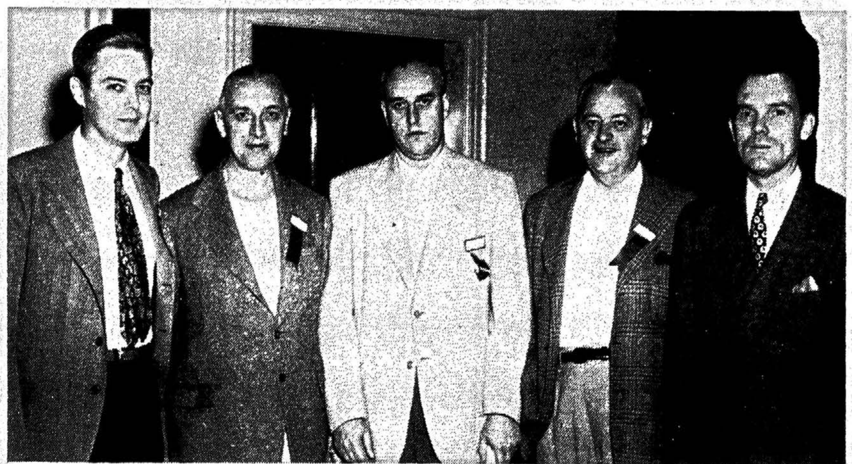

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Mr. and Mrs. William N. Edwards, *Wm. N. Edwards & Co.*, Ft. Worth, Tex.; Mr. and Mrs. W. G. Hobbs, Jr., *Russ & Co.*, San Antonio, Tex.; Mr. and Mrs. Edward D. Muir, *Russ & Co.*, San Antonio

Mr. and Mrs. William R. Stuart, *Mason, Moran & Co.*, Chicago; Mr. and Mrs. Roy H. Klute, *Mason, Moran & Co.*, Chicago; G. Shelby Friedrichs, *Howard, Labouisse, Friedrichs & Co.*, New Orleans

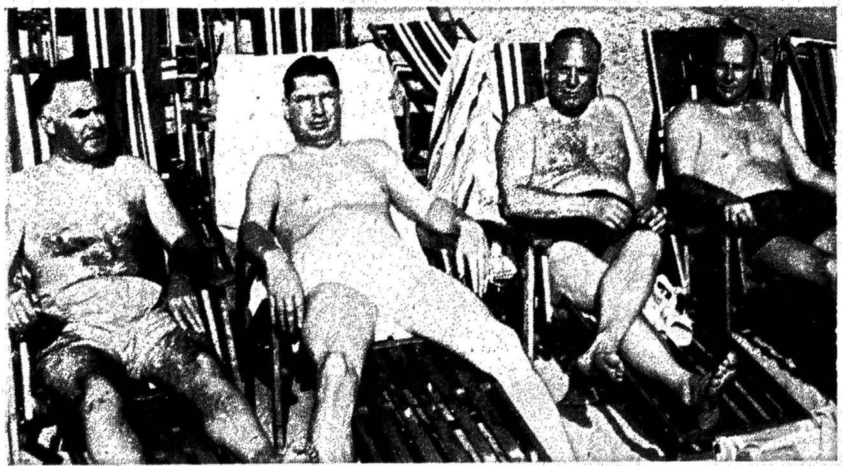
Wilbur E. Hess, *Fridley & Hess*, Houston; Herman Feldmann, *Geyer & Co., Inc.*, New York City; Elvin K. Popper, *I. M. Simon & Co.*, St. Louis; Mrs. and Mr. Jerome F. Tegeler, *Dempsey-Tegeler & Co.*, St. Louis; J. W. Means, *Trust Company of Georgia*, Atlanta

(Charter members of the 8 A. M. Club): Nathan D. McClure, *Harriman Ripley & Co.*, Chicago; Richard de la Chapelle, *Shields & Co.*, New York; David L. Skinner, *Harriman Ripley & Co.*, New York; Joshua A. Davis, *Reynolds & Co.*, New York

Edward H. Hopkinson, Jr., *Drexel & Co.*, Philadelphia; Mrs. Julien H. Collins; Mrs. Hal H. Dewar; Julien H. Collins, *Julien Collins & Co.*, Chicago; Alden H. Little, *Investment Bankers Association;* Hal H. Dewar, *Dewar, Robertson & Pancoast*, San Antonio, Texas

Mrs. William K. Barclay, Philadelphia; F. T. Seving, *Butcher & Sherrerd*, Philadelphia; Mrs. and Mr. Robert Rowe, *Stroud & Co.*, Philadelphia; Mrs. Wallace McCurdy, Philadelphia

Neptunus Rex

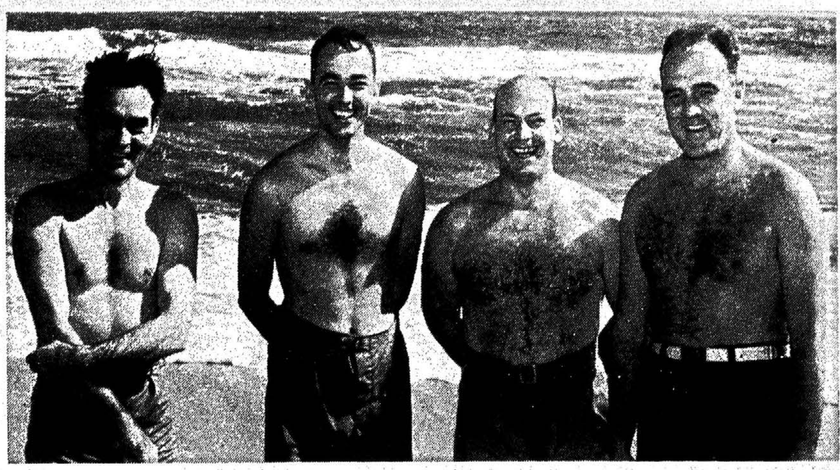


Lud C. Vobayda. *First National Bank*, Minneapolis; L. L. Howe, *John Nuveen & Co.*, Chicago; F. B. Carpenter, *John Nuveen & Co.*, Chicago; Edwin Knopp, *First National Bank*, St. Paul

Mr. and Mrs. Willard I. Emerson, *Hemphill, Noyes & Co.*, New York; Edward H. Robinson, *Schwabacher & Co.*, New York

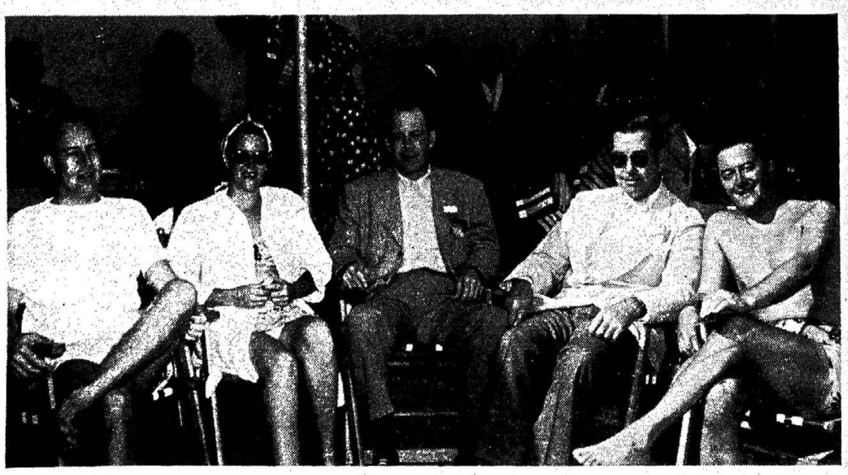
Warren Crowell, *Crowell, Weedon & Co.*, Los Angeles; Mrs. Hugh Bullock, New York; Robert E. Clark, Calvin Bullock, New York

Charles S. Vrtis, *Glore, Forgan & Co.*, Chicago; Robert Blyth, *National City Bank*, Cleveland; Rollin C. Bush, *National City Bank*, New York; Donald Caldwell, *J. Barth & Co.*, New York



Ralph Owen, *Equitable Securities Corp.*, Nashville; Edward D. McGrew, *Northern Trust Co.*, New York; Joshua A. Davis, *Reynolds & Co.*, New York; Salim L. Lewis, *Bear, Stearns & Co.*, New York

Russell D. Bell, *Greenshields & Co.*, Montreal; Mr. and Mrs. Hugh Bullock *Calvin Bullock*, New York; Peter Kilburn, *Greenshields & Co.*, Montreal



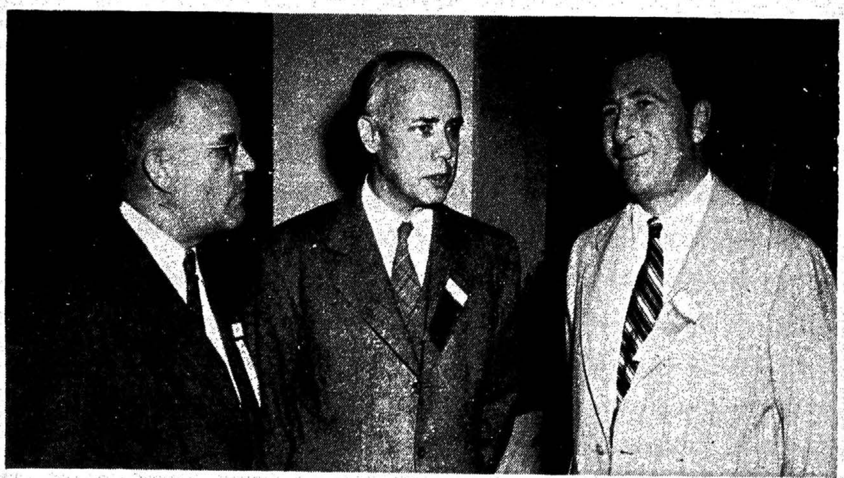
Edward D. Muir, *Russ & Co.*, San Antonio; Mrs. William G. Hobbs, Jr., San Antonio; Frank Carr, *John Nuveen & Co.*, Chicago; Jesse A. Sanders, Jr., *Sanders & Newsom*, Dallas; William Hobbs, Jr., *Russ & Co.*, San Antonio

Mr. and Mrs. Harry Theis, *Albert Theis & Sons*, St. Louis; E. Kenneth Hagemann, *G. H. Walker & Co.*, St. Louis; G. H. Walker, Jr., *G. H. Walker & Co.*, New York City; Rudy Rubert, *Coral Gables*, Fla.

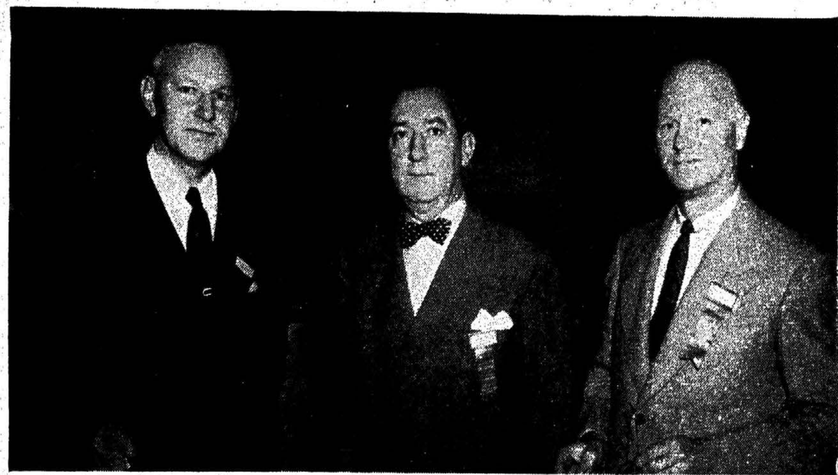
Conventioneers Relax

Edwin B. Horner, *Scott, Horner & Mason*, Lynchburg, Va.; Mrs. David Terwilliger, New York; Kimball Valentine *Vance, Sanders & Co.*, Boston; Mrs. Robert O. Shepard, *Hawley, Shepard & Co.*, Cleveland; David L. Terwilliger, *Richard W. Clarke & Co.*, New York City

Sidney L. Parry, *Association of Stock Exchange Firms*, New York; Arthur D. Lane, *Chase National Bank of New York;* Homer A. Vilas, *Cyrus J. Lawrence & Co.*, New York, *President of the Association of Stock Exchange Firms*



Errol E. Buckner, *National Bank of Commerce*, New Orleans; De Witt Carter, *Nashville Securities Company*, Nashville; Milton R. Underwood, *Milton R. Underwood & Co.*, Houston

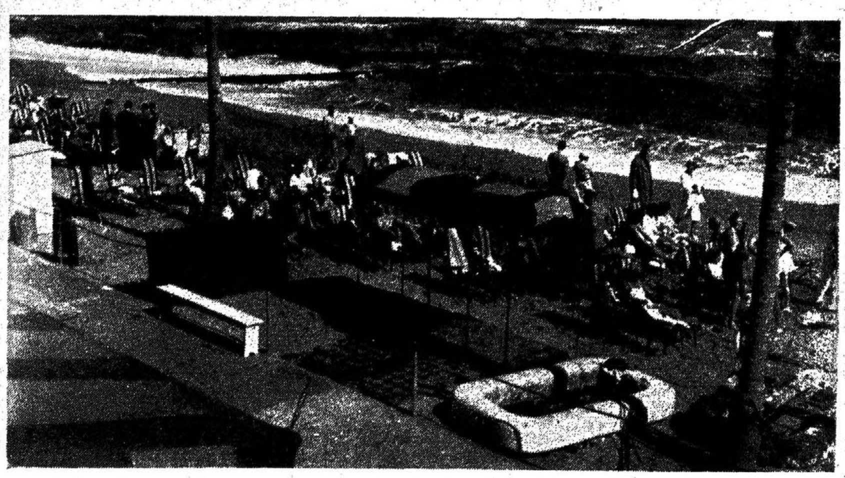


Herman L. Lind, *Camp & Co.*, Portland, Oreg.; Douglas Casey, *A. C. Allyn & Co., Inc.*, Chicago; William J. Collins, *Wm. J. Collins & Co.*, Portland, Oreg.

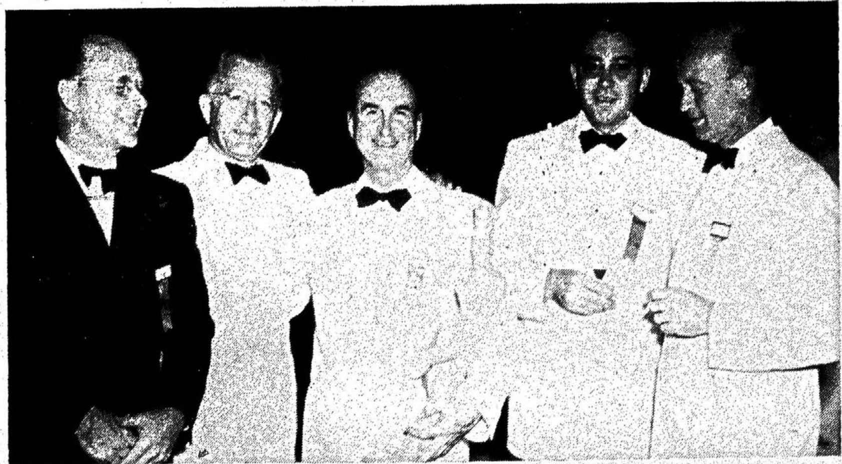
B. A. Crawford; Philip J. Rhoads, *First National Bank & Trust Co.*, Oklahoma City; Mrs. B. A. Crawford

James Roddy, *Scharff & Jones, Inc.*, New Orleans; Mrs. Walter Craigie, Richmond, Va.; Roderick Moore, *Branch, Cabell & Co.*, Richmond, Va.

Judith Sinton, Mary Lincoln, Celeste Froman, of the IBA staff



Beach Scene



Bernard B. Knopp, *First National Bank*, St. Paul Minn.; Elvin K. Popper, *I. M. Simon & Co.*, St. Louis; Rudolf Smutny, *Salomon Bros. & Hutzler*, New York; Donald E. McFarland, *Kalman & Co.*, Minneapolis; John H. Crago, *Smith, Moore & Co.*, St. Louis

Hagood Clarke, *Johnson, Lane, Space & Co.*, Atlanta; Mrs. Roderick D. Moore, *Branch, Cabell & Co.*, Richmond; Edwin B. Horner, *Scott, Horner & Mason*, Lynchburgh, Va.; Mrs. C. Barron Otis, New York; Murray Hanson, *Investment Bankers Association*, Washington, D. C.

The St. Louis Room

Duffy's Tavern: Proprietors, Davis, McEwan, Cross and Bradley

Informal reception and press conference

Informal reception and press conference

Jim Daisy Initiates

Jim Daisy—front row: Robert Rowe, *Stroud & Co.*, Philadelphia, Robert L. Thayer, ***Lehman Brothers***, New York; Bert Horning, *Stifel, Nicolaus & Co.*, St. Louis; rear row: William R. Rovensky, *Hornblower & Weeks*, New York; Norman Downey, ***Union Securities Corporation***, New York; Gilbert B. Pearsall, *Van Alstyne, Noel & Co.*, New York; J. Russell Postlethwaite, *Irving Lundborg & Co.*, San Francisco

Jim Daisy—front row: Harry A. McDonald, *Securities & Exchange Commission*, Philadelphia; J. W. Means, *Trust Co. of Georgia*, Atlanta; Sidney L. Parry, *Association of Stock Exchange Firms*, New York; rear row: Francis Adams Truslow, *New York Curb Exchange*; Louis J. Cross, *Paul H. Davis & Co.*, Chicago; William H. Morton, *W. H. Morton & Co.*, New York