A Merry Christmas

ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 166 Number 4658 New York, N. Y., Thursday, December 25, 1947 Price 30 Cents a Copy

The First Sure Step to Dictatorship

By PHILIP HARDING JORDAN

Mr. Jordan points out concentration and regimentation of youth in camps is a health menace and contends by making a military career more attractive, a satisfactory peacetime army can be achieved. Holds peacetime compulsory service leads to dictatorship.

Not many weeks from now the Truman Administration will endeavor to get the Congress of the United States to decide whether or not our country will take the first sure step to dictatorship. They will do this by trying to get Congress to vote upon a bill, which, should it become law, will force every boy of eighteen to be regimented for one year of his life under a compulsory military training program.

Philip H. Jordan

This bill is recommended for passage under the guise that it will improve the health of American youth. It is true that more can be done for the physical

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Holds Western Europe Forges Own Economic Chains

William Chamberlain, former utility executive and attorney, writes California Congressman if prosperity in Western Europe is desired to combat Communism, measures must be taken in advance to restore sound money there. Otherwise, he holds aid to Western Europe will constitute only a wasteful gesture and will delay rather than help recovery. Cites illustration of conditions resulting from unsound French fiscal policies.

Mr. William Chamberlain of Saratoga, Calif., formerly President of the United Light & Power Company, who has commented on several occasions in these pages on current economic and monetary problems, has furnished the "Chronicle" with the following letter addressed by him under date of Dec. 2, 1947 to Representative J. Z. Anderson of California concerning a program of aid to the countries of Western Europe:—

William Chamberlain

My dear Congressman:

In June I wrote you calling attention to the pegged prices required by order of the Stabilization Fund to be observed in exchanging foreign currencies into U. S. dollars, an order entered upon demand of the governments of Western Europe. I used the pegged price of the French franc as illustrating the insuperable barrier interposed by these pegged

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International Trade and Economic Reconstruction

By JAMES D. MOONEY

President and Chairman of Board, Willys-Overland Motors, Inc.

Contending unsound foreign loan policies and trade restrictions can lead to another smash, Mr. Mooney recommends aid to assist in the restoration of convertible currencies and help for countries creating a proper economic climate for foreign capital.

To have a balanced economy and keep production and employment at high levels a balance of foreign payments must be brought about by economic processes in free markets.

At present the United States is embarrassingly prosperous. It is well known that products are produced to be sold. A small surplus that cannot be sold depresses prices wholly out of proportion to that surplus. In normal times we have vast surpluses to export. These surpluses are made up of such products as wheat, cotton, machinery, textiles and processed foods.

James D. Mooney

In turn, we import large quantities of necessary materials such as metals, fertilizers and food products, including tea, coffee, and tropical fruits. For most of the period between the two world

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EDITORIAL

As We See It

"Money Supply" and "Purchasing Power"

From a letter recently received from a valued subscriber we take the following:

"In your issue of Dec. 4, * * * in an article quoting remarks made at a stockholders' meeting of the Bank of Manhattan Company, I note a statement that 'history demonstrates all too clearly that there is no way to stem the tide of rising prices except by increasing the supply of goods and services available for purchase and by halting the expansion in the supply of money and credit.'

"Coming from so high a source of banking knowledge, this has me considerably confused. If I see an opportunity to expand my business, thus increasing the supply of goods and services, I apply for credit at the bank, and if the bank thinks the proposition is sound and extends the credit, the supply of credit is being expanded. Thus 'increasing the supply of goods and services' and 'halting the expansion in the supply of money and credit' seem to be mutually exclusive.

"Putting it the other way around, if the bank halts the expansion of credit, then the supply of goods and services does not seem able to increase.

"Ordinarily, I would simply take the Manhattan Bank's

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British Imperial Preference and the Marshall Plan

By HON. JACOB K. JAVITS, M. C.
21st Congressional District, New York
Member House Foreign Affairs Committee

Col. Javits traces historical events leading up to Britain's adoption of British imperial trade preference system in Ottawa in 1933, which he maintains was justified in circumstances. Hails Britain's recent agreement for modification by cutting tariffs 25% as laying groundwork for multilateral trading system indispensable for Marshall Plan's success.

The recent talks in Geneva on the International Trade Organization and the formulation of the Marshall Plan, have brought to public attention the British imperial trade preference system which has been in existence since 1933 and which now seems to be in for material changes. The lessening in effect and importance of this preference system marks a new period in international trade relations and, therefore, has greater significance than would appear possible at first glance. Very few people are acquainted with the details of the imperial preference system—why it came into existence—what effect it has had during the past 15 years—and just how its removal will help international relations. It is of the utmost importance that everybody, and business people in particular, know a little more about British imperial trade policy.


Hon. Jacob K. Javits

Britain's Pre-1933 Policy

Until 1933, the British had followed a policy of leaving trade to nature—in other words, they were the foremost exponents of a free trade policy. This is very understandable, since the British are extremely dependent not only upon their exports (which have been emphasized today because of financial reasons), but on imports, since the British Isles cannot support the British population, and food, raw materials, and manufactured items must be brought in even to just sustain life. Thus, being dependent upon trade with all the countries of the world, the British had no desire, nor could they benefit to any great extent, except under unusual circumstances, from tying themselves down with any one or even a number of countries, in exchange trade relationships. By 1930, however, Britain's trading position became very difficult as a result of the restrictive tariffs that had been established in most other countries in the world, and her own increasingly high production costs. In order to protect herself, Great Britain reluctantly took action to give trade preference to her Dominions to get preferences from them and to raise tariffs generally. By 1930 the world depression bursting on the USA in 1929-1931 and spreading rapidly throughout the world, had had a disastrous effect on British export trade. Tariffs in many countries were being increased drastically (the U. S. passed the Smoot-Hawley Tariff in 1930) and in many countries, import and exchange restrictions were being imposed. These countries could trade with Great Britain without any change, but Britain on the other hand, could not use any government influence to secure return markets for her merchandise so essential if she were to maintain her life-giving imports. And so, what has now come to be known as the British imperial trade preference system

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Sees Prosperity Not Certain Without Price Competition

President's Council of Economic Advisers, cites artificial postwar stimuli as cause of present high economic activity, and holds future stability may be threatened by removal of temporary economic props. Reiterates government role in economic planning and decries increase of hours in standard work week. Stresses importance of attaining "real price competition."

On Dec. 22, the three-man President's Council of Economic Advisers, headed by Dr. Edwin G. Nourse and set up under the Employment Act of 1946, released its Second Annual Report to the President. In addition to its Chairman, Dr. Nourse, the Committee is composed of Leon H. Keyserling, Vice - Chairman, and Dr. John D. Clark. The bulk of the report is devoted to the Council's organization and its work program, and the meaning of "maximum" production together with the means of attaining it. However, in isolated sections of the report, there are references to the present economic outlook and the means of stabilizing the national economy. Although foreseeing no immediate prospect of a downward move in the present high rate of economic activity, the report implies that present "maximum" production, which is maintained by temporary and artificial props such as military purchases and foreign aid expenditures, is improperly balanced and until this "imbalance" is rectified by a return to "real price competition," no permanent prosperity is assured.


Edwin G. Nourse

The sections of the report dealing with these questions follow:

In progressive and democratic countries like the United States, growth in productive power has been accompanied by—and, in fact, has been largely dependent on—the passing on of more goods to more people. This has been achieved through a double process of enlarging mass incomes and lowering prices of mass-produced goods. The challenge that is presented to us now is to recognize the full measure of our productivity, which was seen only in rather distorted terms during the war and was sadly obscured during the depression that preceded. If we are to achieve and stabilize maximum production according to any reasonable interpretation of America's capacity to produce, we must in future have much higher consumption in all the lower and middle ranks. The small number of the well-to-do will not be able to absorb the possible output of consumers' goods. Nor can they go on indefinitely accumulating ownership of the surplus above their consumption needs and investing it in ever-enlarging plant for future expansion of goods for some restricted part of the population. The enlarging production of an industrially efficient nation must go increasingly to filling in the consumption deficiencies of the erstwhile poor. Their labor has in fact become highly productive under the well-equipped and efficiently organized economic system of today, and if this great productivity is not reflected in their patterns of consumption, the system itself will become clogged and fail to maintain maximum productivity.

It is no answer to say that this increased productivity of the rank and file worker should not be used to raise his real income because he has done nothing to

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Adolescent America—Awake and Challenge!

By THEODORE PRINCE, L. L. M.*

Asserting U. S. is an island of self-sufficiency surrounded by ocean of need and impotency, Mr. Prince maintains, unless we awake and challenge Soviet efforts to dominate world, we will be confronted by medieval despotism. Says cost of re-establishing a free world is well within our means.

The world around us is in the throes of economic, social and political frustration and confusion. We are an island of self-sufficiency and power surrounded by an ocean of need and impotency. To bring economic coherency and political stability to those nations that seek to remain free should now be our goal.

Theodore Prince

We cannot succeed unless that power and self-sufficiency that is still ours remains unimpaired. We won the war but find ourselves faced with Hitler's "in fact" successor. What is the power that won the war, that will win the peace, that will save the disintegration of the still retaining bastions of European freedom and consequently of the world?

Belief in the faith of American democracy and our destiny alone is not enough. The shibboleths of political objectives alone only confuse our onset, and blunt and disperse our forces. To conserve and direct our power effectively we must identify accurately its part in our forthcoming strategy. Exports, gold, freedom, military power and food are mere temporary palliatives in a larger scheme of master power which we possess in peace and in war.

Production

Production is the secret of America's power and alone can be the base on which countries still free can remain so. It is meet that the far-flung economic consequences of production should be identified and emphasized. For this is fittingly the inheritance of the people of the United States who only a few hundred years ago won the stubborn terrain by sturdy self-discipline, bold adventure, and sterling sacrifice. By toil and ingenuity they built and fashioned our countless products, devised machinery, developed power and resources. That real wealth gave value to money and gold, which are but symbols and means of exchange.

The great well of production distributes the fruits of life to all. A good political system should protect this production and distribution. In America, wages and salaries now comprise approximately 68% of the entire national income, or $135 billion out of $200 billion. That requires a high degree of efficiency and industrial "savior-faire" in order to maintain a sufficient return for those who provide the capital to make possible these large sums paid to labor.

Communism, Socialism and other attempted political cures for the economic ills of society all stem from unbalanced and decrepit production.

The destruction by the last war of so much physical and industrial structure and profitable production reduced large numbers of people abroad to penury, and thus makes a revival to successful production difficult. England suffered with others but her chief difficulty was the rundown of her economic and industrial plant, best exemplified in the coal mines, which permitted the costs to rise owing to the failure to install efficient modern machinery.

Comparative cost of production is the crux of efficient production and even national supremacy. For coal is the source of England's power in production and trade. Last year, it took 700,000 miners to produce 190 million tons of coal in England, against 530 million tons produced in America by only 500,000 miners. A 15% increase in England's production would leave 15 to 20 million tons for export, after filling domestic demands, which would give the needed exchange to buy extra machines to increase production. Again, a plan for an increased production of 67% in the much prized English cloth fell through because labor was opposed to the reduction from 10 to 5 men in a particular operation.

This brings the reason of Europe's plight into clarity. A nation can have a prosperous economy only through balanced profitable production. Productivity alone allows for the interchange of products through money, to which it gives a balanced value. Money printed by government edict in endless continuity becomes worthless as an exchange medium.

Consider the comparative work required in other products and in other countries, which makes living costs high and wages low since the worker can only receive back the value he adds to the product. The average American factory worker can buy a pair of work shoes with the wages of $3\frac{1}{2}$ hours of work, whereas the English worker has to labor 9 hours, and in Italy 24 hours. In the United States it takes one work-hour to make a cotton shirt. It takes 4 hours in Great Britain and

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*Mr. Prince is an economist, investment counsel and lawyer specializing in corporate practices and taxes, and a financial circle figure for 30 years, and was for 20 years head of the Stock Exchange firm which bore his name. —Editor.

Published Twice Weekly
The COMMERCIAL and FINANCIAL CHRONICLE
Reg. U. S. Patent Office
WILLIAM B. DANA COMPANY, Publishers
25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576
HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager
Thursday, November 25, 1947

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

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

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

Subscription Rates

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

Other Publications

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

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

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

Scientific Basis of Internal Stock Market Analysis

By NICHOLAS MOLODOVSKY of White Weld & Co., and
JOSEPH MINDELL of Marcus & Co.

Authors maintain some serious misconceptions underlie current criticisms of "internal" market analysis; specifically dissecting recent writings of Graham and Dodd, and May. Asserting this approach rests on sound scientific basis, and pointing out limitations of alternative approaches, conclude difficulties of investment analysis are so great, no sound methods for serving investors should be ignored.

A large and influential group of persons in the financial community deny the possibility that evidence of practical value for investment decisions can be derived from a study of the internal conditions of the stock market. They claim that there is no scientific justification for the approach, and that their own methods enjoy a superior scientific status.

In the recent past these criticisms have taken on the character of an assault; so it might be well


Joseph Mindell Nicholas Molodovsky

to marshal the relevant facts, and to examine several important questions that are raised by the attack:

(1) What is the validity of this attack?

(2) Do the alternative approaches in fact enjoy a superior scientific status?

(3) Is there a scientific justification for the Internal Evidence approach?

Because the strongest and clearest expression of the usual criticism has been given in Graham & Dodd's "Security Analysis," and in A. Wilfred May's articles in "The Commercial & Financial Chronicle" for Oct. 9 and Oct. 16, 1947, it will be convenient to refer to them.

I

Some Basic Misconceptions

What is the validity of these attacks?

Underlying the main criticisms of the methods used by the analysts of the market's internal structure are several misconceptions about the nature of the phenomena that are being studied, and the everyday procedures of the sciences.

(a) The misconception that the stock price series is a chance series.

Mr. May's views on this article are to be found in his column, "Observations" on p. 5 of this issue. —EDITOR.

Mr. May refers to the fluctuations of stock prices as a chance series which he likens to a series derived from tossed coins, dice, or roulette turns ("Commercial & Financial Chronicle," Oct. 9, 1947). These critics, since they see stock prices as a result of pure chance, naturally assume that research into the internal structure of stock price movements is doomed to be fruitless, and is, therefore, unworthy of serious attention. If stock prices were a pure chance series, **all** traditional investment approaches, including the value type, would have to be abandoned.

But tossed coins, dice, and roulette turns represent successive **independent** events where the probability of an event is independent of the preceding events. Records of past tosses, roulette turns, etc., cannot, therefore, serve as guides to future events, and such study is indeed useless.

This reminds one of the authors of that client's secretary who used to phone him after each market close to inquire what the daily "numbers" were. Stock prices, however, are not "numbers" passed around after each turn of a lottery wheel. They are not a pure chance series. Mr. May's error in this respect has already been indicated by Nikita D. Roodkowsky in a letter published in the "Chronicle" of Oct. 23, 1947. This error is of fundamental importance and has far-flung repercussions. Stock prices constitute a time series of dependent events revealing internal causal relations which produce persistent trends of prices. Stock prices are formed by a demand for and supply of shares. Demand and supply are in turn based on human decisions, which themselves rest on persistent, though variegated factors. Observe the underlying trends of bull and bear markets which persist for years at a time. Trend is, in fact, one of the dominant characteristics of most economic time series, although there are difficulties of comprehension when one lives in the midst of the complicated web of interactions that go into its formation.

In short, stock price movements are **not** subject to the mathematical laws of random chance. There are price trends. Simple examination reveals it, and this fact can also be supported by statistical demonstration and mathematical proof. Stock price movements, therefore, qualify for scientific investigation, as data not primarily characterized by randomness.

(b) The misconception that hypotheses of the future cannot be grounded on the past and present.

According to Mr. May, there exists a "really hard-and-fast line between the present and the future." (op. cit. Oct. 9, 1947). Neither philosophy nor the exact sciences draw such a line. Nor can it be drawn in economics, where the past and the present so obviously shape the future.

As the eminent Dr. Frederick R. Macaulay has written: "The future is never certain. But, in all too many instances, thoroughly warranted conclusions as to future probabilities are not drawn. The possession of the necessary knowledge of the present, even when such knowledge is easily obtainable, is rare. . . . The logic we lack . . . is the ability to distinguish the relevant from the irrelevant facts around us and to reason assuredly from such data. . . . Lack of knowledge of the future is a fundamentally disturbing factor but the effects of inability to handle logically the facts of the present must not be underestimated. Indeed, if that inability were less, our knowledge of the future would be greater." ("Bond Yields, Interest Rates & Stock Prices," page 15.)

Needless to say, conclusions as to probable future behavior drawn from a mere examination of similar sequences in the past cannot have much scientific validity. But in scientific work we rely upon the Frequency Theory of Probability. The probability of any event is just the limiting value of the relative frequency with which a certain type of event occurs in a series of events. The probability that, under conditions "C," an event "E" will happen, is obtained by ascertaining the relative num-

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Meaning of the War Debt

By A. J. CORTESE

Mr. Cortese contends we shall continue for generations to pay for the war debt, not because we consumed or expended more than we produced, but because of a fictitious monetary enrichment of individuals by means of government debt which increased the supply of money. Says ordinary function of money is perverted in wartime and normal relation between financial accounts and economic activity is lost, for there is no real profit in a war economy. Says war debt is an unearned and distorted claim on postwar production.

The monetary arithmetic of men's economic activities, which we record in books, is like an echo. It is real, but secondary. Fundamentally, the locomotive is more important than the securities that were issued to pay for it, the food we eat is more essential than the grocer's bill, the medical treatment more vital than the doctor's bill.

A. J. Cortese

The function of money and banking is to facilitate the production and exchange of goods and services. But vast accumulations of monetary figures become so intricate that we become disproportionately preoccupied with them. Periodically, also, monetary structures break down, with the result that secondary things limit and regulate those which are primary. A staggering example of the tail wagging the dog is the great depression of the '30s. During that period there was no fundamental economic reason for men's economic life to decline. The earth was fertile, our minerals lay beneath our feet, there was a great basic demand for goods, and manpower, willingness to work, plant and capital were all present. Yet we remained paralyzed, because our finances had gone awry.

The most massive phenomenon in monetary accounting ever experienced by this country is the present federal debt. By no amount of logic or knowledge can we know in advance whether it can be managed indefinitely without convulsive effects on our economy. We permitted it to grow without limit during a war of survival, because the financial accounts were far less important than the material needs and spiritual values. Like all great financial inflations, however, it threatens to strangle man's primary economic activities. An examination of fundamental reasons for the financial costs of war not only will show why this is so, but also will reveal some remarkable differences between government and private debt.

We shall continue, perhaps for generations, to pay for the last war, not because we consumed or expended more than we had produced, which is the reason for ordinary debt, but because, financially, we enriched ourselves momentarily, suddenly, and excessively. Future payments are required, therefore, simply to extinguish a previously created supply of money. This statement will be considered an error by one who thinks that the cost remains to be paid in the future because we made things that were unproductive (in the ordinary sense), or because the products we made were not salable, or because they were destroyed. This view, however, is only a relative view of economics. An absolute view is quite different.

Do Future Generations Pay for War?

It is not necessary to pay, in the fundamental sense of the word, in the future for the war goods we produced. Except for the relatively small quantities of commodities we imported, we have already fully "paid" for them, because our labors fully produced them. If we produced them once, it is basically unnecessary to spend further labor on them in the future. Our grandchildren do not have to help us make the battleship Missouri.

Except for a negligible percentage, the entire cost of all things is payments to individuals. All commodities come from the earth and the atmosphere, and we do not pay money to Nature. Financial analysis is so accustomed to differentiating between cost of material, cost of labor, fixed charges, depreciation, advertising, taxes, etc., that we easily forget that ultimately the total monetary cost is for labor, physical or mental. To be strictly accurate, there is a relatively minute amount of the cost

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Observations . . . .

By A. WILFRED MAY

Answering the Market Internalizers

And Offering Molodovsky and Mindell a Sound Investing Credo

Space considerations prevent a complete consideration of Messrs Molodovsky and Mindell's thorough critique and affirmative statement of the case for *internal* market analysis (appearing on the page opposite). Consequently, it is fortunate that they have provided two clear-cut points of departure between our respective approaches. One of these is epitomized in their statement: "The value approach fails to recognize the economic difference between a privately owned enterprise and a stock on an exchange." The other basic point of difference is contained in their contention that investors are properly concerned with prices of the moment, rather than with either long-term price or directly with underlying value.

A. Wilfred May

The Alleged Change Wrought on a Corporate Enterprise Through Marketability of Its Shares

The nub of our differences is embodied in our authors' insistence, as in the above-cited quotat on, that shares of corporate stock and shares of interest in a privately owned enterprise are not comparable entities; that a business becomes a changed entity by reason of its equity shares being given the "corollary" of highly organized security markets and a kind of liquidity.

Particularly bearing in mind that, as is set forth in Molodovsky-and-Mindell's opening sentence, we are concerning ourselves with *investment* decisions, this misconception about the true function of the corporate share and the assumption of value-determination by liquidity, constitute "the $64" fallacy.

Certainly it does not require elaborate dialectics over the proper concept of value, or quibbling over the definition of "investment," to regard it as wholly absurd to couple systems for depicting the structure of "the market" with *investment* in individual securities!

Can it be denied that it is a truism that a certificate representing a share in a business actually is a certificate representing a share in a business—irrespective of whether it is available for purchase and sale on a stock exchange, over-the-counter, or even nowhere? A corrected version of the contrary Molodovsky-Mindell contention is **that permanent or temporary liquidity or quasi-liquidity do not actually alter the nature of the company share, but that a large part of the market community (including Messrs. Molodovsky and Mindell) choose so to regard it, and, hence, fall into various categories of irrational as well as unprofitable behavior.**

Liquidity Fallacies

This liquidity fallacy has been evidenced in much of the protestation following the New Deal stock exchange legislation. While criticism of the SEC may be justified on other grounds, the public has been confusing the decline from the market's feverish activity of the 1920's and the reduction in that kind of "liquidity," with injury to the price level. All kinds of dubious inferences about the effect of the thinned market on investment worth have followed.

The writer in this column of Dec. 4 last elaborated on the proclivity of the market community to speculate in varying degrees on future changes in opinion and on general market psychology, and to engage in out-guessing the rest of the public; in lieu of studying the elements constituting a security's worth. The simile is not simply with predicting what the most beautiful or even publicly most acceptable style of dress will be a year hence, but what the manufacturers will deem it to be; nor with doping the actual winner of a horse race, but rather with picking "the favorite" in the race; nor with forecasting the actual news, but rather the nature of people's future reaction to it.

Only a slight variation of this fallacy is the process of people speculating as to what other people are going to believe intrinsic value to be.

Messrs. Molodovsky and Mindell have not been misled into consciously linking the value of a common stock to the one-week, one-month, or one, two or three-year course of earnings. But whether they realize it or not, they too, actually, even if only indirectly and unwittingly, are supporting those who are trying to predict the future behavior of other market participants (efforts to outguess the community), instead of engaging in hard-boiled appraisal of the price at which an individual security is likely to return his principal to the investor plus adequate compensation for the risk involved.

They profess to agree on the impossibility of correlating stock market behavior with extrinsic business, economic, or political events. But from there on they seem to go awry in assuming that somehow the crowd making the market—the "they"—as a collective group, gain special omniscience not possessed by its members as individuals. They overlook the fact that the market price at any given time

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The State of Trade and Industry

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

The Christmas season is a joyful time of year for many, yet the spirit of love and charity of one for another should not be lost in the celebration of The Great Advent.

Today those qualities are needed more than ever to restore some semblance of order to a long-suffering and distraught world. Not in generations has mankind been confronted with the ponderous task of restoring order out of chaos among nations great and small and alleviating human misery and starvation of the innocent resulting from a devastating war.

On this Day of days all free-men far removed from the forces of anti-christ will enjoy a really "Merry Christmas" to the extent that they are hospitable to Christ and His spirit.

It is one of the tragedies of history that when the Son of God became Man, there was no room for Him in the dwellings of Bethlehem. Someone missed the opportunity of a life-time on the first Christmas Day.

Succeeding generations have gradually drifted from Him, and are we on this Sacred Day to perpetuate the inhospitality to Christ like the innkeepers and householders of Bethlehem who said: "No room."

The world is trembling on the rim of a great abyss and all the plans for rehabilitation of Europe and the East, and devices to control inflation and correct the many dislocations making for an abnormal economy at home, will prove in vain if we do not heed the lesson conveyed in the first Christmas message.

* * * *

Overall industrial production turned slightly upward in the past week with output in almost all industries above the very high levels of recent weeks. In fact, several new postwar production peaks were recorded during the week.

As has been true during and since the war, employment last week continued at a very high level with skilled labor shortages reported in several areas. The need for skilled hands is highly essential to full production, but as "Business Week" magazine in a current editorial points out: "We have had 'full employment' for some time now. But we still don't have production that anywhere nearly balances it." Notwithstanding this fact, great progress has taken place and, according to "Business Week's" index of business activity, using the year 1941 average of 162.2 as a base, such activity shows an increase for the week ending Dec. 18, 1947 over that period of 30.7 points, 30.6 points the week before, 24.7 points a month ago and 12.5 points one year ago. In such a comparison the advance in activity over that of last year was, in good measure, due to the fact that most raw materials were in better supply.

* * * *

The slight let-up in business activity which had been freely predicted for the last quarter of 1947 did not occur for four reasons, Henry H. Heimann, Executive Manager of the National Association of Credit Men, stated in an end-of-the-year review of business. He pointed out there had been an underestimation of the pent-up demand caused by war shortages, and also the warnings issued during the year, made for a more cautious attitude which helped prevent some of the excesses which might have caused business reaction. Labor management difficulties at the start of the year also somewhat curtailed general production and as a fourth point he referred to the tremendous European requirements and our decision to fulfill them in such large quantities.

"Looking forward to the year ahead—whether or not our business tempo will continue at this hectic pace—depends largely upon the measure of continued aid we extend to Europe," Mr. Heimann stated, adding that "unless we go all out for Europe, there is every reason to believe that 1948 will witness some slight slackening, which in the last analysis might prove a healthy condition, assuming it were held within bounds."

* * * *

With Christmas gift buying at its peak, retail volume for the week rose moderately above the very high level of the previous week and total dollar volume remained well above that of the corresponding week a year ago. Although items suitable for gifts sold especially well, consumer demand for most staple goods remained heavy.

A very slight increase in total wholesale volume occurred in the week with total dollar volume in most lines well above that of the corresponding week a year ago. Reorders on Christmas gift items were numerous with buyers insisting on prompt delivery. Interest in spring apparel was moderate with buyers paying considerable attention to price and quality.

STEEL OUTPUT SCHEDULED AT SHARPLY LOWER RATE FOR HOLIDAY WEEK

Amid all the frustrated talk and thinking in this country over

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Barnes & Kay to Be A. M. Kidder Partners

Richard M. Barnes and Gordon R. Kay will be admitted to partnership in A. M. Kidder & Co.,

Richard M. Barnes

1 Wall Street, New York City, members of the New York Stock Exchange on Jan. 1. Mr. Barnes has been with the firm for some time in charge of the unlisted stock trading department.

Speakers Scheduled to Talk on 1948 Outlook

Hon. Willard L. Thorp, Assistant Secretary of State for Economic Affairs; Ragnar Naess of Naess & Cummings; James Hughes of Auchincloss, Parker & Redpath; Imrie de Vegh, Consulting Economist, and Martin Gainsbrugh, Chief Economist of National Industrial Conference Board, will speak at a luncheon meeting on Dec. 30 at the Hotel Commodore, New York City. This meeting on the "Outlook for 1948" will be under the auspices of the American Statistical Association and is open to every one interested. Admission $3.30.

Mackall & Coe to Be New York S. E. Firm

WASHINGTON, D. C.—William W. Mackall on Dec. 30 will acquire the New York Stock Exchange membership of the late Harry J. Crofton, and the firm of Mackall & Coe will become members of the New York Exchange. The firm already is a member of the Washington (D. C.) Stock Exchange. Other partners are William C. Coe, Thomas L. Anglin and Robert L. Soper.

Struthers, Linton & Weigold to Be Partners in Henderson, Harrison

William W. Struthers, Jr., Walter L. Linton and Clarence E. Weigold, member of the New York Stock Exchange, on Jan. 1 will be admitted to partnership in the Exchange firm of Henderson, Harrison & Co., 40 Wall Street, New York City, and the firm's name will be changed to Henderson, Harrison & Struthers. The new partners were all formerly partners in Struthers & Dean, which is being dissolved on Dec. 31.

Warren Thorpe is retiring from partnership in Henderson, Harrison & Co. on Dec. 31.

To Be Doolittle & Co.

BUFFALO, N. Y. — William Schoellkopf will retire from Doolittle, Schoellkopf & Co., Liberty Bank Building, members of the New York Stock Exchange, on Dec. 31, and effective Jan. 1 the firm's name will be changed to Doolittle & Co.

President Submits Plan for European Recovery

In lengthy message to Congress, he appraises European problem and stake of U. S. in European recovery. Outlines program of aid, involving appropriations of $17 billion and covering period of four years. Proposes an Economic Cooperation Administration, working closely with State Department, to carry out program.

On Dec. 19, the last day of the special session of Congress, President Harry S. Truman submitted to Congress a program of American aid to Western Europe, involving a net expenditure by the United States Government of about $17 billion over a period of four years or more. The full text of the message follows:


President Truman

To the Congress of the United States:

A principal concern of the people of the United States is the creation of conditions of enduring peace throughout the world. In company with other peace-loving nations, the United States is striving to insure that there will never be a World War III. In the words of the Charter of the United Nations, we are "determined to save succeeding generations from the scourge of war."

We seek lasting peace in a world where freedom and justice are secure and where there is equal opportunity for the economic well-being of all peoples.

To this end, the United States played a leading role in the founding of the United Nations. We have supported that organization at all times to the best of our ability and we have advanced a number of proposals for increasing its effectiveness in maintaining peace and security and in establishing the economic, social and moral foundations of peace.

We are working in the United Nations toward the limitation and control of armaments and, in a step without precedent or parallel, have offered to place our most powerful weapon under international control provided that other nations agree to effective and enforceable safeguards against its use for destructive purposes.

The United States, in the conviction that a prerequisite to peace in the future is the just settlement of past differences, has labored to obtain fair and workable treaties of peace for former enemy states so that they may resume their places in the family of nations.

The United States has taken the lead in world-wide efforts to promote industrial and agricultural reconstruction and a revival of world commerce, for we know that enduring peace must be based upon increased production and an expanding flow of goods and materials among nations for the benefit of all.

Since the surrender of the Axis powers, we have provided more than $15 billion, in the form of grants and loans, for aid to victims of the war, to prevent starvation, disease, and suffering; to aid in the restoration of transportation and communications; and to assist in rebuilding war-devastated economies. This assistance has averted stark tragedy and has aided progress toward recovery in many areas of the world.

In these and many other ways, the people of the United States have abundantly demonstrated their desire for world peace and the freedom and well-being of all nations.

We must now make a grave and significant decision relating to our further efforts to create the conditions of peace. We must decide whether or not we will complete the job of helping the free nations of Europe to recover from the devastation of the war. Our decision will determine in large part the future of the people of that continent. It will also determine in large part whether the free nations of the world can look forward with hope to a peaceful and prosperous future as independent states, or whether they must live in poverty and in fear of selfish totalitarian aggression.

Interest of the United States in European Recovery

It is of vital importance to the United States that European recovery be continued to ultimate success. The American tradition of extending a helping hand to people in distress, our concern for the building of a healthy world economy which can make possible ever-increasing standards of living for our people, and our overwhelming concern for the maintenance of a civilization of free men and free institutions, all combine to give us this great interest in European recovery.

The people of the United States have shown, by generous contributions since the end of hostilities, their great sympathy and concern for the many millions in Europe who underwent the trials of war and enemy occupation. Our sympathy is undiminished, but we know that we cannot give relief indefinitely, and so we seek practical measures which will eliminate Europe's need for further relief.

Considered in terms of our own economy, European recovery is essential. The last two decades have taught us the bitter lesson that no economy, not even one so strong as our own, can remain healthy and prosperous in a world of poverty and want.

In the past, the flow of raw materials and manufactured products between Western Europe, Latin America, Canada and the United States has integrated these areas in a great trading system. In the same manner, Far Eastern exports to the United States have helped pay for the goods shipped from Europe to the Far East. Europe is thus an essential part of a world trading network. The failure to revive fully this vast trading system, which has begun to function again since the end of the war, would result in economic deterioration throughout the world. The United States, in common with other nations, would suffer.

Our deepest concern with European recovery, however, is that it is essential to the maintenance of the civilization in which the American way of life is rooted. It is the only assurance of the continued independence and integrity of a group of nations who constitute a bulwark for the principles of freedom, justice and the dignity of the individual.

The economic plight in which Europe now finds itself has intensified a political struggle between those who wish to remain free men living under the rule of law and those who would use economic distress as a pretext for the establishment of a totalitarian state.

The next few years can determine whether the free countries of Europe will be able to preserve their heritage of freedom. If Europe fails to recover, the peoples of these countries might be driven to the philosophy of despair—the philosophy which contends that their basic wants can be met only by the surrender of their basic rights to totalitarian control.

Such a turn of events would constitute a shattering blow to peace and stability in the world. It might well compel us to modify our own economic system and to forego, for the sake of our own security, the enjoyment of many of our freedoms and privileges.

It is for these reasons that the United States has so vital an interest in strengthening the belief of the people of Europe that freedom from fear and want will be achieved under free and democratic governments.

Origins of the European Recovery Program

The end of the fighting in Europe left that continent physically devastated and its economy temporarily paralyzed. The immediate problem was to prevent wide-

(Continued on page 24)

From Washington Ahead of the News

By CARLISLE BARGERON

From the welter of conflicting economic thought of the past 15 years—the various contentious schools on what should be done to acquire the more abundant life for all—there has been one proposition upon which everybody seemingly agreed. It was that the government should spend during depressions and retrench during prosperity.

Carlisle Bargeron

In fact, all of the hordes of economists who have been formulating plans to prevent boom and bust cycles have had high on their ponderous lists, the policy of government accumulating a backlog of needy public works projects in good times, to be undertaken when times are slack.

Accordingly, you would think right now is the time for the government to be accumulating a beautiful backlog of projects, but holding to the bone the number to be immediately carried out. This is not the case. While forever scolding the people about spending and adding to the inflationary pressures and thinking up additional schemes to "siphon off their savings," neither the Federal Government nor the State and municipal governments is making any pretense of economizing. The attitude of the government spenders is that good times are here and they are determined to be in on the spree.

The fact that costs are twice what they were a few years ago is no deterrent. The Government spenders are loose in the market bidding prices further up.

In this light, the perennial agitation for the St. Lawrence waterway is being revived. It is to be a burning issue when Congress returns. The historic alignments are now being formed: those for the project, of course, being the forces of humanity and progress; those against it being the forces of selfish interest and greed.

When all of the trappings are removed, the most aggressive elements behind the project are the proponents of public power. Were it not for the determination of the public power people to increase their domain, you can rest assured that this project would not continue to bob up like a cat with nine lives. There is nothing to the waterway aspects of it to justify such a long existence on the political scene.

There will be all sorts of mudslinging about the high powered lobby opposed to the project. Yet the last time it was up, the bright young men in the Federal Power Commission collected plenty of money from their wealthy "liberal" friends to propagandize for it, this on top of the tremendous propaganda of the Federal bureaucracy.

As further evidence that the power motive dominates the proponents you have only to analyze its Congressional support. For example, the project can mean nothing to the people of Washington State. Yet you will find it drawing support from that State's delegation in Congress, Republicans and Democratic alike. Why? Because Washington is known as a public power State. It is politically dangerous for a representative from that State not to support anything that advances the public power cause. It is not enough that they have their own public power and just as high cost of living as people anywhere else—public power has been adopted as a religion to be foisted upon people everywhere else.

The fact that the project has made its many appearances before Congress in so many disguises should alarm those who do not believe in transmigration of the soul. First, it appeared as a boon to humanity in cheaper transportation and power costs. Roosevelt presented it as an essential battlement to head off the advance of Hitler and the Fascists. When it became apparent that these evil hosts would be checked before the dirt could be turned or the steam shovels put in place, it was advanced as a necessary public works project to give employment in the depression that was to immediately follow the war.

This depression not having come, the project is back now as a defense measure. The atomic bomb having been developed to destroy all things in the next war, manifestly we must build some new things for it to destroy.

In this form it has been embraced by Senator Vandenberg, who is not only President pro tempore of the Senate, but Chairman of the quite articulate—in these times—Senate Foreign Relations Committee. The Senator has been doing some tall soul searching in recent years and in doing so he has completed the cycle, as the Eastern intelligentsia would put it, from stupid, ignorant isolationism to the broadened, highly intellectual and statesmanlike horizon of world affairs. In so doing he has acquired an unusual niche for himself.

The Republicans, predominantly, knowing in their hearts that the internationalist spree upon which we have been long embarked is the bunk and having no taste for it or even the vocabulary to become interested in it, yet realizing the vast propaganda at its disposal, have assigned to the Senator the role of acting as their foil.

When the propagandists descend upon them charging that their thinking and capabilities are limited to matters purely bearing upon this country, they point to Vandenberg in refutation. Naturally if he should say that the St. Lawrence waterways project is a part of the broadened world outlook it will receive considerable support in the Senate. But it is not likely to get by the House.

Why Peace Conference Failed

By HON. GEORGE C. MARSHALL*
Secretary of State

Secretary Marshall lays blame for failure of Council of Foreign Ministers in London to reach agreement on Soviet delegation's placing obstacles to achievement of economic and political unity of Germany. Outlines fundamental decisions which occupying powers should take for German unity as, (1) elimination of artificial zonal barriers; (2) relinquishment of German properties seized as reparations; (3) a new sound German currency; (4) determination of economic burdens for Germany; and (5) an overall export-import plan for all Germany. Urges Western Europe recovery program.

The result of the recent meeting of the Council of Foreign Ministers in London was disappointing. I realized that the many lengthy statements and the frequent and fundamental disagreements were very confusing to the general public.

George C. Marshall

Also, the continuous accusations against the good faith, the integrity and the purposes of the governments of the Western powers, particularly the United States, necessarily added greatly to the confusion. This was, as a matter of fact, one of the purposes of these attacks.

I anticipated great difficulty in reaching a comprehensive agreement, but I did have a hope that we might take three or four fundamental decisions which would permit immediate action by the four powers to alleviate the situation in Germany this winter and greatly improve the prospects for all of Europe. That we failed to reach any such agreements is the greatest disappointment.

The United States delegation went to London with an open mind, as I had stated we would in Chicago, but we went with a strong determination to bring to an end the division of Germany which has existed since the German capitulation. We were also determined that any agreement reached at London should be a genuine workable agreement, and not one which would immediately involve obstruction and frustration in the Allied Control Council when it came to be put into effect in Germany.

I shall review only briefly the interminable discussions during the weeks of debate at London. To us it was but a dreary repetition of what had been said and resaid at the Moscow Conference. I shall endeavor, however, to point out the main issues on which the conference deadlocked and give you my estimate of the underlying reasons.

The basic issue, as we saw it before the opening of the London Conference, was whether or not the Allies could agree among themselves to reunite Germany.

The issue in regard to the Austrian treaty was even simpler and had already emerged clearly at the Moscow Conference.

Because the two main issues which I have outlined would be the controlling factors in our discussions, three of the delegations had agreed that the Austrian treaty should be considered first, and the economic principles to govern the treatment of Germany as an economic whole should come second. We felt that this order was logical and necessary if we were to debate with any prospect of success the remaining items on our agenda. The Soviet delegation held a different view and insisted that questions on the preparation of a German peace treaty should be given precedence over the questions regarding immediate economic unity for Germany.

In order to get the conference started, it was finally agreed to accept the Soviet request that the preparation of a German peace treaty should be item two on the agenda. As a result, with the exception of one day of discussion of Austria and the Austrian treaty, it was not until after 10 days of meetings that the conference really reached the heart of the German question. These first 10 meetings were devoted to futile and somewhat unreal discussion of the mechanisms for the preparation of an eventual German peace treaty before the question of whether or not there was to be a united Germany had even been considered. There was one question, however, of real substance during this phase of the discussion which had a direct application not only to a German peace treaty but also to the immediate situation in Germany. This was the question of the present and future frontiers of the German state. No serious consideration of a peace treaty could be undertaken without first considering what was to be the area of the future German state. Three delegations had already expressed their agreement that the area of the Saar should be separated from Germany and integrated into French economy. Mr. Molotov refused to commit his government on this point.

On this vital matter of frontiers, three delegations agreed to the establishment of a frontier commission or commissions to make an expert study of any proposed changes from the prewar frontiers. Mr. Molotov refused to agree. It was impossible for me to reconcile his urgent insistence upon the necessity of expediting the preparation for a German peace treaty with his categoric refusal to agree to the appointment of boundary commissions which three delegations considered to be an absolutely essential first step in any serious preparation, for a future German peace settlement.

Many other questions concerning the actual preparation of any peace treaty were discussed without agreement.

It was during this stage of the debate that Mr. Molotov insisted that the four powers should agree upon the immediate establishment of a German central government. Although the United States had been, I believe, the first of the four occupying countries to suggest at Moscow the desirability for the earliest possible establishment of a German provisional central government, it was obvious that until the division of Germany had been healed and conditions created for German political and economic unity, any central government would be a sham and not a reality. This view was shared by the other Western delegations but to Mr. Molotov it was completely unacceptable. This was the first clear evidence of his purpose to utilize the meeting as an opportunity for propaganda declarations which would be pleasant to German ears.

After several days of consideration by the deputies the Austrian treaty was again brought to the conference table on Dec. 4. The sole issue discussed was the determination of what were the true German assets in eastern Austria to which the Soviet Union was fully entitled by the Potsdam agreement. This had been the stumbling block in reaching final agreement on the treaty draft, and it was an issue which would determine whether or not Austria would be under such complete economic domination by the Soviet Union that it would be virtually a vassal state.

The French had endeavored to break the impasse by submitting a compromise proposal, but this was categorically refused by the Soviet delegate. In the last hour of the final session of the conference Mr. Molotov indicated an apparent willingness to accept a percentage reduction in the Soviet claims, without specifying the actual amount involved in his proposal. The matter was immediately referred to the deputies and I was informed just prior to my departure from England that the Soviet government would submit later a detailed proposition.

It was not until the tenth meet-

(Continued on page 15)

*A radio address by Secretary Marshall delivered from the State Department, Washington, D. C., Dec. 19, 1947.

Public Utility Securities

Washington Gas Light Company

Washington Gas Light, listed on the New York and Washington Stock Exchanges, is one of the "old-timers" among utility stocks. The company's history dates back almost a century, and it has paid dividends on its common stock continuously since the Civil War, the present $1.50 rate having been paid since 1939. About 85% of the stock was formerly owned by a holding company, Washington & Suburban Companies, but this stock was sold to the public at $29.50 in 1939-40.

During the past decade share earnings have been as follows:

	Earned per Share	†Earned on Rate Base
1937	$1.81	6.53%
1938	2.24	6.93
1939	2.52	7.74
1940	2.52	7.00
1941	2.24	6.01
1942	2.02	5.54
1943	2.21	6.58
1944	2.08	5.93
1945	2.10	5.70
1946	1.41	6.14
*1947	1.45	5.40

*Twelve months ended Nov. 30, 1947, based on present number of shares. †See prospectus dated Dec. 19, page 14. Rate base reflects original cost less depreciation.

The declining earnings in 1946-7 was due to the changeover to straight natural gas, which was completed in October this year. During this period expenses have been burdened by abnormal operations and the unusually warm weather of last winter also affected revenues and net earnings. Earnings for the last quarter of 1947 are recording sharp gains from operations and, due to this trend combined with special year-end adjustments, share earnings for the year are expected to climb back to the $1.75 level (based on present 425,000 shares).

Still further gains are anticipated for the future, as full benefits of the conversion are realized. There was a severe housing shortage in Washington during the war which still persists as departmental officers return to Washington from temporary out-of-town quarters. Washington and its environs should continue to be one of the most rapidly growing residential districts in the country. About 85% of the new homes now being constructed are equipped to burn natural gas for heating purposes, as well as for water heating, cooking and refrigeration, it is understood. With conversion completed, the company will be in a better position to increase its house-heating loads and take care of this anticipated substantial growth.

The company's earnings statements are somewhat complicated by the changes of recent years and those interested in the stock should carefully study the current prospectus in connection with the offering of additional stock. The complete changeover to natural gas has resulted in property abandonments (in excess of depreciation reserves) and other costs aggregating $11,200,000. The company expects to charge this off over a 10-year period at the rate of $1,120,000 annually. Against this there will be a saving of $200,000 a year in depreciation accruals, and also certain tax savings (although the entire amount of the amortization item will not be deductible for income tax purposes). It is thought that the company will also be permitted to deduct the amortization item in arriving at net return on the rate base.

In the first half of 1947 about $330,000 was charged to expenses as a "special provision for conversion to natural gas equivalent to estimated reduction income taxes for current period resulting from impending retirement of property."

The company formerly had a sliding scale arrangement with the Public Utilities Commission of the District of Columbia, under which the rate base was established as of June 30 each year. The primary rate of return allowed was 6% per annum (reduced in 1945 from the 6½% rate in effect since 1935). Rates were raised or lowered on the basis of earnings during the previous period, in relation to the "allowed" return. However, the sliding scale arrangement was ended in October by the company because it was no longer considered a satisfactory method of regulating rates under the changed conditions of natural gas operation.

The company expects to spend for construction purposes about $4,500,000 this year and $6,500,000 next year. This program will be financed in part with funds available from operations, in part from the proceeds from current sale of common stock, and in part through temporary bank loans or the sale of additional bonds or other securities (or by sale of properties no longer needed).

The company is issuing to holders of common stock of record Dec. 26 rights to subscribe for 85,000 shares of common stock at $20 at the rate of one-for-five. Warrants will expire Jan. 13. The issue is not being underwritten, but a dealer group headed by First Boston Corp. will solicit subscriptions. The stock is currently selling around 20 to yield 7½%, based on the $1.50 dividend rate which is expected to be continued.

Jack H. Miller with Watling, Lerchen Co.

DETROIT, MICH. — Jack H. Miller has become associated with Watling, Lerchen & Co., Ford Building, members of the New York and Detroit Stock Exchanges. He was formerly connected with Paine, Webber, Jackson & Curtis.

Dealer-Broker Investment Recommendations and Literature

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

Fire Insurance Business — Review of current operations — Elworthy & Co., 111 Sutter Street, San Francisco 4, Calif.

Fire Stocks—Discussion of current position — Dempsey-Tegeler & Co., 210 West Seventh Street, Los Angeles 14, Calif.

Insurance Stock—Tabulation of prices, yields, equities and earnings—Geyer & Co., Inc., 67 Wall Street, New York 5, N. Y.

New Tools for Stock Market Analysis—Second printing—with a progress report presenting the experience of the intervening six months—Bowne & Co., Inc., 163 Front St., New York 7, N. Y.—$5.

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

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

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

* * *

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

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

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

C. I. T. Financial Corporation—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is a review of **Doehler Jarvis Corporation, Remington Rand, Inc.,** and **Southwestern Public Service Company.**

Commonwealth Edison Co.—Detailed report—Paul H. Davis & Co., 10 South La Salle Street, Chicago 3, Ill.

General Bottlers, Inc.—Analysis and comment—Rogers & Tracy, Inc., 120 South La Salle Street, Chicago 3, Ill.

Getchell Mine, Inc.—Analysis—John H. Lewis & Co., 14 Wall Street, New York 5, N. Y.

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

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

Illinois Terminal Railroad Co.—Analysis—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

National Supply Co.—Memorandum—Edward A. Purcell & Co., 50 Broadway, New York 4, 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 **Eastern Corporation** and **Buffalo Bolt Co.**

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

Scruggs - Vandervoort - Barney, Inc.—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

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

Carter H. Corbrey Gives Elaborate Party in Chic.

CHICAGO, ILL.—Carter H. Corbrey, head of Carter H. Corbrey & Co., returning to Chicago for the first time since August, staged a very elaborate party on Dec. 23 in his Field Building offices. About 600 members of the La Salle Street financial community were guests.

With Herrick, Waddell

Special to THE FINANCIAL CHRONICLE

KANSAS CITY, MO.—Paul J. Basford is now connected with Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue.

COMING EVENTS

In Investment Field

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.

Phila. Nat'l Bank Announces Promotions

The Philadelphia National Bank announces the following promotions, effective Dec. 31, 1947:

Gordon S. Smyth and Hampton C. Randolph, formerly assistant vice-presidents, have been elected vice-presidents.

Lewis M. Crompton, formerly assistant cashier, has been appointed assistant vice-president.

E. Chandlee Archer, A. Paul Stemple and Alvin C. Wipplinger have been appointed assistant cashiers.

Benton M. Lee Co. to Be N. Y. S. E. Member

PHOENIX, ARIZ.—On Jan. 2, Benton M. Lee & Co., Security Building, will admit Eugene F. Tompane, Albert Ficks, Jr., and Alanson H. Wilson, member of the New York Stock Exchange, to partnership in the firm. Mr. Wilson has been active as an individual floor broker in New York City for many years.

With Conrad, Bruce

Special to THE FINANCIAL CHRONICLE

SAN FRANCISCO, CALIF. — Jackson H. Palmer is now with Conrad, Bruce & Co., Russ Building.

With Heath & Co.

Special to THE FINANCIAL CHRONICLE

ELGIN, ILL. — Raymond F. Schlie has joined the staff of Heath & Company, Tower Building.

Letter to the Editor:

Sees Value in Forecasting Formulas

Mr. A. Wilfred May started his series as an analysis of forecasting methods and wound up by holding a symposium on the Dow Theory—not to mention his surrendering of the whole subject to the investment trusts. The underlying question, it seems to me, is whether the use of mechanical methods of stock market operations is as fully effective as is the use of individual judgment. Actual operations in the market, on a mechanical basis, do not necessarily mean market forecasting. In fact, the whole technique has been developed to the end that profitable commitments be made without the necessity of forecasting.

Irving Sitt

When one begins to talk of a mechanical approach, he almost always falls back on the Dow Theory because it is the only method that has a long period of public discussion behind it. By the same token, because it is in the public domain, its value is questionable, at least enough so that as many reams have been written against it as have been written in its favor.

I am not a practitioner of the Dow Theory, but all arguments for and against, that I have seen, wind up with tables proving that a "strict constructionist" in the application of the theory would end a period of operations of sufficient length with a profit.

All these arguments only emphasize that there does exist (in the Dow) a mechanical method of operations which has shown a certain degree of success, but which is not as profitable as some other methods of operation whether based on "good" judgment or on mechanics superior to the Dow.

Mr. May, in my opinion, should have taken the operations of those recognized people in the field of practical investment who are known to have used astute judgment and who have achieved "success." If he could collect the names of 10 people who have made and kept their fortunes by strict security investment procedure, he probably would have had a lot.

He, then, should have looked about for a similar group who used mechanical methods exclusively and given their records. That, of course, would have been the rub. Not that such individuals do not exist, but that no one, apparently, is willing to confess to the exclusive use of mechanical methods. For use of mechanical methods implies that judgment, derived from intensive studies of economic and political analysis, is forbidden to be injected in the making of actual security commitments.

Individuals or large institutions, or even investment companies that use mechanics as a basis of commitments, if those mechanics are any good at all, keep their procedures secret and cover up by advertising the astuteness of their fundamental research departments. They are right in doing this as mechanics becomes a most important part of their fundamental research and occupies the realm of trade secret. The implication, however, is that their judgment is keen and is based solely on economic and political foundations.

It has only been recently that Yale University and Vassar College have admitted their investment procedures under mechanical plans. Both institutions have been taking a lot of "ribbing" not because they have not done well (because they have), but because critics have found something in which to sink their teeth. Critics point out the difficulties of their plans rather than point up their advantages. Both colleges, however, should be thankful because they have been getting free advice on how to improve their approach by those who have set out to belittle what they have already done.

Use Not Admitted

There are some investment companies and some insurance companies who are said to use mechanics, but who would not dare admit to such use for fear that investors would say they could do as well while all the time they were believing that the vast research departments, which they could not individually afford, were giving them a sense of security.

There is also one very large institutional investment department of one of the largest industrial companies in America which uses an investment formula plan exclusively. As investment is not open to the public (but is limited to the company's officers and employees on a salary deduction basis), not much is known concerning its activities and even I, ethically, cannot state the name. This fund, however, has done very well and its mechanics are applied to individual stocks as well as to the general market level.

Can it not be that not much is known of the successful formula plans because of the secrecy attached to them? After all, they are valuable. It has only been within the last few years that writings have appeared concerning successful formula plans—other than the Dow—but those plans discussed have all been of the marginal type. I would venture to say the authors of recent books on formula plans know of better plans than they have written about. I have seen a formula plan based on a method not yet discussed in accepted literature of the subject. It is so radical a departure from the usual and possesses a rationale so far advanced that it will take at least a decade before even the principles surrounding this plan are discussed publicly—or even privately for that matter. In fact, many of the technical market factors, now almost common knowledge, were devised more than a score of years ago.

I think Mr. May has performed a service in casting a critical eye on what he terms his "Prophets" system. He has opened free discussion of a problem of great interest to Wall Street security departments and to readers of the "Chronicle." No one, of course, will come forth and indicate his personal record over the last 10 or 15 years as a result of just being "smart." Nor will anyone actually show what he did mechanically over the same period. Only the investment companies' records are available for comparison with the general market. Many of them stand out as having done very much better than the averages while others are rather sad. The question is, then, how much mechanics is there in the best record of the investment companies?

If Mr. May were to determine that fact alone his contribution to investment approach would be invaluable.

IRVING SITT.

91 Wall Street,
New York, N. Y.
Dec. 15, 1947.

The Outlook for Utility Securities

By ROBERT T. SHADOAN*
Manager, Utility Division, National Securities & Research Corp.

Utility analyst holds, despite current upward spiral in utility operating expenses, there are grounds for belief higher costs may be offset by rate increases and more economies. Says electric power equities are reasonably priced and there is strong assurance of dividend stability.

In the two years which have elapsed since VJ Day, perhaps no group of stocks regarded as being of "investment caliber" has performed more contrariwise to general expectations than that of operating utilities. The group average has penetrated the October 1946 low by a substantial margin and most issues are around the levels of early 1945.

Robert T. Shadoan

Caught in the squeeze between fixed rates and rising costs, the constant rise in gross which has been witnessed has not been sufficient to offset mounting operating expenses. Moreover, many companies have been faced with the necessity of raising additional capital to defray the cost of plant additions. Because of the lag between the financing and the completion of construction programs, there is also a dilution of earnings which is temporarily inescapable.

With prospects of perhaps even further cost increases in 1948, investors are presently concerned as to what further deterioration in earnings and prices will materialize. This will depend primarily of course, upon two factors, the prospective earnings power of the industry and the trend of the general market. Fortunately, estimating the likely trend of earnings can be done with more assurance since it is primarily a question of projecting the prospective level of operating revenues and expenses. However before any future projections are attempted, it may be pertinent to review briefly the industry over the past decade.

Between 1937 and the present time, operating revenues have expanded in every year and there is the further fact that the industry was faced with practically no reconversion problems at the end of hostilities. During the first seven years of this period, any declines in net earnings were primarily due to higher Federal taxes as the operating expense ratio (before depreciation and general taxes) for the industry in 1943 (41.0%) was 2% lower than in 1937. However, in 1943, operating expenses (due principally to higher costs of wages and fuel) began to increase at a faster rate than gross revenues. In the 12 months' period ended Sept. 30 operating expenses had increased to 52% of revenues and preliminary data of the Federal Power Commission for October indicates the ratio will be higher.

This upward spiral in expenses was obscured during the war by the preponderantly heavier excess profits taxes being paid by most companies. In addition, considerable non-recurring savings had resulted from refinancing of senior securities which had taken place throughout the war years. Consequently, when excess profits taxes were lifted, net earnings increased substantially even though earnings before taxes were already in a downward trend. In the early months of 1946, over-all returns of many companies ranged from 7% to 10% on net property, yet common stock earnings (of lower medium quality properties in some instances) were being capitalized up to 20 times. This situation was corrected by the following developments:

1. Rate cuts by regulatory authorities.
2. Higher operating expenses tended to lower the rate of return.
3. New money was raised for property additions, thus increasing rate bases.
4. The sharp sell-off in the market, thereby bringing security prices nearer in line with intrinsic values.

The Present Outlook

The present situation reveals a sharp contrast to that which pre-

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*Reprinted from "Investment Timing," Dec. 18, 1947, published by the Economics and Investment Department, National Securities & Research Corporation, New York, N. Y.

Sees Rent Control Slowing Building

National Association of Real Estate Boards reports fear of control discourages rental construction. Says small investors and builders of small projects are responsible for bulk of nation's present rental construction.

Fear of federal or local rent control, either renewed or continuing, and of building costs has dissuaded investors in many cities from producing rental units, reports from real estate boards in 372 cities disclosed to the National Association of Real Estate Boards today in its 47th semi-annual survey of the real estate market.

The decontrol of new or newly-converted rental units by the Housing and Rent Act, together with the liberalized financing under Section 608 of the National Housing Act, has been a potent force, however, in stimulating some new rental construction which is making a dent in the housing shortage. The tremendous spurt in construction of individual family dwellings for sale, moreover, is a major factor in relieving the pressure on the rental supply.

Reports from various cities reflect the damper of rent control:

A Texas city that is having the biggest residential building rate in its history: "There will be a housing shortage for some years to come unless red tape and controls are eliminated."

A typical California city: "Investors still afraid of controls."

An Ohio community: "Rent regulations have been so drastic and so unfair that while new building is now free, builders are afraid of the future and new regulations, and no one is building to rent."

A West Virginia city: "Complete decontrol will hasten capital toward real estate investments thereby providing a normal supply of living units."

A New England industrial city of 60,000: "Rental level is so low in this area that there is no inducement for capital to invest at present high construction costs."

Reports from other cities show the whittling down of the housing shortage by the building boom under the stimulus of the decontrol of new structures and the liberal 608 financing:

An Ohio industrial city: "Completions beginning to have effect on shortages here. Fewer calls for rentals being made, but many families are still doubled up."

An Indiana industrial city: "The acute housing shortage is over. There is a lot of building now, and although many materials are short, there will be a lot of completions by Dec. 31, 1947."

A West Coast town: "More apartments being built now for rental."

A Kansas town of 80,000: "Number of rental units will be greater in 1948, as several large projects are expected to get underway."

Still other reports disclose the relief to the rental unit shortage resulting from the spurt in the construction of individual family dwellings for sale:

A North Carolina city of 100,000 population: "On residence building we believe we will catch up to demand by next spring. This should prove a factor in relieving the rental situation."

Small investors and builders advancing small projects are responsible for the bulk of the nation's rental construction, the survey showed. However, as volume grows and as experience with financing under Section 608 of the National Housing Act accumulates, the trend appears to be to venture to larger projects. It is significant that the average size is 32 units for all the 608 projects listed by the 88 cities which reported on this financing plan.

Large-scale projects of 20 units or more are the dominant type in 15% of the cities. Two-thirds of the cities are building principally projects of 4-apartment units or less. The preponderance of larger projects in the larger cities, however, is responsible for the 32-unit average.

The 608 projects have taken root fastest in the larger cities where new developmental methods and ideas spread most quickly, as evidenced by the survey reports that 55% of them are in cities of 500,000 or more population, 64% are in cities of 100,000 population or more, and 86% are in cities of more than 50,000 population.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Bank Stocks

Bank stocks have put on a sad performance this year. As measured by the daily index of the American Banker they declined steadily from 44.3 on Dec. 31, 1946, to 38.3 on April 15, 1947; a moderate four month recovery was then staged and the index moved up to 41.5 on Aug. 15. Since that date, however, it has declined persistently to a low of 37.0 on Dec. 11, and 37.2 at this writing. The previous date on which the index touched 37.0 was on Nov. 24, 1943; the 1942 low was 22.9, on April 28, 1942; the highest point reached since the 1942 lows was 52.1 on Jan. 14, 1946. In most recent years there has been a moderate rally during the final week or ten days of December.

With regard to the record of individual bank stocks, the accompanying tabulation gives the data for 17 leading New York City banks.

TABLE I

	—Asked Prices— 12-31-46	12-18-47	% Deprec.	Div.	Div. Yield
Bank of Manhattan	30	24⅜	—18.7	$1.20	4.9
Bank of New York	380	345	— 9.2	14.00	4.1
Bankers Trust	45¼	38¼	—15.5	1.80	4.7
Central Hanover	106½	89	—16.4	4.00	4.5
Chase National	40½	34¾	—14.2	1.60	4.6
Chemical Bank & Trust	47¼	40½	—14.3	1.80	4.4
Commercial	45¾	41¼	— 9.8	2.00	4.8
Continental	20⅛	15½	—23.0	0.80	5.2
Corn Exchange	56¾	55½	— 2.2	2.80	5.0
First National	1,675	1,280	—23.6	80.00	6.3
Guaranty Trust	343	259	—24.5	12.00	4.6
Irving Trust	19⅛	15¾	—17.6	0.80	5.1
Manufacturers Trust	60	49¼	—17.9	2.40	4.9
National City	46⅝	39¾	—14.7	1.60	4.0
New York Trust	101½	86	—15.3	4.00	4.7
Public National	45½	39¾	—12.6	2.00	5.0
U. S. Trust	755	640	—15.2	35.00	5.5
Average of 17			—15.6		4.8

The average depreciation is 15.6%, which compares with a 16.0% decline for the American Banker Index. Guaranty Trust shows the maximum decline, among the 17 stocks, viz: 24.5%, while Corn Exchange shows the minimum of 2.2%.

At current market, the average dividend yield is 4.8%, with a maximum of 6.3% for First National and a minimum of 4.0% for National City.

TABLE 11

	—Asked Prices— High & Low 1947 High	Low	Range from Low to High
Bank of Manhattan	30⅛	23½	28.2%
Bank of New York	385	345	11.6
Bankers Trust	45¾	38	20.4
Central Hanover	107	89	20.3
Chase National	41	33⅞	21.0
Chemical Bank & Trust	47½	40⅛	18.4
Commercial	46	40	15.0
Continental	19¾	15½	27.4
Corn Exchange	62	53¾	15.4
First National	1,720	1,280	34.4
Guaranty Trust	346	255	35.7
Irving Trust	19⅛	15⅜	24.4
Manufacturers Trust	59¾	49⅛	21.6
National City	46¾	37¾	23.8
New York Trust	104½	85¾	21.9
Public	46¼	39¾	16.5
U. S. Trust	765	625	22.4
Average of 17			22.3%

A second tabulation shows the high and low asked price of each stock for the year. Measuring from the low to the high, the average range has been 22.3%. Strangely, the highest priced stock, viz.: First National, shows a 34.4% range, while another high priced stock, Guaranty Trust, shows the maximum range of 35.7%. On the other hand, Bank of New York shows the minimum range of 11.6%.

It is hazardous to attempt to prognosticate what bank stocks will do in 1948. Nevertheless, it is pertinent to note that since Dec. 31, 1945, bank stock prices have been moving down against rising book values, and that since mid-year 1946 New York City bank stocks, as a group, have been selling at generous discounts from book-values. It is a matter of record that periods during which these bank stocks have sold below book-values have been of relatively short duration, and that during the past 16 years the composite ratio of market to book has been above 1.0 for nearly three quarters of the total time.

Another encouraging factor in the situation is found in the sustained expansion of commercial borrowings and also in the series of increases in interest rates. This may well mean moderate improvement for bank earnings in 1948, particularly if operating costs are kept under control. Some evidence that such a trend was forming was found in a number of the 1947 third quarter statements.

Partnership Changes in Mackubin, Legg & Co.

BALTIMORE, MD.—Mackubin, Legg & Co., 22 Light Street, members of the New York Stock Exchange will admit John C. Legg 3rd to general partnership at the turn of the year. Mr. Legg first became associated with the firm in 1935, leaving in 1940 for military service, and rejoining the organization in 1945.

At the same time Laurence M. Simmonds, who has been with the firm for 40 years and a general partner since 1925, will retire from the partnership. Mr. Simmonds, who desired to be relieved of the responsibilities of partnership, will continue to be associated with it in an advisory capacity.

Thomson & McKinnon To Admit New Partners

Thomson & McKinnon, 11 Wall Street, New York City, members of the New York Stock Exchange and other leading exchanges, will admit to partnership on Jan. 1, George L. Bartlett, Lyman A. Gould, William E. Ferguson, Robert J. Kiernan and Milton F. Untermeyer, Jr., member of the Stock Exchange. Mr. Gould has been with the firm for some time in Indianapolis; Mr. Ferguson in the past with with the Northern Trust Company of Chicago, and Mr. Untermeyer has been doing business as an individual floor broker.

Hentz Opens Fla. Branches

H. Hentz & Co., members of the New York Stock Exchange and other leading Stock and Commodity Exchanges, announce the opening of offices in Hollywood and Boca Raton, Florida. The Hollywood office, which is in the Hollywood Beach Hotel, is under the management of Jack Levine, and Arthur J. Henry is Manager of the Boca Raton office, located in the Boca Raton Club. Both of these Florida offices are under the supervision of John H. Kaplan, resident partner.

Trend of New York City Bank Earnings

By MORRIS A. SCHAPIRO*

President, M. A. Schapiro & Co., Inc., New York City

Bank analyst holds New York City bank earnings have steadied and are likely to show moderate improvement in months ahead, because of: (1) higher interest rates from loans; (2) higher income for services; and (3) lower taxes on net income. Warns, however, "break even" point of banks has been rising, and that net current earnings of 5¾% of total capital accounts are insufficient to bring stock values up to liquidating values.

Bankers throughout the country watch the New York City banks with great interest. The 37 member banks in New York City have total capital accounts of $2¼ billion, or over 27% of the $8½ billion total capitalization of all the 6,929 member banks in the United States. Of the $128 billion total resources of all member banks nearly $27 billion, or 21% is concentrated in New York City. The very useful but intricate network of correspondent bank relations, built up over the years and embracing nearly all of the 14,000 commercial banks of the country, is centered largely about this group of New York City banks. The ownership of these money-center institutions, represented by over 35,000,000 shares of capital stock, is widely held throughout the country by private and institutional investors. There is hardly a banker anywhere whose advice is not sought about the relative standing of this or that bank in New York. Finally, a great many of the New York bankers began their careers outside of New York and still retain warm ties with their old home communities.

Banks are once again in the news. This time they are being blamed for the postwar inflation, having brought about, it is charged, the enormous wartime increase in our money supply. According to the October 1947 issue of the Federal Reserve Bulletin, "Banks have been the beneficiaries of wartime developments." When such officially uttered statements remain unchallenged, the public naturally assumes that a fair and correct version of the facts has been given. Certain people, no doubt, would like such charges against banks to become fashionable. They must always have their showpiece for the day. Yesterday, it was the banks that "profiteered during the war." Today, it is the banks that are "making inflationary loans."

The fact is that banks reflect the total economy. It is unfair for the authorities to blame our present-day difficulties on banks when most of these difficulties arise from fiscal and economic policies adopted by the government before and during the war. The cumulative proceeds of deficit financing are evidenced today by a like amount of liquid assets held by the public, including business, in the form of bank deposits, currency and government securities. The charge that banks brought this situation about is specious.

The overriding financial fact of our time is the public debt. In the current controversy on credit controls, the origin of the public debt and its present-day political and social consequences, are ignored by both extremes. On the one hand, there are those in official position who clamor for more and still more government control of banks and banking functions. On the other hand, there are those among bankers, fortunately few in number, who advise that the Federal Reserve System raise sharply the discount rate and sell government securities out of the System account in the open market without regard to the effect on prices, the cost to the Treasury, and the ultimate impact on banks and business generally. The cost of such a plan, while effective, might be comparable to the operation which was successful except that the patient died.

The desirable course is one of moderation with full regard to all factors. In all public discussions affecting money and banking, the extreme or partisan view should be avoided, if possible. Public sentiment toward banks can be easily damaged. This is all too apparent today.

THIRTY-SEVEN MEMBER BANKS IN NEW YORK CITY

—(In Millions of Dollars)—

	1942	1943	1947
Average loans and investments	$14,500	$23,400	$20,500
Loans	4,100	6,700	6,700
Investments	10,400	16,700	13,800
Operating expenses	174	250	271
Income other than interest	70	100	109
Interest income required on loans and investments	$104	$150	$162
"Break-even yield required"	(0.72%)	(0.64%)	(0.79%)
Total interest income	232	356	347
Yield realized	(1.60%)	(1.52%)	(1.69%)
Interest income from loans	$94	$122	$141
Average yield realized	(2.29%)	(1.81%)	(2.10%)
Investment income required	$10	$28	$21
Investment income realized	138	234	201
Average yield realized	(1.33%)	(1.40%)	(1.46%)
Net current operating income	$128	$206	$180
Fed. and N. Y. State income taxes	13	66	54
Net effective tax rate	(10%)	(32%)	(30%)
Net current operating earnings	$115	$140	$126
Cash dividends	56	75	78
Retention	59	65	48
Total capital accounts	1,670	2,170	2,200
N. C. O. E. on total capital accts.	(6.87%)	(6.50%)	(5.73%)

Bank earnings in New York City have steadied and are now likely to show moderate improvement in the months ahead. Although operating costs other than taxes based on income continued to rise at a rate greater than had been anticipated, and investment income fell steadily as redemptions proceeded and holdings contracted, the sharp decline in net current operating earnings which had become clearly evident early in 1947, has been arrested as the year draws to a close. This development is due primarily to (1) higher interest income from loans, (2) an increase in income other

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*An address by Mr. Schapiro before Philadelphia Chapter American Institute of Banking, Philadelphia, Pa., Dec. 16, 1947.

Letter to the Editor:

Merry Xmas From A "Marooned" Britisher!

Mr. Craven-Ellis sends greetings, stating that chaotic conditions imposed by Socialist Government make the wishing of happiness a mockery for his countrymen. Insists American loan constituted disservice in glossing over need for relinquishing unsound socialistic theories.

Editor, The Commercial & Financial Chronicle:

LONDON, ENGLAND—We have now entered December and one is reminded that this month has one or two dates which in the prewar years were set aside for parties and general jubilation, but this year we in Great Britain will have to experience greater austerity instead of jubilation. Technically, we Britishers are in a concentration camp, we are not allowed out of the country except for very special reasons, and now that our basic petrol has been taken from us we shall find ourselves marooned in our own homes. Those who have been accustomed to make visits to their friends by motor car—and this in the past has been the major means of transport—will not be able to use their cars and will so stay at home. It is, therefore, just a piece of mockery for anybody to wish a Britisher "A Happy Christmas."

We are told by our Socialist Government that these austerity conditions are inevitable, and they are doing all they can through various avenues of propaganda to make the people believe that our austerity is not the result of Socialism but because the world economically has become completely unbalanced. Now, they do not take the trouble to inform the people why the world has become unbalanced. The members of the Socialist government are, in the main, so arrogant, inexperienced and inefficient that they cannot see that the austerity through which we are now going is chiefly their responsibility. It is true that no matter what shade of politics the government might have been following the war, the difficulties would be enormous. The great majority which the Socialists gained in the 1945 general election completely turned their heads and they proceeded to spend most of their time in putting into practice socialist theories instead of preparing to meet the difficulties which were inevitable. The loan from the U.S.A. to Britain with its impossible conditions accentuated these difficulties and, as I have said in my controversy through your paper with Mr. Philip Cortney, America did a great disservice to this country by making the loan.

The neglect to deal with the inevitable difficulties following the war made the position worse and when, after two years of socialist government, some half-hearted attempt was made to correct the chaos into which this country had fallen, it was then too late and their remedies too little. Before we are through we shall have to suffer even greater austerity, so our future is not a very happy one, and I have no confidence that the Marshall Plan will ease the position. Dollars will not save Europe, the only solution of Europe's present problems is a greater intensification of production. Production, production, production should be the cry of the day, with a removal of all restrictive practices, including tariffs, except for what I have always termed an equalization duty to balance the variation in the cost of the same class of goods produced by countries whose price level, arrived at on an agreed formula, differs from that of other countries. Neither Bretton Woods' International Monetary Fund nor the International Bank will get the world through its difficulties. Nothing short of goods for goods supported by an efficient monetary mechanism, which will assure proper distribution of goods to the extent which modern industry is capable of producing, will suffice.

For a "Real" Gold Standard!

What I am now going to say might be a crumb of comfort for our mutual friend, Mr. Philip Cortney. I would be agreeable to the world returning to a "real" gold standard providing it could be designed to achieve the maximum of production accompanied by the maximum of consumption, and providing the restrictive practices could be eliminated which were part of the automatic operation of the pre-1914 gold standard. All the gold produced, and to be produced, in the world to go into a World Gold Bank which would act as trustees for the gold constituting the basis of world currencies. It is quite impossible for Bretton Woods to operate effectively, and so far it has not done so, when the world gold price is so much higher than the price fixed by Bretton Woods. Last year, 1946, the total gold produced was a little over 20 million fine ounces, and of this volume only about 6 to 7 million ounces went to the Central Banks, the larger proportion went into hoarding. This is surely another example to prove how impossible it is to ever think of returning to a "real" gold standard and to expect for one moment that Bretton Woods will ever work.

Freedoms Vanishing

Our freedoms are being taken away from us so rapidly it may be that by the time we reach Christmas of 1948 I shall not be free to write in the terms in which I have been accustomed to write; or, there will be a change of government, the effect of which would be to lift Europe out of its present despondent outlook on life.

May God guide the world in the direction that will assure the rest of the world before the end of 1948 enjoying the liberty, freedom and abundance which it is the privilege of the U.S.A. to enjoy.

W. CRAVEN-ELLIS

Estate House, Dover Street,
London, W. I., England
Dec. 2, 1947

W. Baidoe Ansah & Co.

W. Baidoe Ansah & Co., Inc. is engaging in a securities business from offices at 157 West 57th Street, New York City.

Corporate Securities Co.

The Corporate Securities Co., Inc. is engaging in a securities business from offices at 630 Ninth Avenue, New York City.

Jesup-Lamont to Admit Four New Partners

William B. Potts, member of the New York Stock Exchange, Anthony L. Villa, Thomas W. Reed and Brendan G. Rafferty will be admitted to partnership in the Exchange member firm of Jesup & Lamont, 26 Broadway, New York City, on Jan. 1. Messrs. Potts, Villa and Reed were formerly partners in the firm of J. W. Davis & Co., which is dissolving on Dec. 31.

Harold A. Barker will retire from the firm on the same date.

C. Whitney Carpenter II, general partner in the firm, will become a limited partner on Jan. 1.

Bonner & Gregory Will Admit Nelson as Partner

Bonner & Gregory, 30 Pine Street, New York City, members of the New York and Chicago Stock Exchanges, will admit George E. Nelson to partnership in the firm on Jan. 1. Mr. Nelson has been with the firm for many

Railroad Securities

The rail market has finally come to life in the past week or so and as the year draws to a close has been outperforming most other sections of the list. The performance naturally has not been uniform but many stocks (including some of the most highly speculative issues) have been establishing new highs for the year. Among the more spectacular performers have been the stocks, and particularly the common, of New York, Chicago & St. Louis. It was just about two years ago that plans to merge this road, and two others, into the Chesapeake & Ohio were abandoned because of the strong opposition of Nickel Plate preferred stockholders.

At least at the present time holders of the Nickel Plate stock are considerably better off than they would have been had they accepted the merger terms offered them. Nickel Plate common stock had been offered 0.9 share of Chesapeake & Ohio common which in recent markets was worth just about 39. In comparison, Nickel Plate common last week hit a new high for the year at 50. Similarly Nickel Plate preferred stockholders were offered one share of the new Chesapeake & Ohio preferred and 0.7 share of Chesapeake & Ohio common. This package recently had a value of 118, or about ten points below the selling price of the Nickel Plate preferred. Moreover, most railroad analysts consider the Nickel Plate stocks still underpriced, based on the company's own earnings and prospective merger with the strong Wheeling & Lake Erie.

Another intermediate step towards this merger was announced last week. The directors of Wheeling & Lake Erie have decided to call the road's $10,213,958 of 5½% preferred stock. In connection with this call it is proposed, subject to ICC permission, to borrow $6,600,000. Of this amount, $5,000,000 would be borrowed from a group of banks and the balance would be advanced by the parent company, Nickel Plate. With this step, Nickel Plate will own all of the outstanding stocks of Wheeling except for a nominal amount of the non-callable 4% prior lien stock and 91,578 shares of the common. A major portion of the common not held by Nickel Plate is owned by Pennroad corporation, with less than 10% outstanding with the general public.

Considering the lack of public participation in the Wheeling & Lake Erie, the formulation and consummation of a plan merging the two properties should not prove difficult. The major question naturally centers around the provision to be made for the dividend arrears on the Nickel Plate preferred. These now amount to $84 a share. This should not, however, present any major stumbling block as there will be plenty of room for generous treatment of these arrears within the framework of a reasonable capitalization of the merged properties. Merger committees from the boards of directors of both roads have already been studying this problem for some time and at least a tentative plan could well be formulated by early 1948. Submission to stockholders at the regular annual meeting in May should be possible.

In the meantime both Nickel Plate and its subsidiary have been reporting highly favorable earnings. For the ten months through October Nickel Plate realized a gain of almost 25% of gross revenues over a year earlier. The transportation ratio was cut and fixed charges were pared by almost 14%. As a result, earning on the preferred for the period climbed to $17.59 a share and $13.45 a share was reported on the common. Earnings on the latter for the full year could well top $16 a share. Moreover, on the basis of the present business outlook, and the prospects for an additional rate rise early in 1948 results next year should be even better.

Earnings improvement of Wheeling & Lake Erie has been even more dynamic. For the ten months through October the company reported $13.16 a share on the common compared with less than $6 a year earlier. Dividends on the common have been held to $3 a share. Nickel Plate's equity in the undistributed earnings this year will amount to close to $3,000,000 or about $8.75 a share on its own common stock. Wheeling's prospects also appear to promise even higher earnings in 1948. Even allowing for adequate treatment of the Nickel Plate preferred stock dividend arrears it is obvious that earnings potentialities in a merger are very high.

Extends Exchange Date For Colombia Bonds

The Republic of Colombia is notifying holders of its 6% external sinking fund gold bonds, due Jan. 1, 1961 and Oct. 1, 1961, that the offer to exchange these bonds and the appurtenant coupons for Republic of Columbia 3% external sinking fund dollar bonds, due Oct. 1, 1970, has been extended from Dec. 31, 1947 to Dec. 31, 1948. The period for exchange of convertible certificates for 3% external sinking fund dollar bonds. due Oct. 1, 1970, in multiples of $500 principal amount, also has been extended from Dec. 31, 1947 to Dec. 31, 1948. The National City Bank of New York is the exchange agent.

Merrill Lynch Firm Admits New Partners

Merrill Lynch, Pierce, Fenner & Beane, 70 Pine Street, New York City, members of the New York Stock Exchange, will admit to partnership on Jan. 1, William H. Culbertson, Winthrop C. Lenz. Kenneth W. Martin, Norman P. Smith and James E. Thomson. On the same date, Frank B. Cahn and Ruth G. Jones will be admitted to limited partnership in the firm and Charles E. Fenner, now a general partner, will become both a general and limited partner. On Dec. 31, Maurice H. Bent will withdraw as a general partner and John L. Patten as a limited partner.

Parrish & Co. Admits

Robert S. Nehrbas will become a partner in Parrish & Co., 40 Wall Street, New York City, members of the New York Stock Exchange and other leading exchanges, on Jan. 1.

Purchasing Power of Profits

By JULES BACKMAN*
Associate Professor of Economics, New York University, School of Commerce, Accounts and Finance

Dr. Backman points out price rises have meant reduction in buying power of profits and this is particularly significant to railroads which must continuously make replacements and additions. Sees little likelihood of return to prewar prices and cites post World War I period as proof. Concludes even if rails are permitted attainment of a 6% return in current dollars, the yield would be lower, measured in real net operating income, than in most years of last half century.

It is frequently emphasized that the rise in prices has resulted in a reduction of purchasing power for the wage earner. Of equal importance is the fact that this price rise also has meant a reduction in the purchasing power of the business dollar. This is particularly important to the railroads which must continuously make additions and replacements to their plant—expenditures which are financed to some extent out of current earnings. Total gross capital expenditures of the railroads declined significantly during the '30s, reflecting in part the sharp decline in net railway operating income. Annual expenditures for additions and betterments averaged $276 million during the '30s as compared with $773 million in the '20s. For the years 1941 to 1946, average annual spending was $536 million. Further large expenditures must be made during the next few years to modernize our transportation system. The magnitude of these expenditures naturally will be affected by the level of costs and prices during this period.

Jules Backman

Costs and prices have risen to record high levels during the war and postwar period. Most observers seem agreed that a return to the prewar level of prices or costs is remote. As background for this discussion, it should be useful to examine the trend of prices during the period preceding the following World War I. Let me make it clear at the outset that I am not predicting that prices will follow the same pattern they did last time. However, I think this past experience is useful as an indication of the tendency for prices to establish higher levels after a price inflation of the type which developed during and after the war.

Post World War I Experience

Table 1 shows the changes in wholesale prices for all commodities and for all commodities other than farm products and food as reported by the U. S. Bureau of Labor Statistics. The index for commodities other than farm products and food is available only back to 1913. However, an examination of the level of farm prices and food prices as compared with the index for all commodities prior to World War I indicates that during that period the index of all commodities other than farm products and foods would not have been significantly different from that for all commodities, although it might have been a couple of points higher.

A survey of this period suggests the following conclusions:

(1) The index for all commodities was as low as the 1910-1914 average of 68.5 (1926=100) only in 1932, when it was 64.8 and in 1933, when it was 65.9. The index of all commodities other than farm products and foods (largely prices of manufactured goods) never returned to the pre-World War I average.

(2) In the '20s the all commodities index averaged 42% higher than the average in the 1910-1914 period. The index for all commodities other than farm products and foods averaged 43% higher.

(3) During the '30s, the total index average 10% higher than pre-World War I, while the index of commodities other than farm products and foods averaged 15% higher.

(4) If the comparison is made only with the five prewar years, 1935-1939, the total index was 18% higher than in the years 1910-1914, while the index for all commodities other than farm products and foods averaged 19% higher.

(5) The average of 80 for the total index in the years 1935-1939 compared with an average level of 70 in the period from 1890 to 1940, exclusive of the 1915-1920 period.

(6) If it be assumed that the first postwar decade, after a price shakedown, will have an average wholesale price level which will be as much above the 1935-1939 level as the 42% increase in the '20s was above 1910-1914, the BLS wholesale price index would average about 114.

(a) This would be a decline of 44 points, or 28% from the current level of 158, or 24% from the 1947 average of 151. The average level of wholesale prices during the '20s reflected a decline of 37% from the post-World War I period peak reached in 1920.

(b) This level of 114 would be higher than in any year from 1890 to date, except 1917 to 1920, 1946 and 1947.

(c) A level of 114 would be 63% above the average of 70 for the period 1890 to 1940, excluding 1915 to 1920 and 52% above the average of 75 for the entire period.

(7) Similarly, if it be assumed that the index for all commodities other than farm products and foods stays as far above the 1935-1939 level as the average from 1921 to 1930 remained above the pre-World War I level, that index would average about 116. Except for the magnitude of the decline from the current level, which would average only about 18%, relationships between this index of 116 and preceding years would be similar to those described in connection with the total index.

TABLE 1
Wholesale Prices
(1890-1947)
(Index Numbers 1926=100)

Average	All Commodities	Commodities Other Than Farm Products and Foods
1890-1899	50.8	(a)
1900-1909	60.7	(a)
1910-1914	68.5	68.2 (1913-14)
1915-1920	116.1	114.2
1916-1920	125.5	123.4
1921-1930	97.0	97.8
1931-1940	76.0	78.4
1935-1939	80.5	81.2
1941	87.3	89.0
1942	98.8	95.5
1943	103.1	96.9
1944	104.0	98.5
1945	105.8	99.7
1946	121.1	109.5
1947 (est.)	151.0	135.0
Nov. 1, 1947	157.4	140.9

Source—U. S. Bureau of Labor Statistics.

(a) Data for index of all commodities other than farm products and foods not available prior to 1913. However, an examination of the level of farm and food prices as compared with all commodities indicates that during that period the index of nonfarm—nonfood items would have been moderately higher than the index for all commodities.

	All	Food	Farm
1890-1899	50.8	49.7	46.7
1900-1909	60.7	54.7	58.4

(8) It may be suggested that it would be appropriate to make these hypothetical comparisons on the basis of the same degree of decline, namely, 37% which took place from the 1920 level rather than on the basis of the average relationship between the level of the '20s and the pre-World War I level. It is of some interest, therefore, to note what a decline of the post-1920 magnitude would mean in terms of the total index. If it be assumed that this decline is measured from the average of 151 for 1947, the postwar level would average 95%, or somewhat more than 10% lower than the level prevailing under price control in 1945. If the decline were measured from the current level of 158, a decrease of this magnitude would bring the index down to 99, or about 6% below the average level of 106 prevailing in 1945. An index of 95 would still be 17% above the average prevailing from 1935 to 1939. An index of 99 would be 23% above the immediate prewar level.

I know of no one who expects the postwar general price level to be so close to the prewar level. The magnitude of pressures upon price are much greater this time than was true after World War I. The magnitude of the wartime government deficits with the consequent necessity for credit expansion and the large increase of money in circulation, dwarfed the increases which took place during and immediately after the first World War. We have added about $100 billion to our money supply as a result of World War II. The comparable expansion accompanying World War I was only about $25 billion. (The "Conference Board Economic Almanac," 1948, p. 37.) As compared with the current level, which is approximately 100% higher than prewar for the total index and about 75% higher for the index of all commodities other than farm products and foods, it is difficult to visualize a decline which would bring these indexes below an average level which is at least 50% above prewar. A 50% increase would mean an index of about 120 at the minimum, or slightly above the level prevailing in June 1946, prior to the modification and end of price control. The sharp increases in wage rates without corresponding increases in productivity, when taken in conjunction with the sharply expanded money supply, would seem to make such estimates conservative.

Railroad Construction Indexes

An examination of the railroad construction indexes prepared by the Bureau of Valuation of the Interstate Commerce Commission, shows that during the '20s and '30s the level of costs of items purchased by railroads was substantially higher in relationship to pre-World War I than was true

(Continued on page 31)

*A statement on behalf of the Railroads before the Interstate Commerce Commission, Dec. 12, 1947.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The "plug" was pulled yesterday in the government market and prices broke fractions to more than two points. . . . The largest loss was in the banks 2½s which went from 103.7, the previous support level, to 101. The ineligible 2½s declined to 100.8 from the former pegged price of 101. . . . Although rumors have been circulating that changes would be made in support levels, very few if any, expected it would come so soon and be as drastic as it was. . . . The financial district is pretty much in a state of confusion and it undoubtedly will take some time to adjust itself to the new developments. . . . Some believe that the dropping of the support levels is constructive and will stem the liquidation. . . . There is no doubt that yields are attractive and many "riders" for the interest carry on long governments have been burnt by the plug-pulling. . . . The 2½% yield still holds, but psychology must be dealt with now and this has raised the all-important question: will they be able to hold the support levels this time? . . .

DEBT RETIREMENT

The debt retirement program, which will be very heavy in the next few months, according to Mr. Eccles of the Federal Reserve Board, might be used by the monetary authorities to bring about a recession in business. . . . There seems to be little doubt that the powers that be would welcome this opportunity to stop the inflationary trend, if they were sure that a decline in economic activity could be kept within limits. . . . Debt retirement could sharply curtail the ability of the commercial banks to make loans and purchase government securities, while the transfer of income tax payments to war loan accounts and the raising of reserve requirements in New York and Chicago would help to tighten the money markets. . . .

The way in which the authorities handle the problems that are facing them will determine the course of business and the trend of the money markets. . . . If political forces are not the all-important ones, then there could be a real attempt to stem the inflationary spiral. . . . The loan trend is what the authorities want to stop, and one of the ways to do it is to bring about a reversal in demand. . . .

SCARED?

The shift in holdings of Treasury obligations by the banks, that is, from longs into shorts, is what Chairman Eccles of the Federal Reserve Board wanted to bring about, with his "Special Reserves," but it is taking place without the authorities' getting the new powers. . . . The Federal Reserve banks are buying longs and selling shorts, which is exactly what Mr. Eccles would have done with his "Special Reserve." . . . The commercial banks have been scared out of the longs into shorts . . .

The debt retirement program will be principally in near-term maturities, so this raises the question whether the banks will continue to stay in shorts or will they move back into some of the more distant maturities which they have been selling and which are now "pegged" by the authorities? . . .

TRUST BUYING

Purchases of long Treasury obligations go on at a rapid rate by Federal and the Agencies, with indications that December will be the banner month for this operation. . . . More than $100,000,000 was bought by the Agencies the early part of the month, and the cashing in by the Postal Savings System of $345,000,000 of special notes was undoubtedly for the purpose of taking on marketable issues. . . . During November purchases by Government Trust Accounts amounted to $220,961,000, which was the first reversal in the selling trend for several months. . . .

The commitments in marketable long-term bonds, made in support of the government market last month, were for the Federal Old Age and Survivors Insurance Trust Fund, and the Unemployment Trust Fund, with the former buying about $133,000,000 and the latter approximately $88,000,000. . . .

ISSUES PURCHASED

The Federal Old Age and Survivors Insurance Trust Fund bought about $1,000,000 of the 2¼s due June 1959-62 and $3,000,000 of the 2¼s due Dec. 15, 1959-62. . . . The other bonds acquired were $6,000,000 of the 2½s due 1962-67, $1,000,000 of the 2½s due 1963-68, $6,000,000 of the 2½s due June 15, 1964-69 and $3,000,000 of the 2½s due Dec. 15, 1964-69. . . .

The 2½s due 1965-70 were taken on in the amount of $3,000,000, while the 2½s due 1966-71 were bought to the extent of $1,000,000. . . . The June 15, 1967-72 2½s were purchased in the amount of $44,000,000 while the 2½s due Dec. 15, 1967-72 were acquired in the amount of $51,000,000. . . . The latter purchase was the largest one made by this Trust Account. . . . The eligible 2½s due Sept. 15, 1967-72 were bought in the amount of $14,000,000. . . . This was the only bank issue taken on. .

The Unemployment Trust Fund bought $4,000,000 of the 2¼s due Dec. 15, 1959-62 and $1,000,000 of the 2½s due 1962-67. . . . The 2½s due 1963-68 were acquired in the amount of $16,000,000 with the 2½s due June 15, 1964-69 and Dec. 15, 1964-69 taken on in the amounts of $9,000,000 and $7,000,000, respectively. . . . The 2½s due 1965-70 were purchased to the extent of $3,000,000 while the 2½s due 1966-71 were added to in the amount of $2,000,000. . . . The 2½s due June 15, 1967-72 and Dec. 15, 1967-72 were among the largest commitment with purchases of the former aggregating $11,000,000 and the latter $28,000,000. . . . The only eligible issue purchased was the 2½% due Sept. 15, 1967-72, which was bought in the amount of $7,000,000.

RESULT

The shift in holdings of government securities from private to public holders is shown in these purchases by Government Trust Accounts. . . . The bulk of the long-term issues bought were ineligible bonds, and these purchases are supplying insurance companies, savings banks and other non-bank investors with funds that can be used to meet the loan demands of non-government borrowers. . . . It is reported that the eligible bonds bought by the two Trust Accounts were also from non-bank holders.

Letter to the Editor:

A 3% Government Bond to Curb Inflation

By EDWIN J. SCHLESINGER
Investment Counsel

Editor, Commercial and Financial Chronicle:

Not since 1920 has the country been confronted with an inflationary situation such as the present but, then, we did not have the experience to cope with inflation and suffered accordingly. Because of the experience acquired since 1920, it seems incredible that we are not approaching the problem of inflation from a national viewpoint, but persist in ignoring the havoc wreaked by artificially low interest rates.

Edwin J. Schlesinger

It does not take a clairvoyant to see that the situation is so serious that it could readily get out of hand unless something constructive is done promptly. One thing is certain, namely, that if the two political parties are going to jockey for position to use inflation to their advantage, we are likely to find ourselves with an extremely nasty problem on our hands.

The present inflation has its roots in the easy money policy of the previous and present administrations. However, nothing will be gained—in fact much may be lost—if the blame is to be placed solely at the door of the Democratic Party. I seem to recall no instance where investment bankers, who are considered largely as favoring the Republican Party, stood up seriously in opposition to the cheap money policy. The fact is that they profited handsomely from cheap money as it enabled them to refund for their customers, with little risk, billions of 5%, 4½% and 4% bonds.

It is natural that after a great war there should be considerable inflation. However, the present situation did not have to be had other measures been taken. Not only did we start from a debt plateau of about $42 billion when we began to arm in 1940, but we financed the war on an unsound basis. Instead of placing an attractive rate on bonds, we put interest at such a low level that entirely too large a percentage of the bonds went to commercial banks. During World War II there was none of the bond buying enthusiasm which prevailed during World War I. Yet, in the face of this, the Treasury even today is trying to intensify the sale of bonds to the public without being willing to increase the interest rate.

It seems that the thing to do is to forget, if possible, party differences and work strenuously to check inflation before it engulfs us completely. As an important step to accomplish this, it is recommended that the government issue at once 3% negotiable bonds, available to all but commercial banks, and use the proceeds to retire bonds held by those banks. Such a bond issue should arouse great enthusiasm. It is true that a 3% rate of interest might, for a time, upset the market for government bonds, and would, of course, increase carrying charges. However, with the tremendous increase in the cost of living, the increased carrying charges would appear negligible by comparison. Furthermore, the fact might as well be realized now, as later, that government bonds will ultimately, and perhaps much sooner than anticipated, insist upon finding their true level.

If despite the serious problem facing us today no energetic and immediate steps are taken to prevent the fire of inflation from turning into an holocaust, we may wind up not only with a worse depression on our hands than ever before, but, in addition, a body blow will be struck against our democratic form of life.

EDWIN J. SCHLESINGER
41 East 42nd St.,
New York, N. Y.,
December 12, 1947.

NATIONAL SECURITY TRADERS ASSOCIATION INC.

NSTA Notes

CLEVELAND SECURITY TRADERS ASSOCIATION

The following slate of officers for the calendar year 1948 has been presented to the Cleveland Security Traders Association by the nominating committee:

Clemens E. Gunn

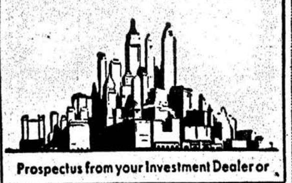
John A. Kruse

Russell G. Wardley

Martin J. Long

President—Clemens E. Gunn, Gunn, Carey & Co.
Vice-President—John A. Kruse, Otis & Co.
Treasurer—Russell G. Wardley, Maynard H. Murch & Co.
Secretary—Martin J. Long, The First Cleveland Corporation.

(Continued on page 14)

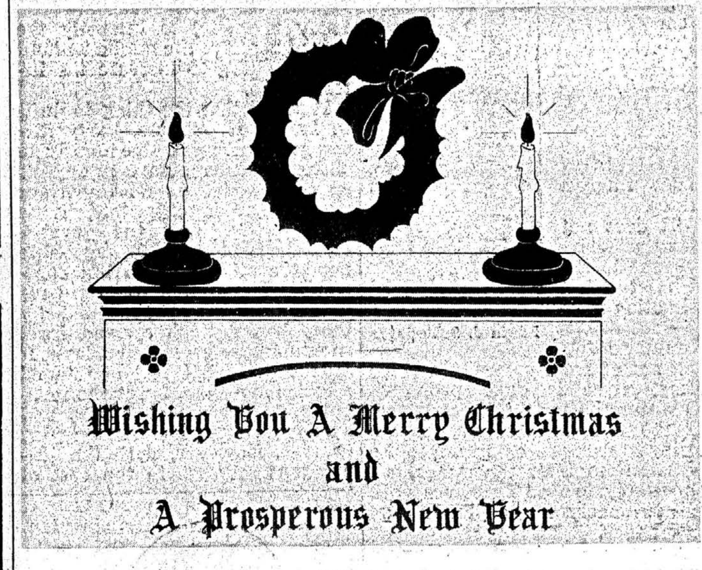


Mutual Funds

By HENRY HUNT

Continuous Supervision Essential

"Once upon a time there was a very conservative investor who would invest in nothing but government bonds. He was so ultra conservative that he wanted diversification even among government



bonds. Therefore, in the year 1900, he selected the government bonds of the six strongest countries in the world, namely United States, France, Germany, Russia, Austria-Hungary, and Great Britain. He was so satisfied with his investment that he locked the bonds up in his strong box for 20 years. In 1920 he opened his strong box to ascertain the value of his investment. He found that the bonds of Germany, Russia, and Austria-Hungary were worthless and that the bonds of France were worth only a fraction of the purchase price. The only bonds which maintained their value were those of Great Britain and the United States.

"During the next four years he religiously saved his money until by 1924 he again had a sum for investment. He was then a confirmed isolationist and would not invest his money outside the United States. He decided this time to invest his money in the securities of 20 of the strongest and largest and best known corporations in the United States, namely, those which composed the famous Dow-Jones Industrial Index. He put an equal amount of money in each stock.

"Again, he was so satisfied with his investment that he locked it up for another 20 years. In 1944 he opened his strong box to assay his investment. He was surprised to discover that two of the 20 corporations had been reorganized during the 20 year period with a large loss to the stockholders. He found that two of his stocks had paid no dividends for at least 10 of the 20 years. He also found that only six of the 20 stocks had paid dividends every year of the 20 years, and that only nine of the corporations were sufficiently outstanding to have their securities included in the 30 stocks of the Dow-Jones average of 1944."—Quoted from **"The Selective Investor,"** based on an article in **"Trusts & Estates"** by **Thomas S. Gates.**

The practice, "Put 'em away and forget about 'em," is apt to be a costly one as no man alive can predict with accuracy what any security will be worth 20 years from now. One can state with reasonable assurance that a 20-year U. S. Government bond will be paid off at maturity but can one tell what those dollars will buy in terms of the present dollar? One can not. Thus, it is apparent that conservative selection plus diversification of risk is not enough. To safeguard his capital, the investor also needs continuing experienced supervision of his portfolio, supervision such as all leading mutual funds offer. It is only through investment companies of the open-end and general management type that the small investor can obtain continuous investment management economically.

Lower Exports Forecast

Calvin Bullock's Dec. 15, issue of **"Perspective"** is devoted to the outlook for foreign trade. It concludes: "On an overall basis, it is unlikely that putting the Marshall Plan into effect will greatly increase the total volume of our export trade, because of the probability that trade with other nations will fall off because of withdrawal of goods for Europe and increased dollar shortages. Furthermore, exports to Europe of nonessentials have already been and will continue to be rigorously restricted. Thus despite the Marshall Plan, it is probable that the 1948 level of our export trade will fall below that of 1947. The Plan, if adopted, will tend to sustain our level of export trade which otherwise might show a sharp drop during the coming year, and to provide a powerful sustaining influence of demand in certain sectors of our economy, notably agriculture and the capital goods industries."

New Twist

He: "Do you like codfish balls?"
She: "I don't know; I've never been to one."

Demand Still Unsatisfied

Hugh W. Long's December **"New York Letter"** comments on the business outlook in part as follows: "It should be observed that today's high-level business is not supported merely by temporary spending of wartime savings. The high level of business is justified for the most part by a basic increase in the demand for goods. There has been a substantial growth in population since before the war. The average consumer has an income that permits his buying about one-third more units of goods, despite higher prices. In most communities we can see the growth in population and the high level of buying at the stores.

"Industry is spending money at a very high rate to maintain plant and equipment. More importantly, it is spending large sums to reduce its costs, to expand production and distribution facilities in order to meet increased demands, and to be able to manufacture and sell many new products. Moreover, the large market for the output of our factories and farms is world-wide. This is why, more than two years after the end of the war, the clamor continues for more and more goods.

"Because the economy approaches top speed it does not immediately have to start downhill towards a depression. It is not like the toy train which has to slow down as the spring unwinds. Rather, it is comparable to an electric locomotive which can keep running until something serious goes wrong. People are spending as never before, yet total savings continue to increase. Deposits in savings banks, probably the best index of the savings of people of medium to lower incomes, are larger than a year ago. A recent careful survey reveals that the number of people desiring to buy new homes, automobiles, and washing machines, for example, is as large or larger than was true 12 months ago."

Looking Back 90 Years

Vance, Sanders' "Brevits" quotes the following paragraphs which appeared in the Oct. 10, 1857 issue of "Harper's Weekly": "It is a gloomy moment in history. Not for many years—not in the lifetime of most men who read this paper—has there been so much grave and deep apprehension; never has the future seemed so incalculable as at this time. . . .

"In France the political caldron seethes and bubbles with uncertainty; Russia hangs, as usual, like a cloud, dark and silent, upon the horizon of Europe; while all the energies, resources and influences of the British Empire are sorely tried, and are yet to be tried more sorely, in coping with the vast and deadly Indian insurrection, and with its disturbed relations in China."

Notes:

Broad Street Investing Corp. and **National Investors Corp.**, both members of the **Tri-Continental Group**, have declared special year-end dividends from security profits of 50¢ and 29¢ a share respectively.

Fidelity Fund has declared a year-end dividend of 90¢ of which 47¢ was derived from net investment income and 43¢ from security profits.

Hugh W. Long has lowered his industries appraisals with respect to profit possibilities on insurance stocks and public utilities from "fair" to "limited."

Selected Investments Company of Chicago points out that even if earnings on the Dow-Jones Industrials declined from the estimated figure of $18.50 a share for 1947 to $15.00 in 1948, a level of 225 for the "Dow" would result from a market appraisal of these earnings at a ratio of 15 to 1.

NSTA Notes

(Continued from page 13)

CINCINNATI STOCK & BOND CLUB

At the annual election of the Cincinnati Stock & Bond Club, which was held on Monday, Dec. 15, the following were elected as Directors:

Jean E. Bennett, J. E. Bennett & Co.; George Eustis, Geo. Eustis & Co.; George T. Grady, John E. Joseph & Co.; Thomas Hughes, Edw. Brockhaus & Co.; Robert Isphording, VanLahr, Doll & Isphording; Frederic Latscha, Frederic Latscha & Co.; James E. Madigan, J. E. Madigan & Co.; Neil Ransick, Chas. A. Hinsch & Co.; Lloyd W. Sheppler, Merrill Lynch, Pierce, Fenner & Beane; Robert W. Thornburgh, W. C. Thornburgh & Co., and Franklin O. Loveland, Field, Richards & Co., who as the retiring President, automatically serves as a Director. The election of officers will be the first week of January.

NASHVILLE SECURITY TRADERS ASSOCIATION

The Nashville Security Traders Association held its annual meeting Dec. 17, 1947, and elected the following officers for the year 1948:

Herbert Pettey

Buford G. Wilson

Herbert Pettey, Equitable Securities Corporation, President.

Buford G. Wilson, Jack M. Bass & Co., Vice-President.

Fred K. Kirtland, Hermitage Securities Co., Secretary-Treasurer.

Walter Hale, Nashville Securities Co., and Q. R. Ledyard, J. C. Bradford & Co., Directors.

Herbert Pettey, Delegate, and J. R. Stamps, Commerce Union Bank, Alternate Delegate.

Mass. Investors Trust Appoints Ralph Lowell

Massachusetts Investors Trust, the oldest and largest investment fund in this country, announces the appointment of Ralph Lowell as a member of the Advisory Board of the Fund to succeed James L. Richards who has retired after serving on the board since 1932.

Mr. Lowell is President and Chairman of the board of the Boston Safe Deposit and Trust Co., a member of the Board of Overseers of Harvard College, a trustee of the Massachusetts General Hospital, and a director of the John Hancock Mutual Life Insurance Co., and is a trustee or director of many other business, charitable and educational organizations.

Why Peace Conference Failed

(Continued from page 7)

ing that the conference finally came to the heart of the problem —to a consideration of the harsh realties of the existing situation in Germany.

Several more days were to elapse, however, before the council really came to grips with these realties. Discussions of procedure —of what document to discuss—again intervened to delay our work. However, on Monday, Dec. 8 the procedural issues were resolved and the council began the consideration of the fundamental issues which eventually led to the adjournment of the session without agreement.

I shall endeavor to indicate briefly what those issues were without reciting the involved and prolonged discussions over individual items.

The general issue was simple. It was whether or not Germany was to continue divided or whether the Allies could agree to recreate a unified Germany. Unless this could be achieved, all other questions relating to Germany would remain academic.

What then were the particular obstacles to the achievement of German economic and political unity?

The United States delegation considered that there were certain fundamental decisions which the four occupying powers should take if German unity was to be achieved. These were:

(1) The elimination of the artificial zonal barriers to permit free movement of persons, ideas and goods throughout the whole territory of Germany.

(2) The relinquishment by the occupying powers of ownership of properties in Germany seized under the guise of reparations without four-power agreement.

(3) A currency reform involving the introduction of new and sound currency for all Germany.

(4) A definite determination of the economic burdens which Germany would be called upon to bear in the future, that is, the costs of occupation, repayment of sums advanced by the occupying powers and reparations.

(5) An over-all export-import plan for all of Germany.

When these basic measures had been put into effect by the occupying powers, then the establishment under proper safeguards of a provisional government for all Germany should be undertaken.

Reparations soon emerged as a key issue. For the benefit of those not fully familiar with past negotiations on this subject I wish to explain that a definite agreement had been concluded two years ago at Potsdam that reparation payments would be made by the transfer of surplus capital assets, that is, factories, machinery, and assets abroad, and not by payments from time to time out of the daily output of German production. One reason for this decision was to avoid an issue that would continue through the years between Germany and the Allies and between the Allies themselves concerning her ability to pay and the actual value of payments which had been made in goods. Also, it was clearly evident that for many years Germany would be involved in a desperate struggle to build up sufficient foreign trade to pay for the food and other items on which she will be dependent from outside sources. The best example of this phase of the situation that I can give is the present necessity for Great Britain and the United States to pay out some 700 millions a year to provide the food and other items to prevent starvation and rather complete disintegration of that portion of Germany occupied by our forces.

In other words reparations from current production—that is, exports of day-to-day German production with no return— could be made only if the countries at present supplying Germany—notably the United States—foot the bill. We put in and the Russians take out. This economic truth, however, is only one aspect of Soviet reparation claims. In the eastern zone of Germany the Soviet Union has been taking reparations from current production and has also, under the guise of reparations, seized vast holdings and formed them into a gigantic trust embracing a substantial part of the industry of that zone. This has resulted in a type of monopolistic strangle hold over the economic and political life of eastern Germany which makes that region little more that a dependent province of the Soviet Union. A very strong reason, in my opinion, for our failure to agree at London was the Soviet determination not to relax in any way its hold on eastern Germany. Acceptance of their claims for reparations from current production from the western zones would extend that strangle hold over the future economic life of all Germany.

The Soviet position was nowhere more clearly indicated than by Mr. Molotov's categoric refusal to furnish the Council of Foreign Ministers with information concerning the reparations already taken from the eastern zone or indeed any information at all concerning the situation there, until full agreements had been reached. In effect we were to tell them what has occurred in the western zones, which we had already done, and they tell us nothing. That refusal to provide information absolutely essential for decisions as to the organization of German unity would by itself have made any agreement impossible. A remarkable illustration of the Soviet position in this matter was their carping criticism of the economic procedure in our zones which we freely publish for the world to read, while virtually in the same breath blandly refusing to provide any data at all concerning their zone.

It finally became clear that we could make no progress at this time—that there was no apparent will to reach a settlement but only an interest in making more and more speeches intended for another audience. So I suggested that we adjourn. No real ground was lost or gained at the meeting except that the outlines of the problems and the obstacles are much clearer. We cannot look forward to a unified Germany at this time. We must do the best we can in the area where our influence can be felt.

All must recognize that the difficulties to be overcome are immense. The problems concerned with the treaty settlements for Italy and the satellite countries were simple by comparison since none of those countries were divided into zones of occupation and all of them had an existing form of government. Germany by contrast is sub-divided into four pieces—four zones. No trace of national government remains.

There is another and I think even more fundamental reason for the frustration we have encountered in our endeavor to reach a realistic agreement for a peace settlement. In the war struggle Europe was in a large measure shattered. As a result a political vacuum was created and until this vacuum has been filled by the restoration of a healthy European community, it does not appear possible that paper agreements can assure a lasting peace. Agreements between sovereign states are generally the reflection and not the cause of genuine settlements.

It is for this very reason, I think, that we encountered such complete opposition to almost every proposal the Western powers agreed upon. The Soviet Union has recognized the situation in its frank declaration of hostility and opposition to the European recovery program. The success of such a program would necessarily mean the establishment of a balance in which the 16 Western nations, who have bound their hopes and efforts together, would be rehabilitated, strong in forms of government which guarantee true freedom, opportunity to the individual, and protection against the terror of governmental tyranny.

The issue is really clear-cut and I fear there can be no settlement until the coming months demonstrate whether or not the civilization of western Europe will prove vigorous enough to rise above the destructive effects of the war and restore a healthy society. Officials of the Soviet Union and leaders of the Communist parties openly predict that this restoration will not take place. We on the other hand are confident in the rehabilitation of western European civilization with its freedoms.

Now, until the result of this struggle becomes clearly apparent, there will continue to be a very real difficulty to resolve even on paper agreed terms for a treaty of peace. The situation must be stabilized. Western nations at the very least must be firmly established on a basis of government and freedoms that will preserve all that has been gained in the past centuries by these nations and all that their co-operation promises for the future.

Chase Nat'l Bank Opens 2nd German Branch

The Chase National Bank's second branch in Germany, at Stuttgart, for the convenience of Americans there, will be opened for business on Monday (Dec. 29), according to word received at the head office here. The bank's first branch in Germany, at Frankfurt, was opened Dec. 15.

Established with the approval of authorities in Washington and the U. S. Military Government in Germany, the branch will offer limited banking facilities to U. S. military and authorized personnel, including those of Allied countries, in the American zone. 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.

Frank M. Edelmann, formerly an assistant manager of the foreign department of the Chase in New York, will be the officer in charge of the branch, which will occupy a part of the Zeppelin Building at 2 Lautenschlagerstrasse, Stuttgart.

Paul & Co. Changes

PHILADELPHIA, PA.—At a special meeting of the board of directors of Paul & Co., Inc., 1528 Walnut Street, held Friday, Dec. 19, 1947, Clyde Lane Paul resigned as Vice-President and Treasurer of this corporation. Ralph Eugene Pendergast was elected to serve the corporation in the capacity of Treasurer in addition to the office of Vice-President which he presently holds.

With Macart, Jones & Co.

(Special to THE FINANCIAL CHRONICLE)

PUEBLO, COLO.—Charles E. Gast has become associated with Macart, Jones & Company, Thatcher Building. In the past he was with Harris, Upham & Co., in Denver.

Sees Insufficient Venture Capital To Maintain High Employment

Franklin Cole, economic consultant, tells Customers' Brokers we are simply not creating sufficient volume of savings for high level production and economic progress. Warns of rapid growth in bank loans, and says high taxes are encouraging debt as against equity financing.

Franklin Cole of Franklin Cole & Co., economic consultants, addressed the Association of Customers' Brokers on Dec. 19, 1947. In his address he stated:

"The dilemma in which American business finds itself at the present time will force necessary tax changes once Washington is convinced that the matter transcends Wall Street and reaches into every Main Street, whether it is located in an industrial or agricultural region.

Franklin Cole

"Since V-J Day, the twin effects of rising prices and expanding operations have tended to change the composition of the working capital of American industry by cutting down liquidity despite an increase in the total amount of working capital. The Securities and Exchange Commission recently stated that the ratio of corporate liquid funds in the form of cash and marketable securities to sales, which is a rough measure of liquidity, declined again during the second quarter of 1947 and I believe that later figures will show this tendency has been accentuated. Moreover, the increase in the working capital position of United States corporations exclusive of banks and insurance companies which amounted to $1.7 billion in the second quarter of 1947 was largely due to an increase of $1.2 billion in capital securities. Breaking down the capital securities, it is found that long-term debt increased $800 million and preferred and common stocks $400 million.

"On top of the increased needs for working capital are the new plant and equipment expenditures which have recently been running at the rate of $16 billion annually and which are the most strategic part of the national economy. As a matter of fact, even the gross addition of working capital is probably deceptive because part of the funds held by business and received from the sale of securities is in a sense in transit. They will be paid out for plant and equipment now on order.

"If anything was conclusively established during the stagnant thirties, it was that full or even high employment cannot be attained simply by attempting to enlarge the demand for consumers' goods. At this moment, the percentage of personal consumption expenditures to gross national product is just about as high as it was in 1936, at around 71%, and the ratio was even higher in 1933. The expenditures which seem to account for the difference between good and bad times are those representing capital formation or private domestic investment of which the principal items are new construction and producers' durable equipment. In the study in which I had the privilege of collaborating with Mr. Emil Schram, President of the New York Stock Exchange, entitled "Economic Progress: Tax Revision and the Capital Markets," we had occasion to make an intensive study of the country's capital requirements and their interrelationship with the capital markets. It is remarkable how little understanding there is of this subject and the question of more equitable taxes. As you know, new equity financing has only to be mentioned and it at once has a depressing effect on the price of the stocks of even the most successful American enterprises. This has been true almost without exception for the past 18 months. In two of the most stable and incidentally regulated industries, namely, the public utility and insurance industries, you are undoubtedly acquainted with striking examples in recent weeks. The authorities seem to be puzzled by the failure of new capital to come into these industries eagerly in view of the long-term record of stable earnings and dividends.

"The fact of the matter is that full employment, attributable in part to the making up of deferred demands created during the war period and high prices which are swelling our national income, but not real income, have made us complacent. Government studies, when individual tax rates were substantially lower than at present, indicate that only families with incomes now probably in the $10,000 and upward range make a significant contribution to venture investment. Other savings are largely channelled into financial institutions which cannot buy equity interests. There is evidence to indicate that a substantial portion of stocks sold by way of special offerings and secondary distributions are merely bought with funds representing the sale of other securities. We are simply not creating the volume of savings that will go into what is best described as venture capital sufficient to sustain a continued high level of production and employment. That is one of the reasons for the rapid growth in bank loans which is creating concern. Our studies also show that the tax structure by encouraging debt as against equity financing is creating further rigidities which are likely to plague us in the future.

"I think that we have on our hands essentially an educational job. I am aware that many of the political leaders are more interested in promises that will produce votes rather than in the production of goods, but I am also convinced that the indifference to the condition of the capital markets is due fundamentally to a lack of appreciation of the close connection between dynamic capital markets and the well-being of the entire country."

Mark I. Adams With Brand, Grumet & Co.

Mark I. Adams has become associated with Brand, Grumet & Co., 55 Broadway, New York City, members of the New York Stock Exchange, as manager of the stock and trading departments. He was formerly manager of the retail department in the New York office of Newburger & Hano.

Geyer & Co. Party Huge Success

The cocktail party of Geyer & Co. held on Dec. 18 at the Downtown Athletic Club was a huge success with the many "Streeters" attending again having a most enjoyable time.

Canadian Securities

By WILLIAM J. McKAY

In Canada's best interest it is to be hoped that the wordy warfare between the proponents and opponents of the parity dollar is now at end. Nothing is gained by further hindsight criticism of the Canadian Administration's action in revaluing the dollar; the appropriate time for comment has long passed. In passing, however, it can be observed that the critics of Ottawa have sought to condemn the revaluation as the cause of all the current Canadian difficulties and thereby totally ignoring the fact that the disordered state of the world economy in general plays some small part.

Now that positive action has replaced previous inertia in dealing with the Dominion's U. S. dollar problem all efforts should now be directed on both sides of the border towards making fully effective the present level of the Canadian dollar. The U. S. dollar conservation program which has already been put into operation by the Canadian authorities should be adequate to stem the drain on the Dominion's dwindling exchange reserves, especially as emphasis is placed on the constructive rather than the restrictive aspect of the Ottawa plans. It must be borne in mind also that when consideration is given to the recent inroads on the Canadian exchange reserves, it is to be noted that many items figuring in the total of U. S. dollar payments of the past year are distinctly non-recurrent. For example, it was common knowledge many months before the event that import restrictions were imminent. Consequently, Canadian importers of U. S. goods have in many cases built up inventories to provide for their requirements for several years. In addition, before the exchange situation became critical, Canada retired outstanding indebtedness to this country on an over-ambitious scale. Therefore, to this extent at least, Canada has utilized her current resources to meet future obligations and has thus lightened her exchange commitments for the period ahead.

There remains, however, one formidable obstacle in the path of the restoration of full confidence in the Canadian dollar—the embarrassing low level of the "free" dollar market in this country. Its importance has been, justifiably perhaps, seriously under-estimated, especially in official quarters. Although this market accounts for only a small fraction of the volume of exchange currently transacted, its psychological influence is profound. It is impossible to dispel by official explanations and contentions the deep-rooted idea that the level of the "free" dollar has a definite bearing on the standing of the official dollar.

It is essential, therefore, that this situation be studied in the light of this fact. This is not a Canadian problem alone. In view of the huge U. S. vested interest in Canada this country is also vitally interested. Therefore, serious thought should be devoted on both sides of the border to a plan whereby the channel for the movement of investment funds to and from Canada can be broadened and stabilized. Such a scheme also would be a step in the right direction, according to the currency ideals of the International Monetary Fund; the undermining influence of the "free" market on the existing parity of the Canadian dollar is far greater than dealings in gold at premium prices. The stability of the Canadian dollar, moreover, is vitally important in any scheme for the restoration of the economy of Western Europe and would greatly assist in relieving the burden placed on the U. S. dollar.

During the week the better tone recently noted in the market for both external and internal bonds was again evident. However, in view of the approach of the year-end, the better sentiment had little effect on the price-level and activity remained at a minimum. Stocks, in sympathy with the New York trend, developed a better tendency with Western oils buoyant following the recent price increase. Golds also were firmer, as it is now believed in unbiased quarters that the gold industry relief measures will be more effective than previously admitted.

Coast Attorneys Now Allan, Miller & Groezinger

SAN FRANCISCO, CALIF. — The firm name of Manson, Allan & Miller, San Francisco attorneys, has been changed to Allan, Miller & Groezinger.

H. Elbert Foster, Jr. Opens Own Offices

H. Elbert Foster, Jr., member of the New York Stock Exchange, has opened his own offices at 61 Broadway, New York City, to conduct a securities business. He was formerly a partner in Foster, Brown & Co.

George Alberts Retires

George Alberts is retiring from the firm of C. A. Alberts & Co., 70 Wall Stret, New York City, as of Jan. 1.

Canada Meets a Challenge

By HON. DOUGLAS ABBOTT*
Minister of Finance of Canada

Financial spokesman of Canadian Government analyzes his nation's foreign exchange problem and lays difficulty to dollar shortage due to unfavorable trade balances with the United States, which is not now offset, as formerly, by Canada's receipts from other countries. Says there is no intention to devaluate Canadian dollar and that restrictions on Canadian imports will be abandoned when no longer necessary. Extols U. S. leadership in world affairs.

I am glad to have the opportunity to tell this distinguished gathering something about Canada and Canada's problems. In talking about Canada I am well aware that some of you know quite a lot about us, perhaps through your interest in certain investments or possibly through your interest in vacations and fishing. At the same time, I do not know how many of you realize how your northern neighbor has grown up in recent years—realize that Canada is a self-reliant country with ideas and policies of her own and not merely a pleasant place to spend a vacation or the location of a number of mines and pulp and paper plants.

Hon. D. C. Abbott

I believe it is fair to say that the people of the United States are generally too inclined to take Canada for granted, to regard us as a well-behaved people who mind their own business and cause very little trouble. We do not have revolutions, we do not threaten to take over the investments of your citizens in our country, and we pay our bills. While your politicians and businessmen occasionally note with satisfaction the 3,000 miles of undefended front er between our two countries and the excellent relations which prevail between our two peoples, not enough of your people take a continuing interest in Canada or realize its significance to the United States.

I am not sure how many Americans know that Canada is by far their largest customer and source of supply. In the 12 months up to last September, your trade statistics show that you sold to us more than $2 billion of exports—more than the combined total of your exports to your second and third largest customers, i.e., Britain and France, and more than the combined total of your exports to your three largest customers in Latin America, i.e., Mexico, Brazil and the Argentine. You have been shipping more goods to us than to all the countries of the Far East put together, and you have been getting full payment in cash. You do not buy nearly as much from us as you sell to us—and that is causing us some difficulty right now—but even at that you have been buying more from Canada than from any other two countries combined. You have much more money invested in Canada than in any other country, more than in all the countries of Central and South America taken together. On the whole you have found that the $5 billion odd you have placed in our country has been by long odds your best external investment.

Canada's War Contributions

During the war, Canada was one of your major allies. Our output of munitions ranked only after that of your country and Great Britain and possibly Russia. A Canadian Army was one of the four armies that landed on the Normandy beachheads. Canada was the only Allied country that did not require lend-lease assistance, and we ourselves provided what for us were very large lend-lease shipments which ran to around $3½ billion and which represented outright contributions to the general cause.

When it came to reconstruction Canada has also played her full part. With you and the British and other nations we have worked unremittingly toward establishing more orderly world conditions. We took a very active part in the establishment of the International Monetary Fund and the World Bank and in the recent International Trade and Tariff meetings at Geneva. I think I can say honestly that we have been able to make a real contribution in these discussions both because we have some good ideas of our own and because we have been able from time to time to reconcile the differing points of view of yourselves and the British because we know and understand you both so well.

So far as providing aid to war-ravaged countries is concerned, it may surprise some of you to know that Canada has made an even larger contribution than your country in relation to her size. When you extended a credit of $3¾ billion to Britain, we extended one of $1¼ billion which bears the same relationship to our national income as $22 billion would bear to yours. All in all we in Canada extended credits and made contributions through UNRRA and other relief to the total of about $2 billion of which more than two-thirds has been utilized. Of course as I have noted our Canadian figures may not look very impressive compared with those you are accustomed to discussing in the United States. But when you remember that your national income is about 18 times as large as ours you will appreciate that these are relatively very big figures. They show that Canada has been making a large independent contribution to world recovery and not just following along in the path of her great neighbor.

We have been able to provide this large-scale aid in part because, like you, we were very fortunate in the war. We did not suffer invasion, destruction or disorganization. We much expanded our industrial capacity and since the end of the war we have successfully built up our peacetime production so that today we are producing on a scale at least 50% higher than before the war. We have experienced a large and permanent expansion in our productive capacity and that expansion is still going on. Our economy is a going concern and our costs of production are low in comparison with most of the rest of the world. Our basic position is sound. We have high production, growing capacity to produce, relatively low costs, and great resources and opportunities.

The Dollar Problem

But we do have one very real problem which is now common to most of the world. I refer to the serious deficiency which has developed in our U. S. dollar position and which has recently led us to take some very necessary and rather unpleasant steps. We have had to impose some restrictions on our imports which are affecting your exporters in particular. We did not wish to impose restrictions but we were faced with a U. S. dollar problem of a magnitude which gave us no choice but to take direct action.

Our dollar difficulties are not a result of any weakness in our internal economic position. They are a direct reflection of the difficulties of overseas countries, and of western Europe in particular—of the fact that a country which depends heavily on its trade cannot help but be affected by the difficulties of its friends and customers.

The usual pattern of Canadian external business is to run a current trading deficit with the United States and a current trading surplus, which is frequently larger, with the rest of the world. Before the war, we were able to convert our trading surplus with the rest of the world into dollars to cover our trading deficit with you. During the war, of course, this triangular method of settlement broke down but we were able to work out with you a special arrangement which overcame the dollar difficulty and allowed us to increase greatly the scale of our war effort. When the war was over, we naturally did not expect to resume this prewar pattern immediately. It was evident that Britain and other overseas countries could not purchase all the goods they needed from us on a cash basis until they had experienced a substantial recovery. We had very large U. S. dollar reserves at the end of the war, and we decided to aid our friends and customers overseas with credits knowing full well that we should have to draw down our dollar reserves to meet our trading deficit with your country until their position had improved. As part of our contribution to world recovery we were prepared to extend these credits and to use a substantial part of our dollar reserves in the transition period.

We hoped and expected, however, that as recovery progressed abroad we would obtain more goods and larger cash payments from overseas countries. I do not need to tell you why these hopes have not been fully realized. Unforseen developments such as the extreme winter of 1946-47 with its fuel crises and its almost disastrous effects on Europe's crops are partly responsible. The uncooperative attitude of Russia has also contributed to political unsettlement which has certainly slowed Europe's recovery. The breakdown in the attempt to restore the convertibility of sterling was a major setback and as your credits were rapidly exhausted the position of western Europe became almost desperate. But whatever the reasons there is no doubt about the fact that Canada can obtain neither cash nor goods from European countries in adequate amounts to cope with her U. S. dollar drain.

At the same time that European conditions were deteriorating, we have been buying more and more from you. Our businesses, like yours, had large modernization and expansion plans which they wanted to get ahead with and, since we buy much of our machinery and certain kinds of steel from you, that meant a heavy volume of imports. Our consumers, like yours wanted to buy cars,

(Continued on page 32)

*An address by the Hon. Douglas Abbott at the Annual Meeting of the Life Insurance Association of America, New York City, Dec. 18, 1947.

The Anglo-Soviet Trade Pact

By PAUL EINZIG

London correspondent analyzes advantages and disadvantages of proposed Anglo-Soviet trade pact. Points out pact would break down opposition by elements in Labor Party to Mr. Bevin's anti-Russian policy and would make Britain less dependent on Western Hemisphere Countries. Says pact may antagonize Canada, Argentina and other hard money countries, because of priority given to Russia on British exports.

LONDON, ENGLAND.—The announcement of the impending conclusion of a trade agreement between Britain and Soviet Russia was received with enthusiasm by Socialists in Britain. For political reasons, the pact will be welcomed not only by those Government supporters who disapprove of Mr. Bevin's anti-Russian policy, but also by those who endorse the Foreign Secretary's line, on the ground that it will mitigate the conflict between pro-Soviet and anti-Soviet elements in Labor Party.

Dr. Paul Einzig

For economic reasons, too, the rapprochement to Russia is welcomed, as a means of achieving a higher degree of economic independence from the United States and the hard currency countries in general. This latter argument is accepted also by many Conservatives who feel that Britain's salvation lies in the reduction of her huge trade deficit in relation to the Western Hemisphere. Notwithstanding this, most Conservatives view the impending pact with strong disapproval. While political antipathy towards Moscow may play a part, consciously or otherwise, in their attitude, it is capable of explanation also on economic grounds alone.

At the time of writing, the full details of the pact are not yet available, but it is understood that the British Government has accepted the Russian terms regarding the adjustment of the credit agreement of 1941. This concession entails a drastic reduction of the amount of the debt, a reduction of the interest rate from 3% to ½%, a four-year moratorium, and an extension of the period of repayment. Britain has certainly made a considerable financial sacrifice which, the critics of the pact contend, she can ill afford, and which the Treasury refused to accept while Mr. Dalton was Chancellor of the Exchequer. However, since the Soviet Government would not pay in any case more than the amount due under the terms of its own choice, the sacrifice is more nominal than real.

The question is, will Britain secure advantages under the pact, in return for the concession? Soviet Russia is to export 650,000 tons of coase grain at reasonable prices, in return for British industrial equipment for timber production and transport and other manufactures. The critics maintain that, while this looks well on paper, in reality nothing has been settled. For the Soviet Governmetn is in a position to back out of the agreement on the ground that the price of British manufactures is too high or that delivery dates are too remote. The British Government is not in a position to guarantee either price or delivery dates, since that depends on the private firms with which the Soviet Government is to negotiate agreements. Although the Soviet Government has undertaken to deliver fixed quantities at definite prices, the British Government could give no such undertaking.

Critics of the pact suspect that, in order to satisfy Moscow, the British Government has promised to give absolute priority to exports to Russia. If this is true, they say, the pact would present no direct economic or financial advantages. For, owing to the limitations of the producing capacity of the British engineering industry and other exporting industries, the diversion to Russia of part of the output would simply mean less exports to the Argentine and other hard currency countries and less imports from those countries. The Russian pact would not improve the British trade balance in relation to hard currency areas. Moreover, it is feared that countries such as Canada would resent any diversion to Russia of goods which they would be able to accept in payment for their export surplus to Britain.

Supporters of the pact argue that the present arrangement is merely the thin end of the wedge, as it will be followed by agreements for the purchase of large quantities of Russian wheat, timber, and perhaps even cotton in return for British manufactures. They are in favor of the pact because of its essentially bilateral'st character. No credit is granted by either country to the other and no payment in gold, hard currency or convertible currency is required for any temporary export surplus. Trade between Russia and Britain is supposed to balance over a period of three to four years, even if in the meantime there may be surpluses and deficits. This is in keeping with the new trend of "safety first" in foreign trade which is gaining ground in British opinion as a result of the failure of the premature attempt at multilateralism through convertibility.

Another argument put forward by supporters of the pact, that it tends to straighten Britain's bargaining position in relation to the United States. The discovery that the Geneva agreement, so far from improving the chances of Empire rubber growers to export natural rubber to the United States, has made their position even worse, has led to the conclusion that Britain ought to try to strengthen her bargaining position at all costs. Even though there is more criticism of the unbelievable incompetence of the British negotiators than of the shrewdness of the American negotiators, it is widely felt that something must be wrong with the prevailing spirit if it leads to such bad bargains. But for the bad impression caused by what is described as a clever trick played on the British negotiators in the matter of rubber, there would be here much more active opposition to the trade pact with Russia.

Wheelock & Cummins Now Members of Chicago S. E.

CHICAGO, ILL.—The Executive Committee of The Chicago Stock Exchange have announced the admission of Wheelock & Cummins Inc. as a member corporation. The membership is held by Howard R. Mullins who was recently elected Vice-President of that company. Mr. Mullins has been a member of the Exchange previous to his association with Wheelock & Cummins, Inc., which maintains offices in Des Moines and Chicago.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

Edward L. McNicol was appointed Vice-President of **J. P. Morgan & Co. Inc.** on Dec. 17 by the Board of Directors at their regular meeting. Edward E. Norris, Frederick R. Moseley, Jr., and Thomas Rodd 3rd were appointed Assistant Vice-Presidents. Mr. McNicol has been long in charge of the Fiscal Agency Departments of J. P. Morgan & Co. Inc. He joined the staff of the bank on Aug. 10, 1899.

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Following a meeting of the Board of Directors of the **Bank of the Manhattan Co. of New York** on Dec. 18, F. Abbot Goodhue, President, announced the following promotions: Richard H. Leslie, Comptroller, appointed Vice-President and Comptroller; Charles A. Agemian, John Fetherston, William J. Jantzen, Chas. Jensen Jr., John A. Maher, Edward F. Stauderman and George J. Varley, former Assistant Treasurers, were appointed Assistant Vice-Presidents. Andrew McGray, Assistant Secretary, was also appointed an Assistant Vice-President; Edwin J. Asher, J. Stewart Baker Jr., Theodore W. Brooks, Thomas D. Byrnes, Thomas J. Cahill, Charles F. Clines, Cyrus E. DeHondt, George A. Dineen, M. William Downing, James H. Higgins, II, John A. Kleinschnitz, John C. MacLeod, Cornelius D. Pelletreau, August W. Rehberger, Frank O. Sandstrom Jr. and John L. Taylor were appointed Assistant Treasurers.

Richard H. Leslie

Mr. Leslie started his banking career with the Bankers Trust Co. In 1924 he joined the International Acceptance Bank and in 1929 became Auditor of that institution. The International Acceptance Bank was merged with Bank of the Manhattan Company in 1932. Mr. Leslie was appointed an Assistant Cashier in November, 1932, and in 1937 Assistant Vice-President, Comptroller Jan. 1, 1945.

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The **National City Bank of New York** announces the appointment of the following officers: George N. Coe, William J. Cosgriff, Edward L. Crabbe, Francis K. Johnson, Peyton F. McLamb, Matthew A. Moosbrugger, Wallace Reynolds, Frederic M. Satterfield, Everett C. Southwick and Bernard T. Stott as Assistant Vice-Presidents and Gordon W. Bullock Thomas F. Creamer, Alexander Drysdale, John H. Eglinton, James F. Jaffray, Sven Borup Jensen, P. Henry Mueller, Edwin A. Reichers, Frank Sauter, Theodore R. Scholey, Carl E. Schwendler and Richard E. Thomas, Assistant Cashiers.

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Thomas J. Watson, Jr., Vice-President of International Business Machines Corp., was on Dec. 16 elected to the Board of Directors of **Bankers Trust Company of New York,** it was announced by S. Sloan Colt, President. Mr. Watson was elected Vice-President and a member of the Board of IBM last year, following his return from the Army Air Corp. in which he enlisted as a private, and attained the rank of Lieutenant-Colonel. He served as a pilot in Africa, India, Russia, and in the Pacific Theatre. He is among other activities a director of the National Foreign Trade Council, Directory of Directors Company, and the New York Board of Trade.

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Harry J. Pugh has been appointed Assistant Vice-President of **The Corn Exchange Bank Trust Co. of New York.** Mr. Pugh was formerly an Assistant Secretary.

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Walter G. Kimball, Chairman of the Board of **The Commercial National Bank and Trust Co. of New York,** announced on Dec. 18 the following official change and appointment, effective Jan. 1: Edwin G. Gallaway, Assistant Cashier, to become Assistant Vice-President; John S. Shaw, Jr., appointed Assistant Cashier.

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The resignation of Donald A. Moore as Assistant Secretary of the New York State Bankers Association to accept the position of Executive Vice-President of the **Poughkeepsie Trust Co., Poughkeepsie, N. Y.,** was announced on Dec. 22 by William A. Kielmann President of the Association. Mr. Moore who will assume his new duties on Jan. 1, began his banking career in 1925 with the **Wyoming County National Bank of Warsaw, N. Y.** Later he became associated with the **Central Bank of Kenmore, N. Y.,** becoming Cashier of that institution in 1930. In 1933 he was appointed Cashier of the **First National Bank of Altamon, N. Y.** In 1937 Mr. Moore went to Canandaigua to become Treasurer of the **Ontario County Trust Co.,** and later assumed the additional office of Secretary of that institution. In 1944 he became Assistant Secretary of New York State Bankers Association, New York City. In this capacity Mr Moore has acted as Secretary to the Association's Committee on Agriculture as well as its Committee on Bank Management and Research. He also has served as Registrar of the Association's Bankers School of Agriculture, etc.

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Roland Cree Smith, for many years an employee of the **Lawyers Trust Co. of New York** has been made an Assistant Secretary.

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Sterling National Bank and Trust Co. of New York announced on Dec. 19 that Charles O. Mitchell, formerly Assistant Comptroller, has been elected Comptroller of the Bank. Clifford J. Sinton, formerly Auditor, has been elteced Assistant Comptroller; Stanley H. Grant, in the customers relations department, has been elected Assistant Cashier; Frank T. Porter, Manager of the personal credit department, also has been elected an Assistant Cashier.

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At the annual meeting of the Board of Trustees of the **Union Dime Savings Bank of New York,** William L. DeBost, President of the bank, was made Chairman of the Board, and J. Wilbur Lewis, Executive Vice-President, was advanced to the Presidency, to take office Jan. 1. Mr. DeBost remains as the chief executive of the bank. Prior to coming to the Union Dime, Mr. DeBost was associated for many years with the Cruikshank Company and was a Vice-President and director of that company when elected President of the Union Dime in 1924. J. Wilbur Lewis, newly elected President of the Union Dime Savings Bank, started his business career at the Union Dime in 1911. He has served in various capacities. In 1936, when Treasurer, he was made a trustee, and in April, 1944, he was elected Executive Vice-President. Mr. Lewis has been active in Group IV of the Savings Banks Association of New York State, and is a member of the Bond Men's Club of New York, a director of the Fifth Avenue Bank, etc.

Herbert L. Williams, a Vice-President of the Union Dime Savings Bank, was elected a member of the Board of Trustees at the annual meeting in December. Mr. Williams is in charge of the real estate and mortgage department of the bank, with which he has been associated since April, 1944. Prior to that he was a senior officer in the trust department of the Central Hanover Bank and Trust Co.

On Dec. 22 Mr. DeBost announced that Miss Mabel F. Thompson, Director of the Service Department, was elected an Assistant Secretary of the bank at the last meeting of the board of trustees.

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DeCoursey Fales, President of **The Bank for Savings in the City of New York,** announces the appointment of Russell Sillery as Assistant Vice-President. Mr. Sillery is also Comptroller and has been associated with the bank since 1922.

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President Herbert J. Vogelsang of the **Niagara National Bank of Buffalo, N. Y.,** announced on Dec. 12 the election of Maurice J. Brick as Assistant Vice-President, and of Douglas H. Fay as Assistant Cashier. This was made known in the Buffalo "Evening News," from which it is learned that Mr. Brick joined the bank staff in June, 1946, while Mr. Fay joined the staff in May, 1946.

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Carrol M. Shanks, President of the Prudential Insurance Co. of America, on Dec. 16 was elected a member of the board of directors of the **Fidelity Union Trust Co. of Newark, N. J.** Announcement of the election of Mr. Shanks was made by Horace K. Corbin, Fidelity Union President, following a meeting of the board at the main office of the bank in Newark.

* * *

The stockholders of **Clinton Trust Co. of Newark, N. J.,** on Dec. 16 approved the offer of the Fidelity Union Trust Co., also of Newark, to purchase the entire assets of Clinton Trust Co., including its two banking offices in Newark. Approval was given at a special meeting of preferred and common stockholders of Clinton Trust Co. held in the bank's main office. As a result of acceptance of the Fidelity Union's offer, effective at the close of business on Dec. 19, the two banking offices of the Clinton Trust Co. opened for business on Dec. 22, as branches of the Fidelity. Following the action of the stockholders of Clinton Trust Co. in joining with the Fidelity Union Trust Co., the latter will now have 12 branches in Newark and East Orange. At the Dec. 16 meeting, substantially more than the required number of stockholders of Clinton Trust Co. approved the sale to the Fidelity. The Commissioner of Banking and Insurance of New Jersey has already approved the sale and the new branches of Fidelity Union. Fidelity Union Trust Co. planned to notify preferred stockholders of Clinton Trust Co. to submit their stock certificiates and scrip for payment on or after Jan. 2, 1948. The full retirement value of $50 per share, with dividends accrued to Jan. 2, will be paid on the preferred stock. Common stockholders of Clinton Trust Co. will be paid $14.82 per share after March 1. Officers at Citizens-Clinton Branch of Fidelity Union Trust Co., according to the announcement on Dec. 16, are T. L. Crooks, Vice-President; Arthur B. White, Second Vice-President; Howard G. Zenk, Assistant Treasurer; Frank Gaetje, Assistant

(Continued on page 33)

Securities Salesman's Corner

By JOHN DUTTON

Two weeks ago I met a vice-president of a large fund that has been investing substantial sums for many years. I asked him what he thought of the outlook for business, investments in general, and securities prices. He grinned and replied: "That's a short question that will take too long to answer." Later I spoke with another man who has been investing in securities for nearly half a century. He has accumulated a fortune and is one of the most astute students of the economic situation I have ever met. His answer to my question as to the outlook was a shrug of his shoulders as if to say "who knows?" One of my other friends is in the export business. He naturally is quite bewildered due to the chaotic conditions in that field—he, too, wants to know what the future will bring. Several other well qualified individuals with whom I have discussed the business outlook have also frankly admitted their inability to forecast the future at this time.

What does this all mean? Here is a condition of uncertainty, doubt and confusion in the minds of those who should have a better understanding of such matters than the ordinary run of the mill investor. It means just one thing—that this public state of mind offers an opportunity for a salesman to go out and do business providing he has convictions. Several weeks ago I learned that one of my trader friends had left his position and had gone to work for another firm as a retail salesman. When he left his trading desk he told me he couldn't make things go anywhere—it was too slow sitting there all day long waiting for the phone to ring. I spoke with this ex-trader the other day and he told me that he was surprised to discover that there was plenty of business around if you went out and looked for it. He said he found people actually waiting for some one to call on them and tell them what to do. Instead of the cold shoulder when he visited new prospects he found them very pleased to grant an interview. The woods are not full of security salesmen out making calls these days—remember that, too. Besides, every one has some headache and he would like to have assistance in getting over it. The tradeout possibilities alone that must be in every investor's bank box today offer opportunities for salesmen to go out and do enough business so that he shouldn't have any difficulty in ringing up the best January he has had in years.

Incidentally, the export fellow who didn't know what was ahead of him in his business had considerable extra cash available at this time that he couldn't use in his own company, so he bought some securities with these funds. There is one reason why we need salesmen and why they earn their commissions—it's because it takes those with the creative imagination, and the courage of their convictions, to go out and find such cogent reasons as these for people to do business with them. It's out there if you have something to sell that you believe in, but it won't come looking for you—you've go to go out and get it.

Peru's June 26 Offer to American Investors Is Not Meeting With General Acceptance

We have been advised by the New York Stock Exchange that exchanges of the Republic of Peru's External Bonds under the June 26, 1947, plan only total $5,350,000 up to Dec. 10, viz.:

7s of 1959	$ 678,000
6s of 1960	3,055,500
6s of 1961	1,616,500

The original underwriting of these three external issues totaled $115,000,000 of which $81,850,000 were outstanding. The difference, we were advised, is probably due to sinking fund operations, retirements before 1931, and repatriation since that date.

On June 26, 1947, nearly six months ago, Peru offered American investors in these three external bond issues a plan to skin all interest payments for the past 16 years and to resume interest on the following reduced basis: 1% for the first two years; 1½% for the second two years; 2% for the third two years and 2½% to the maturity of the new bonds in 1997.

Since the inception of Peru's offer, the Foreign Bond Holder's Protective Council have recommended bondholders not to accept the plan.

United States and World Crisis

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc.

Mr. Zelomek holds Marshall Plan is just "another blueprint of the future" and is conceived in an emergency. Says Europe is in a bad way and stabilized currencies are badly needed before recovery can get under way. Asserts Communist parties in Western Europe have lost ground, and doubts our foreign aid will cause inflation. Sees possibility of fairly sharp but temporary decline in business and advises plans be made accordingly. Concludes a general advantage would result if production and prices were on sounder basis.

Industrially, we are the hope of the entire world. Yet the possession of strength does not in itself guarantee that we will save the world. The strength must be used; it must be used intelligently, and it must be used against great opposition.

A. W. Zelomek

When a speaker prepares remarks on such a subject he has a number of alternatives. I doubt whether there is a single one of us but has very strong views about what he believes should be done. It is always a temptation for a speaker to express these views. If he is an official, publicly charged with the responsibility of developing or carrying out a program, defense of his own views is more than a temptation, it is a positive duty.

Like most of you here I am not an official, but a private businessman. My business, moreover, requires me to eliminate personal viewpoint as much as possible, and to present an unbiased picture of what is happening and what it means. I shall not try to influence your vote. I shall try merely to give you an honest description of the foreign situation, and to talk in practical terms about the Marshall program, its objects, its chances of success, and its implications for our domestic activity.

Forgive me if I seem to dwell on the difference between hopes and expectations. My organization has published a Foreign Letter for years now, ever since before the war. We have tried to maintain there the same objective approach that I intend to follow here. But it seems almost impossible to convince our readers that what we expect may be the reverse of what we hope.

So please remember, I am interested only in facts and reasonable probabilities. I believe these will have more practical value than a discussion of my own dreams or blueprints for a better world. They will have the virtue of hard-headed and first-hand observation, and a common-sense recognition of difficulties. I can take it for granted, I am sure, that all of us are aware of the prize that can be won through United States leadership, and of the penalty that may be paid if this leadership fails. And I believe that in politics, as in business, the one most likely to fail is the one who blandly ignores difficulties and is unconscious of the risks.

New Blueprint

The European Recovery Program, or Marshall Plan, is still another blueprint of the future. It is not yet complete; many details are still to be filled out; yet it is still a blueprint, and as such is similar to some of the other blueprints we have had in the past few years!

You will recall that one of the earlier blueprints visualized an American-British-Russian partnership, enforcing a Morgenthau Plan that would level the industries of Germany. This dream, of course, did not last very long or lead to much progress. In fact, it had to be thrown out. We may be pardoned, therefore, if we look at new plans with a critical eye, since so many of the old ones have been worthless.

Europe in Bad Way

One of the reasons so many of of the earlier plans have failed is that they were too small to cope with the big problems we face. Let us keep a few facts in mind:

(1) In Europe, there have been and will continue to be marked shifts among parties, plans and policies, not so much because governments are moving according to a blueprint, but as a result of shifting political forces.

(2) Starving and pauperized masses in Western Europe hoped all during the war for a quick recovery and a rapid improvement in their position to well above prewar levels.

(3) The old parties and social groups, which were more or less based on the solidity of Western Europe's middle classes, no longer have much political influence.

(4) Consequently, most governments in Western Europe depend on a shaky balance between Left and Right Wing forces, making concessions to both groups; they drift with a current that they cannot control.

Don't forget that the dilemma of postwar Europe is rooted in the fact that the old social structure, molded by 150 years of expanding activity and trade supremacy, still survives; but the conditions on which it was based have been destroyed. It will obviously be impossible to restore exactly those conditions on which the old society was based. And a new society better adapted to conditions as they exist now will not be formed without great upheavals. We face a major, long-term problem — the reconstruction of an entire society.

Long and Short-Term Conflicts

These social problems are long-term issues. With all the goodwill and intelligence and resources in the world, they cannot be solved in a day. That is one of the great difficulties. When something must be done immediately, policies are determined mainly by that immediate need, and this may be entirely unrelated to the long-term need or even be counter to it.

Moreover, some of these policies that are based on immediate needs are presented to the public as offering a long-term solution. The financial aid provided for Great Britain last year, for example, was in response to an immediate and urgent need. It was purely a stop-gap measure. Unfortunately, it was presented as a long-term remedy. It was described as a sufficient foundation for a long-term readjustment in Great Britain and a revival of the world economy.

Marshall Plan Also Conceived in Emergency

It was easy enough to look ahead some time ago and see that something like the Marshall Plan would be forthcoming. Last March, in our "Foreign Letter," we pointed out during the debate on Greek and Turkish aid that a "comprehensive long-range program remains to be evolved and its evolution will require time and will be influenced during the next year or two by many new developments both at home and abroad. The most important foreign political factor will be the position and activities of Russia."

If we had known last March that this comprehensive long-range program would ultimately be proposed by Secretary Marshall, rather than by some other public figure, we could have been talking about the Marshall program before the Secretary's famous address originated that name.

The point I would make now, however, is not merely that the Marshall development was easy to foresee. It was plain for months before that it would have to happen. It is doubly significant, therefore, that this plan, like most of the earlier ones, was presented only when an immediate emergency made some action imperative. Congress had clearly resented the pressure placed on it to grant piece-meal assistance, first to Great Britain and then to Greece and Turkey. Nevertheless, foreign affairs were going from bad to worse. Britain was about to make its experiment with sterling convertibility, an experiment foredoomed to failure; her military expenditures in Germany were far heavier than they had been in Greece; and she had commitments in Palestine that would certainly be easier to discard than those in India. The situation in Germany was becoming critical. Communist parties were making open and rapid gains in political strength in Western Europe. Something had to be done, and done quickly.

I was in Europe when the Marshall program was announced. The results were electrifying. Yet it was not possible for me to forget for a minute that this proposal too had been made under the pressure of events; that it could not become a real program for many months; and that the favorable first response in European countries was no more than should have been expected, since they had everything to gain and nothing to lose.

Problems Ahead

I believe most of us know just about what conditions in Europe are like.

Replacement of capital equipment since the war has been limited mainly to a few categories and has not prevented a further deterioration of plant. Many business organizations are still demoralized, their key men lost. The food situation is serious but un-

(Continued on page 21)

*An address by Mr. Zelomek before Commonwealth Club of San Francisco, San Francisco, Cal., Nov. 28, 1947.

Benton & Nicholas Admit

Benton & Nicholas, 11 Wall Street, New York City, members of the New York Stock Exchange, will admit Herbert M. Dreyfus, member of the Exchange, to partnership on Jan. 1. Mr. Dreyfus has been active as an individual floor broker.

SEC Announces Revised Proxy Rules

Rules become effective Dec. 18, but until Feb. 15, 1948, persons soliciting proxies may use either old or new rules.

The Securities and Exchange Commission announced on Dec. 17 that it has adopted revised proxy rules under the Securities Exchange Act of 1934. The revised rules are made effective Dec. 18, 1947, but it will be optional with persons making a solicitation to use either the old or the new rules with respect to any solicitation commenced prior to Feb. 15, 1948.

The response to the Commission's invitation for comments on the revision was very generous and the comments and suggestions received were, as a whole, most constructive and helpful to the Commission in the preparation of the final draft of the rules. While the rules as adopted are substantially along the lines of the preliminary draft sent out for comment, the final draft represents a number of changes as a result of the comments and as a result of further study of the draft by the Commission's staff.

The Commission did not adopt the revised definition of the term "associate" as contained in the preliminary draft sent out for comment, but retained the definition of that term as contained in the rules heretofore in effect.

The new rules restrict even further than the preliminary draft the amount of information called for as to remuneration. The preliminary draft sent out for comment called for individual remuneration of each of the five highest-paid officers of the issuer. The final revision reduces this requirement to the three highest-paid officers of the issuer.

The revised rules require that follow-up material be filed in advance of its transmission to security holders but this requirement does not apply to copies of replies to inquiries from security holders requesting further information or to copies of communications which do no more than request that forms of proxy theretofore solicited be signed and returned.

The new rules require that where the solicitation is made by personal solicitation copies of all written instructions or other material which discusses or reviews, or comments upon the merits of any matter to be acted upon and which is furnished to the persons making the solicitation shall be filed with the Commission five days prior to the date it is furnished to such individuals.

The rule which requires the mailing of communications for security holders has been clarified so as to indicate the circumstances under which the management of an issuer is required to mail solicitation material so that it will reach certain beneficial owners of securities of the class being solicited. The revised rule also gives the management the option of furnishing the security holder with a reasonably current list of security holders in lieu of mailing his material for him.

The rule which requires the management to include a security holder's proposal in its proxy material has been revised to require the security holder to furnish the text of his proposal and the text of his 100-word statement to the management at the time he gives notice to the management of his intention to make the proposal at the meeting.

The preliminary draft which was circulated for comment contained a requirement for showing the per-share cost of bonus and profit sharing plans and of pension and retirement plans. After further consideration this requirement has been deleted with respect to both types of plans.

Because of the nearness of the "proxy season" copies of the new rules will be mailed to each issuer to which the rules may apply. Other persons desiring copies of the rules may obtain them within a few days either from the principal office of the Commission at Philadelphia or from the Commission's regional offices.

N. Y. Curb Exchange Restores Trading in Italian Bonds

Following the resumption of trading on the New York Stock Exchange in listed Italian dollar bonds as announced in the "Chronicle" of Dec. 18 (page 24) the New York Curb Exchange announced on Dec. 20 that five Italian bond issues in which trading has been suspended since Dec. 12, 1941, will be reinstated to dealings on its trading floor when the recently filed registration statement covering three new bond issues of the Italian Republic and two of its agencies becomes effective under the Securities Act of 1933.

The three new issues of Italian securities are to be offered in exchange for all of the old Italian bond issues presently outstanding in the United States.

The Curb Exchange issues in which trading will be resumed include Ercole Marelli Electric Manufacturing Company 25-year first mortgage sinking fund 6½% bonds, series A, due Nov. 1, 1953, with ticker symbol ERO. A; Isarco Hydro Electric Company first mortgage 25-year 7% sinking fund bonds due May 1, 1952, with ticker symbol IHY; Piedmont Hydro-Electric Company first mortgage and refunding 6½% sinking fund bonds, series A, due April 1, 1960, with ticker symbol PID. A; Terni-Societa per L'Industria e L'Elettricita first mortgage hydro-electric 6½% sinking fund bonds, series A, due Feb. 1, 1953, with ticker symbol TER. A; and United Electric Service Company external first mortgage sinking fund bonds, series A, 7%, due Dec. 1, 1956, with ticker symbol USY. A.

When reinstated to dealings, each of these five issues will be dealt in flat on the basis of two types of market.

First, the bonds may be dealt in with coupons, carrying the last coupon due in 1940 and all subsequent coupons. This class of trading in the bonds will be designated on the Curb ticker with the symbol WC after the regular symbol for the issue.

Second, the bonds may be dealt in ex-coupons, carrying the last coupon due in 1947 and all subsequent coupons. This class of trading will be indicated by the letters XC after the regular symbol for the issue.

Trading in these five issues of Italian bonds was suspended by the Curb Exchange shortly after the entry of the United States into the recent war, at a time when dealings in the securities of all Axis nations were halted on all American exchanges.

Jacques Coe & Co. to Admit F. Gutenstein

Ferdinand Gutenstein will become a partner in Jacques Coe & Co., 39 Broadway, New York City, members of the New York Stock Exchange, on Jan. 1. Mr. Gutenstein was a partner in Gutenstein & Lasdon, which is being dissolved.

Donald Gally to Be A. G. Becker V.-P.

Donald M. Gally

CHICAGO, ILL. — Donald M. Gally, formerly Vice-President and investment officer of Central Trust Company, Cincinnati, O., has been elected a Vice-President as of Jan. 1, 1948, of A. G. Becker & Co. Incorporated, investment bankers. He will be associated with the Chicago office of the firm.

Mr. Gally, in addition to directing the general investment program for trust funds administered by Central Trust Company, gained special recognition in the trust field for his work with common trust funds. Such funds, which are a relatively recent development in trust management, now authorized in various states, represent a participation by smaller trusts in a common investment fund affording diversification and other advantages not available under separate administration. Central Trust Company was the first company in Ohio to operate such a fund, and its successful experience under Mr. Gally's direction has been closely followed by trust company executives elsewhere.

Prior to his association with Central Trust Company Mr. Gally had managed the investment advisory department in the Cincinnati office of Diminick & Dominick and had been with the investment counselling firm of Haydock, Peabody and Lull, Cincinnati associate of Scudder, Stevens & Clark. He is a native of Brooklyn, educated at the University of Cincinnati and Babson Institute, and has been engaged in investment work throughout his business career.

Billett Named for NASD Chairman

WASHINGTON, D. C.—Nomination of L. Raymond Billett, Chicago, as Chairman of the Board of Governors of the National Association of Securities Dealers, Inc., was announced at the offices of the Association Dec. 19. Mr. Billett is a partner of the investment banking firm of Kebbon, McCormick & Co. Present Chairman of NASD is Herbert F. Boynton, of H. F. Boynton & Co., Inc., New York City.

Other officers nominated for 1948 follows: Vice Chairmen, Joseph L. Ryons, of Pacific Company of California, Los Angeles; Robert C. Kirchofer, of Kirchofer & Arnold, Inc., Raleigh, and Treasurer, W. Rex Cromwell, of Dallas Rupe & Son, Dallas. Wallace H. Fulton, Washington, was nominated Executive Director.

Election of officers will take place at a meeting of the Board of Governors Jan. 12-13 at New Orleans.

The nominating committee, all retiring Governors of the Association, follows: William K. Barclay, Jr., Stein Bros. & Boyce, Philadelphia; Irving D. Fish, Smith, Barney & Co., New York; Firmin D. Fusz, Jr., Fusz-Schmelzle & Co., St. Louis; B. Winthrop Pizzini, B. W. Pizzini & Co., Inc., New York; John B. Shober, Woolfolk, Huggins & Shobber, New Orleans; J. Robert Shuman, Shuman, Agnew & Co., San Francisco; and Burdick Simons, Sidlo, Simons, Roberts & Co., Denver.

The Same Old "Stuff"

"A carefully devised program of credit controls, plus continued rent controls, plus price ceilings and allocation controls on 60 to 100 key items, should, if vigorously administered, be adequate to halt inflation in the next few months. More sweeping controls over prices and wages should be made available now, but only for use as a last resort.

Chester Bowles

"Such a program will not enable us to avoid some economic readjustment. The price rises of the last 18 months have made that inevitable. But it should modify materially the impact of whatever trouble may lie ahead. If we fail to act we may be headed for a major economic disturbance."

—Chester Bowles in the New York "Times."

Such, of course, has been the essence of Mr. Bowles' philosophy from the first. It is the philosophy avowed by the President in 1946 (that is, prior to the elections), and it is the "ideology" so definitely rejected by the people in November of last year. It is likewise the type of reasoning so quickly and so fully abandoned by the President after the November hand had written on the wall.

The President apparently has again reversed himself. We doubt if the people have. Certainly, we hope not.

Kaehler Talks to Class at California University

President of San Francisco Stock Exchange reviews history of corporate form of organizations and describes operations of transactions on the Exchange.

Ronald E. Kaehler, President of the San Francisco Stock Exchange, was guest speaker on Dec. 15 before the Corporate Finance Class at the University of California, Berkeley, Cal.

In his address, Mr. Kaehler reviewed the history of the corporate form of organization and the increasing dispersion of corporate ownership. With this foundation, Mr. Kaehler explained the facilities provided by the Stock Exchange for the purchase and sale of the investments of stockholders. He pointed out that common shares of the corporations have no maturity and an investor buying common stock would be a permanent investor unless these shares were transferable. The advantages of the markets provided by the Stock Exchange were explained to the class as well as the complete operation of the Exchange.

Ronald E. Kaehler

In his address, Mr. Kaehler pointed out that during the past 100 years, the ownership of securities had increased at an extremely rapid rate and that today the large corporations have stockholders in every city and town in the United States and many stockholders in foreign countries.

With this background, he told the class that the stock exchanges of America provide a central market place where, through the vast wire systems of the member firms, orders to buy and sell are concentrated on the floor of the Exchange.

Mr. Kaehler then described the Floor operation by tracing an order placed by a member of the class through the brokerage office on to the Floor of the Exchange and back to the student.

He described briefly the form of organization under which stock exchanges are operated, the method of acquiring membership thereon and the privileges acquired through membership.

A short description was given to the class on the operation of the Clearing House and the methods by which the clearing sheets were prepared for the brokers.

At the conclusion of the address, 10 minutes were allowed for a question period which period was entirely consumed by the questions submitted by the students.

Atherton to Head Phila. Secs. Ass'n in '48

PHILADELPHIA, PA.—Dudley R. Atherton, Jr., of F. S. Moseley & Co., has been nominated for the office of President of the Philadelphia Securities Association by the association's nominating committee, to succeed William B. Ingersoll, of Stroud & Company, Inc. Traditionally nomination to office in the association is equivalent to election.

Other nominations announced by the committee are: Paul W. Bodine, Drexel & Co., Vice President; Newlin F. Davis, Jr., Kidder, Peabody & Co., Treasurer; and Harry L. Heffelfinger, Samuel K. Phillips & Co., Secretary.

For membership on the Board of Governors to serve for three years the following have been nominated: Dudley R. Atherton, Jr., Paul W. Bodine, Harry L. Heffelfinger, and Sewell W. Hodge, of Provident Mutual Life Insurance Company.

The annual meeting and election of the association will be held Thursday, Jan. 8, 1948 at the Broadway Hotel.

Holmes & Sandman Admits

STOCKTON, CALIF.—Otto E. Sandman, formerly sole proprietor of Holmes & Sandman, 343 East Main Street, has admitted Philip D. Piltz to partnership in the firm. Mr. Piltz was formerly with Walston, Hoffman & Goodwin.

What's Needed For Better Selling Job?

By ROGER L. SLATER*
Vice-President, Scruggs-Vandervoort-Barney, Inc., St. Louis, Mo.

Mr. Slater, contending main job is not production but better distribution, warns retail sales are declining, measured in sales volume. Points out reasons to salesmen for doing a better job in 1948, and urges more thorough thinking and more cooperation by both salesmen and retailers in solving their joint problems.

Before entering into the main topic of "What shall salesmen do in 1948 to do a better selling job," I think it is best to set the stage with some of the economic conditions as they exist in retailing today. There is a definite trend toward large chain and vertical setups which tend to eliminate a sales organization. Therefore, any sales organization should look to the independent retailers of the country for their continued growth and earnings.


Roger L. Slater

In general, prosperity in this country depends entirely on our ability to distribute goods. American ingenuity has always found a way to produce what is needed whether it be for war or for normal consumer demands. Therefore, the country's productive capacity and resulting prosperity is limited solely by the ability to distribute goods. This makes your function as salesmen of paramount importance in the program of distribution and the role of the independent retailer of like importance.

A store merely acts as the purchasing agent for the people in the community which it serves, and it behooves you gentlemen to see that the store is supplied with ample merchandise at the time the consumer wants it, in quantities they are willing to take, at prices they are willing to pay, and under conditions that will leave a net profit to the retailer. The problems of the retailer today primarily exist because the flow of merchandise to the consumer does not live up to these four points.

A Better Selling Job

So now we come to the question of how you can do a better selling job in 1948 from our viewpoint, the retailers.

In your position as salesmen, it is necessary for you to look after the best interest of your particular manufacturer, your boss, and at the same time the best interest of the store buyers. You are faced with the problem of helping your manufacturer solve his problems of distributing goods as well as trying to complete plans that will soundly move the greatest amount of your merchandise from the retailer's shelves. Many times you will have seemingly opposing schools of thought which you, as the salesmen, will have to try to solve to the best interest of both parties.

In order to distribute goods successfully today, the one single point that I feel we all have to remember first is that we are trying to sell the customers, and we must look at all of our problems from the standpoint of the ultimate consumer and not from the standpoint of doing the job in the easiest manner possible because of our own mechanical problems. The consumer is not the least bit interested in our difficulties and wants no part of them—she merely wants the merchandise when she wants it and at the right price.

This brings up one paramount fault that I would say has been in existence for a considerable time and one which this group should do its utmost to correct. There have been entirely too many loose promises on the part of salesmen as to when and in what quantities merchandise would be received by a store. Too many times it has been based on wishful thinking on his part rather than on fact — probably motivated by the idea that if he was too truthful as to delivery date, etc., he would not receive the order. If you cannot ship the merchandise on time, it would be better not to take the order.

Late Deliveries

One of the reasons for the poor showing by some retailers, both in volume and profit in some departments during the past few months, has been due to these late deliveries. The stores lost potential volume and subsequently took markdowns on the merchandise because of the untimely shipments. Therefore, you cannot blame them for wanting to avoid a recurrence of this.

Another point that has become very carelessly handled in some instances by salesmen is the breaking of promises as to confined lines. In many cases, they apparently do not have sufficient "nerve" to tell the customer when there has been a change in their manufacturer's policy of distribution and let the customer find out himself that a competitor was also carrying the line. This may happen for many reasons — some of them out of the salesmen's control—but it is still his responsibility to properly advise his customer of changes in policy if he wants to keep his good will. The change of distributor alone may not correct the situation; perhaps a good honest discussion with the store management might correct a complaint and a better job would be done making a change unnecessary.

Reaction to Pricing

Another point that a salesmen does not have specific control over, except to relay back to his principals, is a store's reaction as to the pricing of merchandise. This subject is probably the most serious one in retailing today, and both the salesman and the manufacturer must realize that a department store is not just "crabbing" about the high pricing of merchandise, but merely trying to reflect the customer's reaction as they get it over the counter. Their constant talking about the pricing of merchandise does not mean that the retailer is trying to "chisel" on prices now, which criticism was a fair indictment of their conduct during certain periods of history.

The facts are, gentlemen, that every department in any store where the average sale has risen due to highly inflated prices, the transactions have fallen off at a much faster rate than the increased prices can compensate for with the net result that the retailer has less dollar volume in that classification. Even more important than this, he is servicing less people in his community, and **traffic through a store is its life blood.** We have heard hundreds of stories from manufacturers that it costs X dollars to make the goods; labor is higher, raw materials higher, which may be very true, but if in so doing the item is priced at a level which will not sell or at least not sell in sufficient quantities, it does not warrant their continuing the manufacture of the item or the retailer carrying it. Therefore, ways and means must be found to make the item at a satisfactory price to the consumer, or someone else will figure out a way to satisfy the consumer's need at the right price. I know that you as the salesman for the manufacturer cannot produce merchandise, nor determine the price levels, but it is your responsibility to carry the story back to the manufacturer and present the case fairly. In most instances you will find he welcomes any and all comments you might give him as to what changes must be made to better satisfy the ultimate consumer. Also, you are the one person in the best position to do this.

Re-educating Retail Personnel

Another of the biggest problems confronting the retailers today is that of re-educating its personnel Whether or not you realize it, the average store, through no particular fault of its own, has had many changes during the war period in its buying staff, not to say anything of the changes at the salespeople level. This "new" buying personnel is not familiar with operating under a so-called buyer's market as contrasted with a seller's market. It is within your power to pass on to these people a lot of very vital information that can be used in furthering the sale of your products. Every product in your line has definite reasons for its being, and these reasons are best known by you, and these selling points should be passed on to the buyer of the merchandise. This information can then be given to the people who meet the ultimate consumer daily and will give them a knowledge and a desire to sell more of your merchandise. Also, you gentlemen circulate all through the country and often pick up a tremendous number of successful promotional ideas. These too can be passed on so that the buyer can arrange for a better advertising and display presentation.

A criticism of salesmen, and one I think is fair in many instances, is that they do too much "dropping in." The average buyer wants to be courteous and cooperative with the salesmen, but he must realize that a buyer has many duties and usually a rather set routine as well as many deadlines to meet in the course of a day's work. Therefore, it is almost impossible for him to drop everything in order to devote the time necessary to adequately study and look at a line. Therefore, a salesman should let a buyer know when he expects to be in town and attempt to make an appointment, so that a buyer will have ample time to work with him. The natural reaction today to a rush acceptance of an order on the part of the buyer is to say "NO" which certainly is not conducive to better business for you gentlemen, or for a store.

In conclusion, it appears that the main job for all of us in 1948, and I mean both the salesman and the retailer, is to do a more thorough thinking through of our joint problems and by working together, there will be no reason why there should be any letting down in your and our phase of merchandise distribution for the next year.

*A talk by Mr. Slater before the National Association of Women's and Children's Apparel Convention, St. Louis, Mo., Dec. 15, 1947.

Otis & Co. Concludes Brown & Bigelow Financing

A tribute to the financial self-sufficiency of the Middle West was voiced by Ernest C. Peterson, Vice-President and Treasurer of Brown & Bigelow of St. Paul, Minn., who was in Cleveland to accept a check for $8,409,476.70 from Otis & Co. as sole underwriter of 1,038,207 shares of his company's common stock. Otis & Co. was represented by Lyman G. Smith, Secretary-Treasurer.

"We are delighted," Mr. Peterson said, "to find that a common stock offering of the size of our can be handled by Mid-West bankers alone. It speaks well for the progress interior bankers are making in their campaign to create an independent financial center outside of New York City."

The Brown & Bigelow transaction, which involves one of the largest of recent common stock offerings, was cleared at The Cleveland Trust Co., which has been appointed co-transfer agent with First Trust Co. of St. Paul for the stock. The National City Bank of Cleveland is serving as co-registrar with the First National Bank of St. Paul. Oppenheimer, Hodgson, Brown, Donnelly and Baer of St. Paul is counsel for Brown & Bigelow, represented by William H. Oppenheimer and Robert F. Leach. Otis & Co.'s counsel is Jones, Day, Cockley & Reavis of Cleveland, represented by Carter Kissell and Carl C. Tucker.

Brown & Bigelow is the largest manufacturer of specialty advertising, sales this year running over $34,000,000. It produces over 500 different items which are imprinted with the purchaser's name and advertising message for distribution to customers and prospects.

The company has about 5,600 employees and 180,000 customers. Its largest selling item is calendars with reproductions of pictures by such well-known artists as Norman Rockwell, Maxfield Parrish and Robert L. Ripley.

Rumored World Bank Loans

WASHINGTON, Dec. 23 (Special to the Chronicle).—The World Bank is expected soon to make a number of small loans, thus using up about half of its remaining funds, said to be $480,000,000. Chile will probably get about half of the $40,000,000 it has applied for. Iran is likely to get a fraction of the $250,000,000 for which it applied many months ago; this to be used for irrigation and similar agricultural purposes. Czechoslovakia, which reduced its original application for $350,000,000 to $192,000 000, to be spread over a three-year period, probably will get between $25,000,000 and $50,000,000. Poland also is expected to get at least a token loan, to show that the Bank is international in nature. Mexico and Brazil may get something later. Italy does not seem to qualify very well for an early loan.

No major World Bank loan to any of the 16 Marshall Plan countries is likely before the Marshall Plan "jells" more.

Atkinson Named for S. F. Exch. Chairman

SAN FRANCISCO, CALIF. — Howard J. Greene, Chairman of the Nominating Committee of the San Francisco Stock Exchange has announced that Douglas G. Atkinson of Dean Witter & Co. had been nominated for Chairman of the Board. Nominations for the Board of Governors are: Richard P. Gross of Stone & Youngberg; Arthur R. Mejia of Davies & Mejia and V. C. Walston of Walston, Hoffman & Goodwin. Mr. Walston is now a member of the Board.

The annual meeting and election of officers of the Exchange will be held on Jan. 14, 1948.

Millican & Co. Formed

MONTCLAIR, N. J.—William R. Millican is engaging in the securities business under the name of Millican & Co. from offices at 50 Church Street. He was previously with Geo. K. Weston.

To Be Schoellkopf & Co.

BUFFALO, N. Y. — William Schoellkopf & Co. will be admitted to partnership in the New York Stock Exchange firm of Fred Schoellkopf & Co., 70 Niagara Street, on Jan. 1 and the firm name will be changed to Schoellkopf & Co. He was formerly a partner in Doolittle, Schoellkopf & Co.

To Manage Chicago Office Of Bank of Montreal

Lawrence E. Tritschler, since 1942 Assistant Manager of the Bank of Montreal's Edmonton, Alta., main branch, has been appointed manager of the bank's office in Chicago. Mr. Tritschler succeeds Albert St. C. Nichol who has been appointed second agent of the bank in New York.

Roy Jackson, Inc., in NYC

Roy Jackson, Inc. is engaging in a securities business from offices at 512 Fifth Avenue, New York City.

United States and World Crisis

(Continued from page 18)

even, shortages being concentrated mainly in the city; politically weak governments do not dare to be too tough in commandeering food supplies from the peasants. Inflation has not been stopped and currencies are badly overvalued.

Many of the governments now running Western European countries will probably be out of office within the near future. The Harriman Committee made plain its doubts that recovery would get very far unless currencies were devalued first. To set the stage for devaluation, however, governments are forced to retrench. They must cut their spending, eliminating subsidies and the inflationary issue of new currency. Many of them may be too weak to carry out these strong actions.

Another uncertainty involves the future status of Germany. Germany was devastated by the war and split up into occupational zones. Geographically, however, it is still the center of Europe and its economic and political potentials are great. Most experts believe that the revival of Western Europe requires the revival of Western Germany's industries. How to accomplish this without running the danger of future German aggression, and how to satisfy Germany's neighbors that Germany will be revived just enough but not too much, is one of the nice political problems of the day.

Official View

The President's Committee on Foreign Aid was very realistic about the outlook. It recommended appropriations of a little less than $6 billion for the first year. But it said in so many words that spending this money would be entirely futile unless certain things were done. It practically named chapter and verse, pointing out conditions here and there throughout Europe that guaranteed the failure of the entire Marshall Program unless they could be eliminated.

With regard to Germany, for example, it was pointed out that an orderly and efficient administration was essential. There must be a unified currency and price system. Pressure on the military government to economize in its dealings with other countries must be eased, since the chief problem is to revive mining and manufacturing in Northwestern Germany and to restore trade contacts with the outside world. Finally, it was pointed out as being "clear to all observers" that German life cannot be restored without the establishment of some form of German government.

So much for the problems of reconstruction. With all the help in the world, it will be difficult to solve them. But we won't have all the help in the world. We shall meet active opposition from Russia.

Russia Has Some Advantages

Russia is weak economically. But it is always easier to destroy than to rebuild; to oppose reconstruction than to reconstruct. The economic pressures, the political instability and the decline of morale that make the task of the United States so difficult make it easier for Moscow to oppose, and increase the chance that this opposition will be successful.

Anyone who is impressed by rumors of imminent war should perhaps stop for a moment and visualize how much Russia can gain merely by defeating the Marshall Program. If this program does not succeed in stabilizing Western Europe, there is little doubt that we will be blamed for it. We will have spent huge sums, but unless trade between Western and Eastern Europe can be restored or a substitute created, the economic problem will not have been solved. The political structure in Western European countries will remain weak, while Russia's positions in Central and Eastern Europe will be strongly held. The United States would then be held responsible for the misery in which the masses of Western Europe would continue to live.

Communist parties in Western Europe have lost ground. But it seems quite plain that Russia has a "master plan" for Europe that visualizes the defeat of the Marshall program. For example:

Most of the larger industrial, commercial and financial institutions in Hungary, Romania, Bulgaria, and Germany had been organized as Russian-owned or controlled stock companies. These commercial establishments, thus organized, obviously do not fit into the Russian economy. They will have a value to Russia **only** if these countries become trading partners in a new European economy. If and when the day comes that the Marshall program has failed to solve Europe's problems on the Western side of the iron curtain, Russia will be ready to raise the curtain and resume trade. Political penetration would follow, rather than precede, commercial penetration.

Economic Effects

However, let's forget about the long-term difficulties for the moment. Whatever the final outcome, at least we know a start is going to be made, and that this will have some effects on the domestic economy.

I believe, however, that there has been a serious tendency to overestimate these effects. It is always hard to separate psychological from fundamental developments because there are times when a certain psychology will produce an actual effect; and there are other times without number when an economic change will produce a certain psychology.

For the moment, however, let us stick to actual values. I can think of no better statement than that by the Harriman Committee, that exports would continue to decline from current levels even if Congress appropriated the full amount requested by the Committee. It is pretty plain that this amount will be an upper limit, so I believe there is no reason to doubt what every official connected with the program has consistently pointed out, that the declining trend of United States' exports is not yet ended.

The President's advisers nevertheless described certain inflationary dangers. These come through the impact of the program on special items such as food and steel. Their reasoning is that advances in food prices will stimulate new wage demands; that in the steel industry, at least, these will probably be granted since they could be passed on in price advances; and that this will set the whole tone for another circle of wage-price advances.

That is certainly the way things have worked out during the past two years. We all know, however, that this type of spiral cannot continue indefinitely. As many officials have pointed out, inflation is to be feared not so much because prices advance while the inflation continues as because prices fall so rapidly when the inflation ends.

Actually, it does not seem to me that there is very much risk of a runaway inflation at this point. There may be some further gains in wholesale price averages; but these seem likely to be small and probably short lived. Price advances have already caused a declining trend of unit demand for many items. Many new items will join this group with any further advance.

A downward trend of unit demand should be reflected within a short time by a similar decline in production. This is a different situation than existed two years ago or even a year ago. In 1948 any further wage advances are far more likely to be offset—or more than offset—by reduced employment than was the case in either 1946 or 1947.

What About the Business Outlook?

This is a highly legitimate question. We are interested primarily in the United States and the world crisis. What happens to business in the United States, however, will be a very vital factor in the world crisis. Furthermore, it will influence public opinion in this country, and thus have a direct bearing on our foreign policy.

I would like to answer this question about the business outlook by describing two extreme possibilities, neither of which seems to me to be likely.

On the one hand, runaway inflation, as I have pointed out above, does not seem to be in the cards despite all the present ballyhoo and propaganda.

On the other hand, a depression of the 1929-1932 type is not, in my opinion, in sight for a number of years. This view I shall not stop to defend beyond saying that there are still many demands at both the business and consumer level that have not yet been satisfied. Even though their full satisfaction may not be completed until there has been a downward price readjustment, I see no chance of going into a prolonged depression.

There is, of course, a lot of room between these two extremes. Business might advance gradually during 1948; it might level off; or there might be a fairly sharp but temporary decline.

In my opinion, the most practical approach to business planning is to expect the latter. Any of you who have any contact with the ultimate public knows that it is badly squeezed. Any of you who have had an opportunity to observe current trends in production and distribution know that a great many businessmen could do a better and more efficient job if conditions were a little more competitive. Any of you who have had to deal with labor are aware of the fact that efficiency would probably be somewhat higher if there were more competition in the labor market.

It seems very doubtful to me that prosperity can continue indefinitely on its present foundation of distorted prices. It is my candid opinion that we would all be better off after there has been some sort of readjustment in production and wholesale price to a sounder basis.

You may ask me how prices can come down when world inflation is still continuing and when wage rates and material prices are so high in the United States.

Let us consider the domestic factor first. Material costs will move with material prices, and during any general readjustment these would be downward. It is commonly believed that wage rates would not decline. I have already run into cases, however, where a factory, after a shutdown, opened up under much more efficient operating conditions than it had enjoyed before. Nominally, there was no decline in wage rates; actually, there was a sharp decline in labor costs.

With regard to inflation abroad, I do not believe frankly that there will be a sharp decline in prices in the United States without this being accompanied by a decline abroad. Actually, the European Recovery Program may help to bring this about. It will maintain a flow of supplies to Europe. Furthermore, it will cause retrenchment and deflationary policies by many governments on the Continent. It will prepare the way for currency stabilization, which implies sharp devaluations. Many of us may have forgotten, during the long war years of restricted trade, that foreign prices impart their influence on the domestic economy only through the mechanism of currency exchange.

Conclusions

Let me sum up briefly by pointing out that the United States is bound to exercise world influence whether it wants to or not. This is true whether the United States does something or whether it does nothing.

The Marshall Plan, which has now evolved into the European Recovery Program, is better in many respects than previous blueprints since, (1) it looks at Europe as a whole, (2) it goes much farther in recognizing that economic and political developments are inseparable, and (3) in these and some other respects it is more realistic.

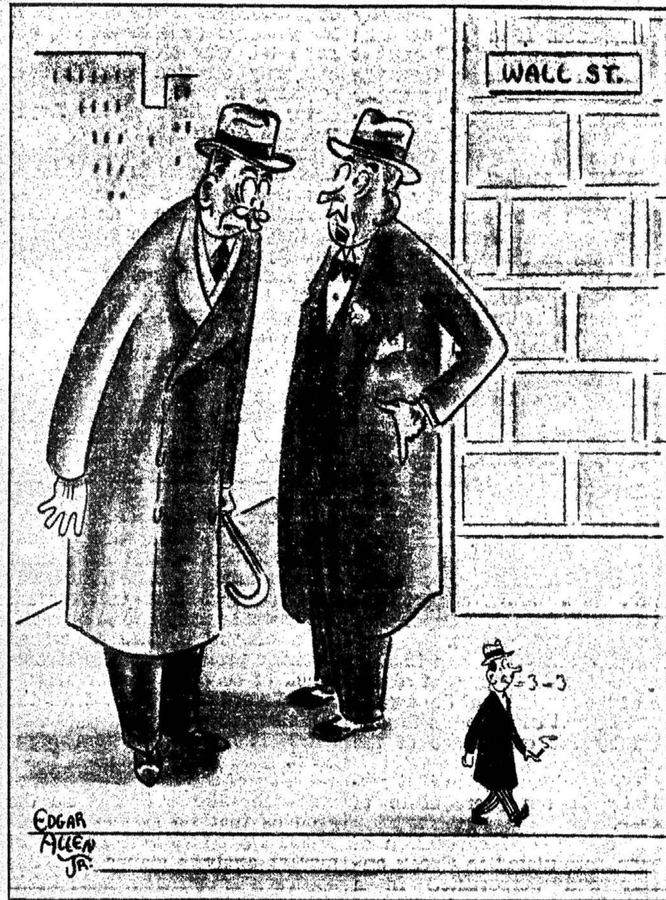
But it also has its faults. It too originated in an emergency and was announced under the pressure of immediate circumstances. As with other programs in the past, this one is also being presented as a long term solution.

Will the European Recovery Program actually achieve economic and political stabilization in Western Europe?

I believe it would be a mistake to seek an answer to this question at the moment. We know that it is easier to oppose than to organize, and that Russia will be in opposition. We know that the test of the program will come not when it is voted, but when it is applied.

However—and I believe this is extremely important—our present policies **will** unquestionably alleviate suffering and help to reduce the intensity of new crises that develop this winter and next spring. If this seems to be a small gain at a large cost, remember this: Is it true that by accomplishing this much we do not guarantee a long term success; but by not accomplishing at least this much, we would practically guarantee a long term failure.

BUSINESS BUZZ



"He's a Short-Seller!"

New York Stock Exchange Weekly Firm Changes

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

Transfer of the Exchange membership of Jack J. Dreyfus, Jr. to David H. Annan will be considered by the Exchange on Dec. 30. It is understood that Mr. Annan will act as an individual floor broker.

Transfer of the Exchange membership of Warner D. Orvis to Clifford G. Doerle will be considered by the Exchange on Dec. 30; Mr. Doerle is to become a partner in Orvis Bros. & Co.

Transfer of the Exchange membership of the late Howard P. Armstrong to Philip F. MacGuire will be considered on Dec. 30; it is understood that Mr. MacGuire will act as an individual floor broker.

Transfer of the Exchange membership of the late Charles A. Heidel to Hugh M. Adams will be considered on Dec. 30. Mr. Adams will act as an odd lot broker.

Nathaniel P. Hill, limited partner in Cohu & Torrey will become both a general and limited partner effective Jan. 2.

David H. Sulzberger, general partner in Hamershlag, Borg & Co., will become a limited partner as of Jan. 1.

Harold C. Strong, general partner in Hemphill, Noyes & Co., will become a limited partner, effective Jan. 1.

Walter J. Clayton, member of the Exchange will retire from partnership in Carlisle & Jacquelin on Dec. 31.

Alfred E. Hamill will withdraw from partnership in Goldman, Sachs & Co. on Dec. 31.

Alphonse A. Shelare, Jr., member of the Exchange, will retire from partnership in Hirsch & Co. on Dec. 31.

Charles W. Cox, member of the Exchange and a limited partner in Robert Winthrop & Co. will withdraw from the firm on Dec. 31.

Charles Clark & Co. will dissolve Dec. 31.

Scientific Basis of Internal Stock Market Analysis

(Continued from page 4)

ber of cases in which it actually has happened. If in "N" cases in which the conditions "C" exist it happens in "pN" cases, then the probability of it happening under these conditions is "p." For example, the probability that there will be a storm, given that the barometer is falling, is furnished by the relative frequency with which falling barometers have presaged storms. We all use past experiences in this way for predicting the future—in the smallest details of daily life, such as our expectation that the sun will rise tomorrow morning—to the most intricate work in physics and chemistry.

Mr. May doesn't seem to realize that the Value approach rests on the Frequency Theory of Probability just as does the approach which he attacks. Insofar as his arguments rest on this misconception, they are condemnations of all scientific method. The comparative validity of methods has to be decided on **other** grounds; not on the general fact that prediction is rooted in the experience of the past and present.

Market analysis is primarily concerned with the present condition of the market, but the significance of that condition is illuminated by the experience of the past.

(c) The misconception that certainty is the prerequisite of science.

The classical conception of science, formulated in Greek antiquity and perpetuated in a powerful and respected intellectual tradition, was modeled upon the ideal of a completely demonstrable and absolutely indubitable science, such as Euclidean geometry was then believed to be. This view relegated the variable, the changing, the probable to the realm of mere belief and opinion. The man-in-the-street notion of science frequently follows this tradition even today.

Certainty, in its strict sense, is properly applicable only to the fields of definition and to internal logical consistency; only to logic and mathematics. As we have observed concerning the Frequency Theory of Probability, our expectations are properly based on statistical regularities. We accept statistical probabilities every hour without thinking about their maturations, and that their maturation is not certain. An appreciation of the proper spheres of certainty and probability is basic in modern science.

Even in one of the most exact sciences, astronomy, its great degree of precision in the calculation of movements of celestial bodies was made possible only by the physical accident of the predominance of the sun in our planetary system. When the bodies in motion exceed a limited number, their mutual gravitational influences make computations practically impossible. It is only the overpowering gravitational force of the sun that made the influences of the other celestial bodies relatively inconsequential, and this brought the probabilities of the calculations of the astronomers almost within reach of certainty.

The economists, being less fortunate in this respect, have to deal with quantities whose mutual interactions stand in more balanced relationship, making inevitable a much wider margin of error.

Thus, in economics, we are dealing not with certainties or seeming certainties, but with probabilities. The doctrine that knowledge of matters of fact is only **probable** is one of the central theses of contemporary scientific method. On any **one** application of a principle, the conclusion may be false although the premises are true. But the inferential value of a leading principle depends upon the frequency with which it leads, as a matter of fact, to true conclusions from true premises. A margin of error is inevitable, but not fatal. Our efforts should be primarily directed towards ever reducing it.

(d) The fallacy of the Argumentum Ad Hominem.

Graham & Dodd, and May attack market analysis by indicating that there exist some bad practitioners. This is an instance of the classical fallacy. The invalidity of a method is not necessarily proven by pointing to the errors or weaknesses of individuals who follow or claim to follow the method.

Would these defenders of the "Value" approach entrust their funds to just anyone who uses the "Value" approach? Wall Street is full of such claimants. It is a mere platitude that there are malpractitioners in all the arts and sciences.

However, just as medical quacks don't bring the Mayo Clinic into disrepute, so the inept handling of market data by some individuals does not invalidate the Internal Evidence approach as a method. Tests of validity are concerned with the proper scientific formulation of concepts and their empirical verification, not with the fallibility of people.

(e) The closed system argument.

Critics of the Internal Evidence approach often reject it on the grounds that no system is foolproof. No responsible student of market analysis claims that this approach is sufficient unto itself. He considers it to be one of the tools that should be used in arriving at investment decisions. This criticism confuses "systems" with "tools." Market measurements should be viewed as tools rather than systems. A shovel is a useful tool for clearing snow. No one would reject it as a tool because we can't clear rain away with it. Tools are likely to be useful for limited and specific purposes. The worth of any tool is a matter for independent check.

(f) The inadmissiblity of technical terms.

May's suspicions are aroused because students of Internal Evidence use a terminology which is unfamiliar to him. It is one of the difficulties encountered in any form of scientific research that the need for precision and delimitation leads to the coining of terms. The intensive study of any specialized subject—whether it be chemistry, navigation, or statistics—necessarily develops a technical language of its own. Science must have recourse to formulae or conventional expressions which, in handy symbols, bring condensations of a mass of previously acquired knowledge. The use of such short-cuts averts endless repetitions of elementary fundamentals. Scientific progress would be impaired without the use of such technical terms. We wouldn't limit a physician to the use, in his professional work, of only terms which are immediately intelligible to his patients.

We must be wary of all vulgar appeals to the subterranean resentment that the man-in-the-street feels against any terms that he doesn't feel at home with. The pertinent question is not: are the terms unfamiliar? But rather: do these concepts need new names? Are they properly defined? Are they fruitful?

* * *

The criticisms of the Internal Evidence approach are grounded, as was shown above, on a number of basic misconceptions about the nature of the material dealt with, and the nature of general scientific procedures. In addition, however, there seems to run through them a constant thread of emotional animosity. This makes one wonder whether their inspiration should not be sought, partially at least, in the domain of psychology rather than logic.

It is a recurrent experience in the history of ideas that new concepts and methods have often aroused a bitter resentment on the part of even the competent proponents of the then prevailing schools of thought.

* * *

II
The Scientific Basis of Alternative Approaches

The fact that many able financial analysts challenge the very possibility of internal market analysis, raises the important question whether their alternative approaches in fact enjoy a superior scientific status.

A share of common stock, in both its legal and economic aspects, represents a share of ownership in an industrial, commercial or financial enterprise, organized in the form of a corporation. Therefore, the most direct and obvious approach to a study of its investment merits would SEEM to consist in applying to it the same principles of analysis that are used for the appraisal of a share of interest in a similar private enterprise. And, in actual practice, such is the technique most commonly followed by security analysts. They have devised for this purpose the concept of the "Intrinsic Value" of a share of common stock.

This approach gives the impression of logical consistency and seems to hold the promise of adequate practical application. It would appear that if an analyst can reliably determine the Value of a stock, he has the key to practical investment action. For it should suffice to compare this estimated Value with the market price of the share in question in order to determine the fact of its under- or over-valuation and to act accordingly. But the analyst would soon discover that the results of such an investment policy fall far short of his theoretical expectations.

There are many reasons to account for this divergence between the Value theory and practice. To begin with, the Graham and Dodd conceptual device of Intrinsic Value has itself a distinct weakness. This is perhaps not apparent at first glance but it vitiates the very basis of this version of the Value approach.

The factual statements of the sciences have a different character from other statements. The Operational Theory of Meaning provides a criterion of significance for them. It asserts that a **factual** statement is significant only if it can possibly be verified empirically. There must be conditions or operations which validate or disconfirm the statement. Factual statements are operationally meaningful only when they are testable by means of performable operations. Concepts which meet this test qualify for use in science. They are public, intelligible and repeatable. Concepts which do not meet this criterion of significance cannot be used unequivocally in scientific systems.

This criterion brings an increase in precision and clarity to the crucial task of scientific concept building. It protects us from using faulty foundation blocks (e. g. Newton's Absolute Time, Essences, Transcendental Forces, Basic Racial Instincts, etc.), which handicapped the sciences in centuries past. It aids us in building a dependable body of scientific knowledge made up of consistent and delimited deductions.

"Intrinsic Value" Concept

The concept of Intrinsic Value is the cornerstone of the Graham & Dodd approach to investment practice in common stocks. Upon it rests most of their edifice.

By designating this Value as "Intrinsic", they imply a meaning superior in some way to the conventional designations of value, a value in some way more real. One cannot claim a superior scientific usefulness for a concept and then fail to give it precision and operational designation. It must be so defined that anyone can use it scientifically and unambiguously. The scientific content of a concept is independent of the attendant images and associations it arouses in us. The notion of an Intrinsic Value may seem good. But the scientific meaning of a concept is the sum of its **verifiable** consequences rather than the conventional psychological reactions that it arouses in us because of its obvious good intentions or ambitions.

Is Intrinsic Value an operationally meaningful concept, or is it merely a loose device for directing attention to the **general** relevance of earning power, assets, capitalization, etc., in determining investment values?

What conditions would confirm or refute the Intrinsic Value theory? The concept of Intrinsic Value is so ambiguously stated that there is no clear cut possibility of confirmation or disconfirmation.

The proponents of the theory usually relate Intrinsic Value to earnings and assets. On page 20 of their book, Graham & Dodd say: Intrinsic Value is "that value which is justified by the facts, e.g., the assets, earnings, dividends, etc." This, of course, begs the question, for it is a very real problem to determine just what are the relevant facts that influence values.

Whatever it is, it is certainly not the same as Market Price. Yet on page 68, they point out that J. I. Case Co., in 1933 had an Intrinsic Value of from 30 to 130. That is, the Intrinsic Value ranged from 30 to 333% more than 30! This is certainly a much wider margin of error than is usual in scientific procedure.

Also, they concede that to "an important extent the market . . . determines the intrinsic value". (Page 68.)

Thus at different places in their book, Graham & Dodd distinguish Intrinsic Value as very **different** from Market Price, and elsewhere as closely **related** to it. At other points they say that: "intrinsic value is an elusive concept." (Page 20.) It is not as "definite and as determinable as the market price." (Page 21.)

They further belittle their concept of Intrinsic Value by saying: "The concept of 'earning power,' expressed as a definite figure, and the derived concept of intrinsic value, as something equally definite and ascertainable, cannot be safely accepted as a **general** premise of security analysis". (Page 21.) Mark that this pronouncement is made **not** by critics but by the very proponents of the Intrinsic Value method. This admission has, of course, profound implications. It invalidates their underlying assumption of building on a sound foundation.

Until the concept "Intrinsic Value" is made operationally meaningful, so as to meet the usual criterion of significance of the sciences, it cannot be accepted as a precise operational tool. When a foundation block in a system of ideas lacks definition, we do not have the delimitation of possible deductions that is essential in scientific activity.

If we take a selection of 40 stocks and divide the upside volume by the downside volume, we get a ratio figure. Any contention that this figure gives a strategic perspective on an underlying condition of the market can then be confirmed or disconfirmed by anyone who wants to follow the simple operations involved. The contention may be true or false, but it is clearly meaningful.

Such a procedure, such a simple public check, is not open to us in the case of Intrinsic Value. Since it is never precisely defined, since it is spoken of as many different and contrary things, such simple scientific manipulations and verifications are denied us—a fatal handicap in any scientific activity.

Divergence of Price from Value

Any concept of value is only part of the pricing relationship. There are many variables in the Stock Market Equation. And it is not easy to unravel their relative influences at any one time. No one of the variables has a constant relation to the other members of the Equation. "Value", no matter how defined, is only **one** of the members of the Equation.

It is true that a more scientific concept of value could be used. One has been developed in detail by John Burr Williams in his book, "The Theory of Investment Value," and finds the support of many economists. It defines the true investment value of a common stock as the present worth of all future dividends to be paid upon it. Yet even the application of this better conceptual tool cannot serve as an adequate practical guide for the stock investor. For despite the mathematical precision of the concept, this method cannot yield anything more than a mere estimate. When the alegebraic symbols used for arriving at true investment value are replaced by their economic and financial counterparts, we realize that the precision is illusory, for elements of unknown or at least uncertain future conditions are then introduced into the calculations. And even if one assumes that all the manifold practical difficulties of arriving at a true valuation figure of a common stock could be eliminated, the analyst would still find a frequent divergence of price from value.

This divergence is not accidental. Shares of corporate stock and shares of interest in a privately owned enterprise are not comparable economic entities. Just as the introduction of money and credit into the fundamentally barter basis of the economy completely alters the nature of the economic processes of production and distribution, likewise the introduction of the corporate form of ownership entirely transforms the nature of equity holdings. The corporate organization of business with its corollary of highly organized security markets injects into equity ownership the new and extremely important attribute of liquidity. This attribute immediately permeates it with a character which its privately owned counterpart does not possess.

Lord Keynes' Reflections

In his "General Theory of Employment, Interest and Money" (p. 151), Lord Keynes had the following to say on the subject:

"In the absence of security markets, there is no object in frequently attempting to revalue an investment to which we are committed. But the Stock Exchange revalues many investments every day and the revaluations give a frequent opportunity to the individual . . . to revise his commitments. It is as though a farmer, having tapped his barometer after breakfast, could decide to remove his capital from the farming business between 10 and 11 in the morning and reconsider whether he should return to it later in the week."

The most important practical consequence of the liquidity of common stock investments is the fact that it affords to equity holders an opportunity to attempt to exploit fully the periods of cyclical expansion of business and to sidestep the periods of contraction. The duration and amplitude of the cyclical movements are such that an experienced investor will not disregard them unless he gets the same thrill from riding up and down the steep hills of the cycle as he would on a roller coaster in Luna Park.

The main limitation of the Value approach as a guide to practical investment decisions for timing purchases and sales lies in the difficulties and uncertainties of the valuation process itself. In the words of Lord Keynes:

"The outstanding fact is the extreme precariousness of the basis of knowledge on which our estimates of prospective yield have to be made. Our knowledge of the factors which will govern the yield of an investment some years hence is usually very slight and often negligible. If we speak frankly, we have to admit that our basis of knowledge for estimating the yield 10 years hence of a railway, a copper mine, a textile factory, the goodwill of a patent medicine, an Atlantic liner, a building in the City of London, amounts to little and sometimes to nothing; or even five years hence." (Op. cit., pp. 149-50.)

Values and Average Prices

Even if reliable estimates of future yields were possible, value would remain essentially an average. To have any meaning, it must take into account good and bad times, brilliant earnings and distressing deficits. Being averages themselves, such values as we could compute, on the basis of our limited knowledge of the future, would govern **average**, but not actual, prices.

If we gave up all projections into the future, and confined ourselves to comparing **average** prices merely with current dividend payments or earnings capitalized at the current rate of interest, we would find between them a certain measure of concurrence. We would, of course, no longer be comparing prices with true values, since the latter are based upon capitalized dividend payments in perpetuity; or even with estimates of values based upon projections into the reasonably visible future. But the mere taking into account of their important constituents of today would still give us a good degree of relationship. Empirical statistical studies reveal a high degree of correlation between capitalized annual dividends and annual **averages** of stock prices. A good illustration of this type of statistical research may be found in Otto Donner's "Die Kursbildung am Aktienmarkt," published in 1934 by the Institute for Cyclical Research in Berlin.

But the concurrence that unquestionably prevails between average prices and values, or their capitalized important components, can itself hold true only for very long periods. Wide discrepancies would still occur even between such average figures, and could extend for weeks, months and sometimes years.

Investors Concerned With Fluctuating Market Prices

Investors, however, are concerned with actual prices, not with averages. And actual stock prices are essentially dynamic. Their fluctuations constitute one of the most sensitive time curves of the general business cycle.

Should we try to correlate values with the market's own historical pricing of a given stock, the solution of the practical problems of the investor will not be advanced by much. Such attempts to construct a "normal" market price of a stock are necessarily heavily weighted by past experience. Yet we know that it is one of the basic findings of scientific research that cyclical fluctuations have a highly individual character. What was true for the past on a fairly representative average basis may very well not come to pass in the future. The deviations of actual prices from their calculated "normals" could be just as drastic and could extend for as long as do their discrepancies with the values themselves.

While value analysis is useful, since without it investment thinking would proceed in a vacuum, its practical limitations are great. An analyst cannot do much more than appraise the assets of an enterprise and, after studying its past earnings record, project it into the safely discernible future. He can then apply certain differential quality factors distinguishing the company in question. In this way, he can obtain a rough idea of the going-concern value of the company he studies and of a fair price for the stock that represents it. Yet his most painstaking estimate will only infrequently coincide with the market price. A stock which looks undervalued by the market can well remain so for a long time to come; and when it appears overvalued, it might still soar to much greater heights. If an investor is guided solely by values, he may remain out of the market during the most profitable period of a rise, and reenter it long before the downtrend is reversed, suffering heavy losses. It is small comfort to him to know that, although the going price for a stock he bought is 50% below the price he paid, he has a "bargain" in terms of "Intrinsic Value."

Stock Prices and Business Conditions

Not only is it true that business cycles are individual in the extreme, but they are also highly complex phenomena.

"Let the reader imagine," say Burns and Mitchell in their great work "Measuring Business Cycles," "a thousand time series . . . and he will begin to face in their full complexity the timing relations among the cyclical movements of actual life. Such a table would show every month, or practically every month, some activities in an expanding phase, some beginning to recede from their peaks, some contracting, and some beginning to revive from their troughs." Thus it is hazardous, if not impossible, to try to determine cyclical turning points of stock prices by a study of the cyclical developments in other economic factors. None of the economic series studied by these scholars, nor by Harold T. Davis in his "Analysis of Economic Time Series," was found to have adequate forecasting value for the stock market—and they did the most elaborate jobs yet done.

This autonomous character of the cyclical fluctuations of stock prices, within the framework of the general business cycle, is one of the greatest mental hurdles to be taken by an investor if he is to reach an understanding of the real nature of his problem. Numerous occasions will arise when he will deceive rather than help himself in his attempt to reach conclusions as to the probable course of stock prices even from such closely related factors as earnings and dividends. The very sensitivity of stock prices to earnings makes the latter unsuitable for forecasting. Stock prices often discount earnings long before they are published, or even earned. The stock market itself is likely to be the barometer of earnings, its movements preceding rather than following theirs.

Still less can it be claimed that the curves of general business activity, or of its numerous components, and of stock prices, will necessarily coincide at all times. We all know that business may be prosperous while stock prices are falling, and that prices may be rising while business is poor. The late General Ayres, one of this country's most distinguished statisticians, concluded from a study for 1894-1924, that "in the main the stock movements that have taken place during periods of business depression were upward movements, while those that occurred when business was prosperous . . . were the declines of the market." It would thus be fair to say that good business means that a bear market will ensue, and that poor business presages a bull market.

In short, not much reliance can be placed on the trends of other economic factors for forecasting trends in stock prices. Nor, to repeat, can the investor often rely upon a comparison of prevailing levels of stock prices with their values. In view of the limitations of the traditional methods of analysis, it is clear that they need to be supplemented. Such also is the conclusion of Harold T. Davis (op. cit., p. 538):

"It would appear from the analysis of other parts of this volume, that no time series yet discovered *precedes* the stock-market averages. . . . Hence, with present data, it would seem that any theory of forecasting market action would *necessarily* be an *internal* theory." (Italics ours.)

* * *

III
The Scientific Basis of Market Analysis

But what is the scientific justification for the Internal Evidence approach?

(1) "There exist some permanent structures in economic time series and it is upon the recognition of these structures that success in forecasting must ultimately depend. The problem then resolves itself into the possibility of separating the random element from the structural component. . . .

"The success which we so much admire in physics was not won in a day, and there is no reason to believe that the economic problem will attain its own more perfect formulation with any less effort." (Davis, op. cit., pp. 500 and 580).

(2) Internal stock market analysis is concerned with the direct observation of price and volume relationships and their interactions. It is a study of the relative pressures exerted by the buyers and sellers of stocks. It assumes that measurements can be taken at stated intervals of time that will reveal internal conditions which are related to the formation and disintegration of market trends. Some of the data that have proven fruitful include prices, volume, breadth—in their various interrelationships; internal structural relations; internal balances.

The most fruitful use of such data is based on relations that have themselves a foundation in the facts of economic life. Certain complex economic conditions become visible in market data. For example, in our present day economy, it is a fact that in periods of business improvement, marginal companies benefit relatively more than well-established companies. This fact finds an expression in the relative action of the stocks of marginal and well-entrenched companies. We can observe when an expansion is under way, and when a contraction sets in.

The fact that different types of buyers concentrate on different types of stocks, and that the relative knowledge, experience, and emotional stability of these types differ, also gives valuable evidence.

(3) Both stock prices and volume are among the most sensitive components of the cycle. This has been established by the extensive and detailed studies of the National Bureau of Economic Research.

In "Measuring Business Cycles," Arthur F. Burns and Wesley C. Mitchell point out that in the 15 cycles between 1878 and 1933, share trading led the downturns in 14 cycles and the upturns in 11. In 19 business cycles from 1858 to 1933, stock prices have led general business 13 times on the downturns, and 14 times on the rises.

When volume and price changes are broken down for groups and types of stocks, even more fruitful anticipation is made possible.

(4) As the stock market has grown in complexity, as the number of participants has increased through the years, and as the stock market fits into a generally more complicated economic whole, there has developed at times a stock market cycle which is independent of the business cycle. On some important occasions, the market had fairly sustained moves which no study of business conditions or values can throw light on.

For periods shorter than those of the cyclical swings, the value of the service that can be rendered by internal market analysis is even greater. Frequently, such shorter movements have no counterpart at all in the state or outlook for business. Often their cause lies in changes in the psychological attitude of investors. When psychological influences dominate the market, economists and security analysts can provide little guidance. But a study of structural changes in the internal relations of the market can detect the probability of impending trend changes. For once we know how to isolate the elements out of which the trends are built, we are no longer helpless in determining the timing of their reversals. And while catching short term fluctuations in stock prices does not have for the investor the same vital interest as their cyclical turns, it should not be entirely ignored. The selection of an appropriate moment for the execution of a decision to buy or sell can mean large differences in dollars and cents.

(5) Fluctuations in stock prices frequently exert a marked influence on business. No matter what causes the movements, the effects upon business are clearly observable:

(a) Price levels make people "feel" richer or poorer, and affect their willingness to spend, or desire to save. Luxury sales are particularly sensitive to stock price changes.

(b) Rises in the prices of securities increase the borrowing power of stockholders, and thus additional money may be spent.

(c) The business man's psychology is influenced by stock price movements, and therefore the pace of his forward commitments.

(d) New financing is dependent upon the prevailing stock market atmosphere. Plant expansion, etc., can be vitally affected by stock market declines.

(6) Time and time again the stock market assays **unknown** factors, the effects of which are recorded in the market, although there is no **public** knowledge of them. It reflects the pressures of influences where the total consequences are not known by any one person or group. These factors may each induce some buying or selling in the stock market. The analyst tries to study the composite effects of all these influences, and to gauge the direction of the main trend.

Conditions prevailing in each cyclical phase tend to generate the next phase, revealing the existence of internal causation within each cycle. But knowledge of this fact does not help us to determine in advance the **particular** chain of circumstances that will bring about a turning point in any individual cycle, nor does it always allow us to locate its causes even when the **effects** are already visible.

Less than a year after the 1929 crash, Professor Irving Fisher, one of the leading economists of the day, wrote: "To my mind the problem of the stock market panic is, and will be to some extent for many years, an enigma." And only a few weeks ago, a well-known financial writer stated that, "even in retrospect, it was difficult to explain why the stock market broke in the fall of 1946."

(7) The material used in market analysis is **current**, whereas earnings and business data usually lag, sometimes seriously. All too often, adverse or favorable fundamental data reach the average participant in the market only after they have passed through so many hands that can take action, that they have become virtually useless for trading or even investment purposes.

(8) The raw material used in market analysis is more measureable, homogeneous, and precise than much of the data currently relied upon by Value analysis. There is considerable arbitrariness, for example, in the important item "Earnings" as it appears in financial statements. Accounting exigencies frequently alter this item from year to year, so that it is not strictly comparable. Several things keep earnings from being strictly comparable. The role of Inventory Profits varies. Sometimes it is hard for an accountant to distinguish a capital expenditure (which is not deductible from Earnings) from a current expenditure (which is). Some companies set aside Reserves equal to their taxes, while others set aside Reserves greater than their taxes. With taxes at 38%, this can be important.

In an inflationary period, Earnings are likely to be systematically overstated because the depreciation charges lose step with costs and prices. It is true, of course, that a competent analyst may be able to make the necessary adjustments, but the item, earnings *per se*, does not have the homogeneous character of, for example, the Closing Prices.

Deductions from vague concepts are too manifold for effective scientific use. Precisely delimited concepts or measurements give more controlled deductions. Measureable, operationally meaningful data is necessary. Mathematical formulation makes entities clearer and easier to handle.

(9) Internal Evidence often guides us to fruitful inquiry outside of the market. Market behavior of an unexpected type may emphasize the need to re-investigate the dominating influences.

Through our observations of these measurements, we can see the **expression**, within the market, of the forces that lift and depress prices. We can relate the market action to **exterior** influences and gain clues from that. We can check the market reaction to current news, earning statements, dividends, stock market system signals, etc.

It is always fruitful to try to trace the dominating influences at any time. Technical clues have to be studied against the background of their probable causes. Constant surveillance of the internal structure of the market can help here.

Analytical Methods

The above remarks have suggested the scope of the investigations open to market analysts. The methods to be used are those which are shared by them with the other sciences which have recourse to precise measurements. Modern statistical tools have been fashioned into valuable scientific instruments for economic analysis. The market analyst is no longer restricted to the primitive techniques of the early students of stock movements. Nor need he any longer consider merely the trend of stock prices themselves, but can effectively analyze the factors which are responsible for its originations and reversals. The modern student may well discard the old shopworn books and replace them with the works of Abraham Wald, Harold Hotelling, Harold T. Davis and R. A. Fisher.

A few months after the stock market crash late in 1929, the Board of Trustees of the 20th Century Fund voted to authorize the Director of the Fund to explore and report upon the advisability of a thorough study of stock market cycles, their relation to general business conditions and to national prosperity. The Fund's Board of Trustees consisted at that time of such nationally

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Scientific Basis of Internal Stock Market Analysis

(Continued from page 23)

known figures as Newton D. Baker, Owen D. Young, Edward A. Filene, as well as one of the most distinguished scholars in the field of the social sciences, Dean Roscoe Pound of the Harvard Law School. There seemed to be little question in their minds either of the importance or the feasibility of careful investigation of cyclical fluctuations of security values and of their autonomous character.

Acting under this authorization, the Director of the Fund retained Professor Arthur F. Burns, then of Rutgers University and now Director of Research of the National Bureau of Economic Research, to conduct a survey of the field. It might be mentioned in passing that in his present post Professor Burns succeeded the internationally honored scholar, Professor Wesley Clair Mitchell, who is the foremost living student and authority on business cycles. Professor Burns undertook the survey and submitted the same year a report which was published by the Fund under the title, "Stock Market Cycle Research." As a result of his reconnaissance of the possibility of research into the cyclical fluctuations of stock prices, Burns made a number of specific suggestions for further inquiry.

It was, of course, to be expected that in so difficult and complex a field, scientific progress would be slow and sporadic. Some progress, however, has been achieved. A number of individual workers have been engaged in research along the lines suggested by Professor Burns. Many of his recommendations and suggested methods are now part of the daily work of the market analysts applying scientific statistical methods. They have also in the course of their studies developed some new and promising avenues of additional statistical research into the fluctuations of stock prices. Even though a great deal remains to be done, the results have been in many cases quite rewarding and leave little doubt of additional future fulfillment. It is not surprising, perhaps, that since they pertain to a highly specialized field, the very existence of such studies and the possibilities that are being opened by them are not widely recognized by the general public. It is more to be regretted, however, that even on the part of some financial writers, whose professional interest should give them a clearer understanding of the subject, there is little real knowledge. Recent attacks that have been made, lumping together serious work and soothsaying, reveal the amount of ignorance and prejudice concerning the nature of the research which is being conducted in this field.

It should be finally noted that, while the market as a whole has broad cyclical movements, individual stocks nevertheless do not lose their special characteristics, and, against the background of the general mass movement of stocks, trace their own individual curves. It is in this field in particular that security and industry analysis can find their specific application in order to select the stronger and the weaker equities.

Summary

In this paper, we have examined the representative criticisms directed against the validity of market analysis and have found them wanting. We have been able to demonstrate that they flow from numerous misconceptions and fallacies about the nature of stock price phenomena and modern scientific techniques. We have also proven that the Intrinsic Value version of the value approach suffers from an inadequate formulation of its own central concept and, therefore, cannot be accepted for precise, unambiguous scientific use. Generally, estimates of value, derived from yields to come, are extremely precarious projections into the future. The value approach, moreover, fails to recognize the economic difference between a privately owned enterprise and a stock on an Exchange.

We have reviewed some other important alternative approaches to investment problems and have stressed the conclusion of the most authoritative scientific research that forecasting stock prices from the movements of other economic factors has proven deceptive. Finally, we have shown that the Internal Evidence approach rests on a solid scientific foundation. The facts that stock prices constitute an economic time series, and that their liquidity transforms the problems of equity ownership, recommend market analysis as an essential working tool for investment management.

This is a brief for the value of the study of Internal Evidence. It does not suggest the abandonment of all other approaches to investment problems. Their scope is so broad, and their nature is so difficult, that they offer a wide field in which the services of all sound methods and of all able students should find room for cooperation instead of wasting human energies in doctrinaire wars. Value analysis, economic analysis and market analysis are all part of the relevant processes of investment guidance. None is fully adequate by itself. Each has its own particular field of application in which its comparative advantage and usefulness are greatest.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made Dec. 17 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $45,215,000 1.357% consolidated debentures dated Jan. 2, 1948 and due Oct. 1, 1948. The issue was placed at par. The proceeds together with cash funds of $4,190,000 will be used to retire $49,405,000 of debentures due Jan. 2, 1948. As of Jan. 2, 1948 the total amount of debentures outstanding will be $349,845,000.

Paine, Webber to Admit

Paine, Webber, Jackson & Curtis, members of the New York Stock Exchange and other leading exchanges, will admit George M. Forrest to partnership in the firm on Jan. 1. Mr. Forrest will make his headquarters at the firm's Los Angeles office, 626 South Spring Street.

Also on Jan. 1 Charles Francis Adams, Jr., and Frank R. Hope, general partners, will become limited partners in the firm. William Paine LaCroix will retire from partnership on Dec. 31.

Mayer & Hart Admit

Mayer & Hart, 1 Wall Street, New York City, members of the New York Stock Exchange, will admit George Wrage to general partnership and Sadie Mayer and Elvira Lyon Scheuer to limited partnership on Jan. 1. Mr. Wrage will acquire the New York Stock Exchange membership of Walter T. Garden.

President Submits Plan for European Recovery

(Continued from page 6)

spread starvation and disease and to make a start toward economic recovery. In the first year and a half after V-E Day, the people of Western Europe, by their own diligent efforts and with the aid of the United States and other nations, made remarkable progress toward these objectives.

At the beginning of 1947, however, they were still short of the goal of economic recovery. Their difficulties were greatly increased during the present year, chiefly by a bitter winter followed by floods and droughts, which cut Western Europe's grain crop to the lowest figure in generations and hampered production of many other products.

Nevertheless, it was clear by last spring that Europe had achieved sufficient political and economic stability to make possible an over-all plan for recovery.

European recovery is essentially a problem for the nations of Europe. It was therefore apparent that it could not be solved, even with outside aid, unless the European nations themselves would find a joint solution and accept joint responsibility for its execution. Such a cooperative plan would serve to release the full productive resources of Europe and provide a proper basis for measuring the need and effectiveness of further aid from outside Europe, and in particular from the United States.

These considerations led to the suggestion by the Secretary of State on June 5, 1947, that further help from the United States should be given only after the countries of Europe had agreed upon their basic requirements and the steps which they would take in order to give proper effect to additional aid from us.

In response to this suggestion, representatives of 16 European nations assembled in Paris in July, at the invitation of the British and French Governments, to draw up a cooperative program of European recovery. They formed a Committee of European Economic Cooperation. The countries represented were: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom. Although Western Germany was not formally represented on the Committee, its requirements as well as its ability to contribute to European economic recovery were considered by the Committee.

The Recovery Program Proposed By the European Countries

The report of the European Committee was transmitted to the Government of the United States late in September. The report describes the present economic situation of Europe and the extent to which the participating countries can solve their problem by individual and joint efforts. After taking into account these recovery efforts, the report estimates the extent to which the 16 countries will be unable to pay for the imports they must have.

The report points out that the peoples of Western Europe depend for their support upon international trade. It has been possible for some 270 million people, occupying this relatively small area, to enjoy a good standard of living only by manufacturing imported raw materials and exporting the finished products to the rest of the world. They must also import foodstuffs in large volume, for there is not enough farm land in Western Europe to support its population even with intensive cultivation and with favorable weather. They cannot produce adequate amounts of cotton, oil and other raw materials. Unless these deficiencies are met by imports, the productive centers of Europe can function only at low efficiency, if at all.

In the past these necessary imports were paid for by exports from Europe, by the performance of services such as shipping and banking, and by income from capital investments abroad. All these elements of international trade were so badly disrupted by the war that the people of Western Europe have been unable to produce in their own countries, or to purchase elsewhere, the goods essential to their livelihood. Shortages of raw materials, productive capacity, and exportable commodities have set up vicious circles of increasing scarcities and lowered standards of living.

The economic recovery of Western European countries depends upon breaking through these vicious circles by increasing production to a point where exports and services can pay for the imports they must have to live. The basic problem in making Europe self-supporting is to increase European production.

The 16 nations presented in their report a recovery program designed to enable them, and Western Germany, to become economically self-supporting within a period of four years and thereafter to maintain a reasonable minimum standard of living for their people without special help from others. The program rests upon four basic points:

(1) A strong production effort by each of the participating countries.

(2) Creation of internal financial stability by each country.

(3) Maximum and continuing cooperation among the participating countries.

(4) A solution of the problem of the participating countries' trading deficit with the American continents, particularly by increasing European exports.

The nations represented on the European Committee agreed at Paris to do everything in their power to achieve these four aims. They agreed to take definite measures leading to financial, economic and monetary stability, the reduction of trade barriers, the removal of obstacles to the free movement of persons within Europe, and a joint effort to use their common resources to the best advantage.

These agreements are a source of great encouragement. When the representatives of 16 sovereign nations, with diverse peoples, histories and institutions, jointly determine to achieve closer economic ties among themselves and to break away from the self-defeating actions of narrow nationalism, the obstacles in the way of recovery appear less formidable.

The report takes into account the productive capacities of the participating nations and their ability to obtain supplies from other parts of the world. It also takes into account the possibilities of obtaining funds through the International Bank for Reconstruction and Development, through private investment, and in some instances by the sale of existing foreign assets. The participating countries recognized that some commodities, particularly food, will remain scarce for years to come, and the diet they have set as their goal for 1951 is less adequate in most cases than their pre-war diet. The report assumes that many countries will continue restrictions on the distribution of shortage items such as food, clothing and fuel.

When all these factors had been considered, the European Committee concluded that there will still be a requirement for large quantities of food, fuel, raw materials and capital equipment for which the financial resources of the participating countries will be inadequate. With successful execution of the European recovery program, this requirement will diminish in each of the four years ahead, and the Committee anticipated that by 1952 Europe could again meet its needs without special aid.

Appraisal of the European Problem

The problem of economic recovery in Western Europe is basically of the character described in the report of the 16 nations. A successful European recovery program will depend upon two essentials. The first is that each nation separately and all the nations together should take vigorous action to help themselves. The second essential is that sufficient outside aid should be made available to provide the margin of victory for the recovery program.

The necessary imports which the 16 countries cannot finance without assistance constitute only a small proportion, in terms of value, of their total national production—some 5% over the four years of the program. These imports, however, are of crucial importance in generating recovery. They represent the difference between ever-deepening stagnation and progressive improvement.

Most of the necessary outside aid, if it is to come at all, must come from the United States. It is a simple fact that we are the only nation with sufficient economic strength to bridge the temporary gap between minimum European needs and war-diminished European resources.

We expect that other countries which have it within their power will also give what assistance they can to Europe. Canada, for example, has been lending assistance to Europe fully as great in proportion to its capacity as that which we have given. We also expect that international institutions, particularly the International Bank, will provide such assistance as they can within their charters. But the fact remains—only the United States can provide the bulk of the aid needed by Europe over the next four years.

It is necessarily a complex and difficult task to determine the extent and nature of this aid.

In some respects, the situation has changed significantly since the report of the 16 countries was completed. Some of these changes have been unfavorable, including price increases in the United States and other countries where Europe makes purchases, a serious drought in Europe, and aggressive activities by communists and communist-inspired groups aimed directly at the prevention of European recovery.

There have also been favorable changes. In the last few months coal production in the Ruhr district of western Germany has increased from 230,000 tons a day to 290,000 tons a day. Similarly, coal production in the United Kingdom has risen markedly in recent weeks. Iron and steel production has correspondingly increased. Such increases in production, which lie at the heart of industrial recovery, are of far-reaching importance.

Further changes in the situation, now unpredictable, are to be expected as European recovery progresses.

All our plans and actions must be founded on the fact that the situation we are dealing with is flexible and not fixed, and we must be prepared to make adjustments whenever necessary.

Weather conditions will largely determine whether agricultural goals can be met.

Political events in Europe and in the rest of the world cannot be accurately foreseen. We must not be blind to the fact that the communists have announced determined opposition to any effort to help Europe get back on its feet. There will unquestionably be further incitements to strike, not for the purpose of redressing the legitimate grievances of particular groups, but for the purpose of bringing chaos in the hope that it will pave the way for totalitarian control.

On the other hand, if confidence and optimism are reestablished soon, the spark they provide can kindle united efforts to a degree which would substantially accelerate the progress of European recovery.

Despite these many imponderables, the dimensions of the necessary assistance by the United States can now be determined within reasonable limits. We can evaluate the probable success of a bold concept of assistance to the European economy. We can determine the principles upon which American aid should be based. We can estimate the probable magnitude of the assistance required and judge whether we can, safely and wisely, provide that assistance.

Extensive consideration has been given to these problems. Congressional committees and individual Members of the Congress have studied them at home and abroad during the recent Congressional recess. The report of the European nations has been carefully analyzed by officials of our government. Committees of the Executive Branch and a group of distinguished private citizens have given their best thought to the relationship between Europe's needs and our resources.

Program for United States Aid

In the light of all these factors, an integrated program for United States aid to European recovery has been prepared for submission to the Congress.

In developing this program, certain basic considerations have been kept in mind:

First, the program is designed to make genuine recovery possible within a definite period of time, and not merely to continue relief indefinitely.

Second, the program is designed to insure that the funds and goods which we furnish will be used most effectively for European recovery.

Third, the program is designed to minimize the financial cost to the United States, but at the same time to avoid imposing on the European countries crushing financial burdens which they could not carry in the long run.

Fourth, the program is designed with due regard for conserving the physical resources of the United States and minimizing the impact on our economy of furnishing aid to Europe.

Fifth, the program is designed to be consistent with other international relationships and responsibilities of the United States.

Sixth, the administration of the program is designed to carry out wisely and efficiently this great enterprise of our foreign policy.

I shall discuss each of these basic considerations in turn.

Recovery — Not Relief

The program is designed to assist the participating European countries in obtaining imports essential to genuine economic recovery which they cannot finance from their own resources. It is based on the expectation that with this assistance European recovery can be substantially completed in about four years.

The aid which will be required from the United States for the first 15 months—from April 1, 1948, to June 30, 1949—is now estimated at $6.8 billion.

These funds represent careful estimates of the cost of the goods and services which will be required during this period to start Europe on the road to genuine economic recovery. The European requirements as they were stated in the Paris report have been closely reviewed and scaled downward where they appeared to include non-essentials or where limited supplies will prevent their full satisfaction.

The requirements of the remaining three years of the program are more difficult to estimate now, but they are expected to decrease year by year as progress is made toward recovery. Obviously, price changes, weather and crop conditions and other unpredictable factors will influence the overall cost of our aid. Nevertheless, the inherent nature of this enterprise and the long-range planning necessary to put it into effect on both sides of the Atlantic require that this Government indicate its plans for the duration and the general magnitude of the program, without committing itself to specific amounts in future years. The best estimates we can now make indicate that appropriations of about $10.2 billion will be required for the last three years.

I recommend that legislation providing for United States aid in support of the European recovery program authorize the appropriation of $17 billion from April 1, 1948, to June 30, 1952. Appropriation for the period from April 1, 1948, to June 30, 1949, should be made in time for the program to be put into effect by April 1, 1948. Appropriations for the later years should be considered subsequently by the Congress on an annual basis.

The funds we make available will enable the countries of Europe to purchase goods which will achieve two purposes—to lift the standard of living in Europe closer to a decent level, and at the same time to enlarge European capacity for production. Our funds will enable them to import grain for current consumption, and fertilizer and agricultural machinery to increase their food production. They will import fuel for current use, and mining machinery to increase their coal output. In addition they will obtain raw materials, such as cotton, for current production, and some manufacturing and transportation equipment to increase their productive capacity.

The industrial goods we supply will be primarily to relieve critical shortages at a few strategic points which are now curtailing the great productive powers of Europe's industrial system.

The fundamental objective of further United States aid to European countries is to help them achieve economic self-support and to contribute their full share to a peaceful and prosperous world. Our aid must be adequate to this end. If we provide only half-hearted and half-way help, our efforts will be dissipated and the chances for political and economic stability in Europe are likely to be lost.

Insuring Proper Use of United States Aid

A second basic consideration with regard to this program is the means by which we can insure that our aid will be used to achieve its real purposes—that our goods and our dollars will contribute most effectively to European recovery. Appropriate agreements among the participating countries and with the United States are essential to this end.

At the Paris conference the European nations pledged themselves to take specific individual and cooperative actions to accomplish genuine recovery. While some modification or amplification of these pledges may prove desirable, mutual undertakings of this nature are essential. They will give unity of purpose and effective coordination to the endeavors of the peoples of the 16 nations.

In addition, each of the countries receiving aid will be expected to enter into an agreement with the United States affirming the pledges which it has given to the other participating countries, and making additional commitments.

Under these agreements, each country would pledge itself to take the following actions, except where they are inapplicable to the country concerned:

(1) To promote increased industrial and agricultural production in order to enable the participating country to become independent of abnormal outside economic assistance.

(2) To take financial and monetary measures necessary to stabilize its currency, establish or maintain a proper rate of exchange, and generally to restore or maintain confidence in its monetary system.

(3) To cooperate with other participating countries to reduce barriers to trade among themselves and with other countries, and to stimulate an increasing interchange of goods and services.

(4) To make efficient use, within the framework of a joint program for European recovery, of the resources of the participating country, and to take the necessary steps to assure efficient use in the interest of European economic recovery of all goods and services made available through United States aid.

(5) To stimulate the production of specified raw materials, as may be mutually agreed upon, and to facilitate the procurement of such raw materials by the United States for stockpiling purposes from the excess above the reasonable domestic usage and commercial export requirements of the source country.

(6) To deposit in a special account the local currency equivalent of aid furnished in the form of grants, to be used only in a manner mutually agreed between the two governments.

(7) To publish domestically and to furnish to the United States appropriate information concerning the use made of our aid and the progress made under the agreements with other participating countries and with the United States.

The United States will, of course, retain the right to determine whether aid to any country is to be continued if our previous assistance has not been used effectively.

Financial Arrangements

A third basic consideration in formulating the program of United States aid relates to the financial arrangements under which our aid is to be provided.

One of the problems in achieving the greatest benefit from United States aid is the extent to which funds should be made available in the form of grants as contrasted with loans. It is clear that we should require repayment to the extent that it is feasible and consistent with the objectives of the program, in order that no unnecessary burden be imposed upon the people of the United States. It is equally clear that we should not require repayment where it would impose paralyzing financial obligations on the people of Europe and thus defeat the basic purpose of making Europe self-supporting.

Recovery for Europe will not be achieved until its people are able to pay for their necessary imports with foreign exchange obtained through the export of goods and services. If they were to have additional burdens to bear in the form of interest and amortization payments in future years, they would have to plan for an even higher level of exports to meet these obligations. This would necessarily increase the requirements of the recovery program, and delay the achievement of economic stability.

It is also important that an increasing portion of the financial needs of Europe be met by dollar loans from the International Bank, and by the revival of private financing. This prospect would be seriously jeopardized if the United States, as part of the recovery program, were to impose all that the traffic will bear in the form of debt obligations.

I recommend that our aid should be extended partly in the form of grants and partly in the form of loans, depending primarily upon the capacity of each country to make repayments, and the effect of additional international debt upon the accomplishment of genuine recovery. No grants should be made to countries able to pay cash for all imports or to repay loans.

At a later date it may prove desirable to make available to some of the European countries special loans to assist them in attaining monetary stability. I am not now requesting authorization for such loans, since it is not possible at this time to determine when or to what extent such loans should be made.

As economic conditions in Europe improve and political conditions become more stable, private financing can be expected to play an increasingly important role. The recommended program of United States aid includes provisions to encourage private financing and investments.

Impact on the United States Economy

A fourth basic consideration is the effect of further aid for Europe upon the physical resources of the United States and upon our economy.

The essential import requirements of the 270 million people of Western Europe cover a wide range of products. Many of these requirements can be met by the United States and other countries without substantial difficulty. However, a number of the commodities which are most essential to European recovery are the same commodities for which there is an unsatisfied demand in the United States.

Sharing these commodities with the people of Europe will require some self-denial by the people of the United States. I believe that our people recognize the vital importance of our aid program and are prepared to share their goods to insure its success.

While the burden on our people should not be ignored or minimized, neither should it be exaggerated. The program of aid to Europe which I am recommending is well within our capacity to undertake.

Its total cost, though large, will be only about 5% of the cost of our effort in the recent war.

It will cost less than 3% of our national income during the life of the program.

As an investment toward the peace and security of the world and toward the realization of hope and confidence in a better way of life for the future, this cost is small indeed.

A committee under the chairmanship of the Secretary of the Interior was appointed last summer to study the effect of a foreign aid program upon the natural resources of our country. Its study has shown that our resources can safely meet the demands of a program such as I am now recommending. Such demands could not, however, be supplied indefinitely. Our program of aid to Europe recognizes this fact. Our exports to Europe will decrease during the succeeding years of the program as trade is revived along realistic patterns which will make available from other sources an increasing share of Europe's requirements.

Actually, our position with respect to some raw materials of which we have inadequate domestic resources will be improved since, under our program of aid to Europe, an increased amount of these materials will be made available to us.

During recent months the Council of Economic Advisers made an intensive study of the impact of foreign aid on our domestic economy. The Council concluded that a program of the size now contemplated is well within our productive capacity and need not produce a dangerous strain on our economy.

At the same time, a group of distinguished private citizens under the Chairmanship of the Secretary of Commerce considered the extent and nature of foreign aid which the United States can and should provide. The conclusion of this group was that a program of the scope I am recommending is a proper, wise and necessary use of United States resources.

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The interest of the United States will be served best by permitting the sale or temporary transfer of some of our war-built merchant ships to the European countries. Because of world steel shortages, the sale or temporary transfer of ships should be linked with a reduction or deferment of the projected shipbuilding schedules of the participating countries. These arrangements should be consistent with their long-range merchant marine requirements. They should also be consistent with our long-range objectives of maintaining an adequate merchant marine and shipbuilding industry for the United States.

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Relationship to Other International Questions

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I have already mentioned that the requirements and resources of Western Germany were included in the considerations of the 16 countries at Paris. Our program of United States aid also includes Western Germany.

The productive capacity of the highly industrialized areas of Western Germany can contribute substantially to the general cooperative effort required for European recovery. It is essential that this productive capacity be effectively utilized, and it is especially important that the coal production of the Ruhr continue to increase rapidly.

Every precaution must of course

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Scientific Basis of Internal Stock Market Analysis

(Continued from page 23)

known figures as Newton D. Baker, Owen D. Young, Edward A. Filene, as well as one of the most distinguished scholars in the field of the social sciences, Dean Roscoe Pound of the Harvard Law School. There seemed to be little question in their minds either of the importance or the feasibility of careful investigation of cyclical fluctuations of security values and of their autonomous character.

Acting under this authorization, the Director of the Fund retained Professor Arthur F. Burns, then of Rutgers University and now Director of Research of the National Bureau of Economic Research, to conduct a survey of the field. It might be mentioned in passing that in his present post Professor Burns succeeded the internationally honored scholar, Professor Wesley Clair Mitchell, who is the foremost living student and authority on business cycles. Professor Burns undertook the survey and submitted the same year a report which was published by the Fund under the title, "Stock Market Cycle Research." As a result of his reconnaissance of the possibility of research into the cyclical fluctuations of stock prices, Burns made a number of specific suggestions for further inquiry.

It was, of course, to be expected that in so difficult and complex a field, scientific progress would be slow and sporadic. Some progress, however, has been achieved. A number of individual workers have been engaged in research along the lines suggested by Professor Burns. Many of his recommendations and suggested methods are now part of the daily work of the market analysts applying scientific statistical methods. They have also in the course of their studies developed some new and promising avenues of additional statistical research into the fluctuations of stock prices. Even though a great deal remains to be done, the results have been in many cases quite rewarding and leave little doubt of additional future fulfillment. It is not surprising, perhaps, that since they pertain to a highly specialized field, the very existence of such studies and the possibilities that are being opened by them are not widely recognized by the general public. It is more to be regretted, however, that even on the part of some financial writers, whose professional interest should give them a clearer understanding of the subject, there is little real knowledge. Recent attacks that have been made, lumping together serious work and soothsaying, reveal the amount of ignorance and prejudice concerning the nature of the research which is being conducted in this field.

It should be finally noted that, while the market as a whole has broad cyclical movements, individual stocks nevertheless do not lose their special characteristics, and, against the background of the general mass movement of stocks, trace their own individual curves. It is in this field in particular that security and industry analysis can find their specific application in order to select the stronger and the weaker equities.

Summary

In this paper, we have examined the representative criticisms directed against the validity of market analysis and have found them wanting. We have been able to demonstrate that they flow from numerous misconceptions and fallacies about the nature of stock price phenomena and modern scientific techniques. We have also proven that the Intrinsic Value version of the value approach suffers from an inadequate formulation of its own central concept and, therefore, cannot be accepted for precise, unambiguous scientific use. Generally, estimates of value, derived from yields to come, are extremely precarious projections into the future. The value approach, moreover, fails to recognize the economic difference between a privately owned enterprise and a stock on an Exchange.

We have reviewed some other important alternative approaches to investment problems and have stressed the conclusion of the most authoritative scientific research that forecasting stock prices from the movements of other economic factors has proven deceptive. Finally, we have shown that the Internal Evidence approach rests on a solid scientific foundation. The facts that stock prices constitute an economic time series, and that their liquidity transforms the problems of equity ownership, recommend market analysis as an essential working tool for investment management.

This is a brief for the value of the study of Internal Evidence. It does not suggest the abandonment of all other approaches to investment problems. Their scope is so broad, and their nature is so difficult, that they offer a wide field in which the services of all sound methods and of all able students should find room for cooperation instead of wasting human energies in doctrinaire wars. Value analysis, economic analysis and market analysis are all part of the relevant processes of investment guidance. None is fully adequate by itself. Each has its own particular field of application in which its comparative advantage and usefulness are greatest.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made Dec. 17 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $45,215,000 1.357% consolidated debentures dated Jan. 2, 1948 and due Oct. 1, 1948. The issue was placed at par. The proceeds together with cash funds of $4,190,000 will be used to retire $49,405,000 of debentures due Jan. 2, 1948. As of Jan. 2, 1948 the total amount of debentures outstanding will be $349,845,000.

Paine, Webber to Admit

Paine, Webber, Jackson & Curtis, members of the New York Stock Exchange and other leading exchanges, will admit George M. Forrest to partnership in the firm on Jan. 1. Mr. Forrest will make his headquarters at the firm's Los Angeles office, 626 South Spring Street.

Also on Jan. 1 Charles Francis Adams, Jr., and Frank R. Hope, general partners, will become limited partners in the firm. William Paine LaCroix will retire from partnership on Dec. 31.

Mayer & Hart Admit

Mayer & Hart, 1 Wall Street, New York City, members of the New York Stock Exchange, will admit George Wrage to general partnership and Sadie Mayer and Elvira Lyon Scheuer to limited partnership on Jan. 1. Mr. Wrage will acquire the New York Stock Exchange membership of Walter T. Garden.

President Submits Plan for European Recovery

(Continued from page 6)

spread starvation and disease and to make a start toward economic recovery. In the first year and a half after V-E Day, the people of Western Europe, by their own diligent efforts and with the aid of the United States and other nations, made remarkable progress toward these objectives.

At the beginning of 1947, however, they were still short of the goal of economic recovery. Their difficulties were greatly increased during the present year, chiefly by a bitter winter followed by floods and droughts, which cut Western Europe's grain crop to the lowest figure in generations and hampered production of many other products.

Nevertheless, it was clear by last spring that Europe had achieved sufficient political and economic stability to make possible an over-all plan for recovery.

European recovery is essentially a problem for the nations of Europe. It was therefore apparent that it could not be solved, even with outside aid, unless the European nations themselves would find a joint solution and accept joint responsibility for its execution. Such a cooperative plan would serve to release the full productive resources of Europe and provide a proper basis for measuring the need and effectiveness of further aid from outside Europe, and in particular from the United States.

These considerations led to the suggestion by the Secretary of State on June 5, 1947, that further help from the United States should be given only after the countries of Europe had agreed upon their basic requirements and the steps which they would take in order to give proper effect to additional aid from us.

In response to this suggestion, representatives of 16 European nations assembled in Paris in July, at the invitation of the British and French Governments, to draw up a cooperative program of European recovery. They formed a Committee of European Economic Cooperation. The countries represented were: Austria, Belgium, Denmark, France, Greece, Iceland, Ireland, Italy, Luxembourg, the Netherlands, Norway, Portugal, Sweden, Switzerland, Turkey and the United Kingdom. Although Western Germany was not formally represented on the Committee, its requirements as well as its ability to contribute to European economic recovery were considered by the Committee.

The Recovery Program Proposed By the European Countries

The report of the European Committee was transmitted to the Government of the United States late in September. The report describes the present economic situation of Europe and the extent to which the participating countries can solve their problem by individual and joint efforts. After taking into account these recovery efforts, the report estimates the extent to which the 16 countries will be unable to pay for the imports they must have.

The report points out that the peoples of Western Europe depend for their support upon international trade. It has been possible for some 270 million people, occupying this relatively small area, to enjoy a good standard of living only by manufacturing imported raw materials and exporting the finished products to the rest of the world. They must also import foodstuffs in large volume, for there is not enough farm land in Western Europe to support its population even with intensive cultivation and with favorable weather. They cannot produce adequate amounts of cotton, oil and other raw materials. Unless these deficiencies are met by imports, the productive centers of Europe can function only at low efficiency, if at all.

In the past these necessary imports were paid for by exports from Europe, by the performance of services such as shipping and banking, and by income from capital investments abroad. All these elements of international trade were so badly disrupted by the war that the people of Western Europe have been unable to produce in their own countries, or to purchase elsewhere, the goods essential to their livelihood. Shortages of raw materials, productive capacity, and exportable commodities have set up vicious circles of increasing scarcities and lowered standards of living.

The economic recovery of Western European countries depends upon breaking through these vicious circles by increasing production to a point where exports and services can pay for the imports they must have to live. The basic problem in making Europe self-supporting is to increase European production.

The 16 nations presented in their report a recovery program designed to enable them, and Western Germany, to become economically self-supporting within a period of four years and thereafter to maintain a reasonable minimum standard of living for their people without special help from others. The program rests upon four basic points:

(1) A strong production effort by each of the participating countries.

(2) Creation of internal financial stability by each country.

(3) Maximum and continuing cooperation among the participating countries.

(4) A solution of the problem of the participating countries' trading deficit with the American continents, particularly by increasing European exports.

The nations represented on the European Committee agreed at Paris to do everything in their power to achieve these four aims. They agreed to take definite measures leading to financial, economic and monetary stability, the reduction of trade barriers, the removal of obstacles to the free movement of persons within Europe, and a joint effort to use their common resources to the best advantage.

These agreements are a source of great encouragement. When the representatives of 16 sovereign nations, with diverse peoples, histories and institutions, jointly determine to achieve closer economic ties among themselves and to break away from the self-defeating actions of narrow nationalism, the obstacles in the way of recovery appear less formidable.

The report takes into account the productive capacities of the participating nations and their ability to obtain supplies from other parts of the world. It also takes into account the possibilities of obtaining funds through the International Bank for Reconstruction and Development, through private investment, and in some instances by the sale of existing foreign assets. The participating countries recognized that some commodities, particularly food, will remain scarce for years to come, and the diet they have set as their goal for 1951 is less adequate in most cases than their pre-war diet. The report assumes that many countries will continue restrictions on the distribution of shortage items such as food, clothing and fuel.

When all these factors had been considered, the European Committee concluded that there will still be a requirement for large quantities of food, fuel, raw materials and capital equipment for which the financial resources of the participating countries will be inadequate. With successful execution of the European recovery program, this requirement will diminish in each of the four years ahead, and the Committee anticipated that by 1952 Europe could again meet its needs without special aid.

Appraisal of the European Problem

The problem of economic recovery in Western Europe is basically of the character described in the report of the 16 nations. A successful European recovery program will depend upon two essentials. The first is that each nation separately and all the nations together should take vigorous action to help themselves. The second essential is that sufficient outside aid should be made available to provide the margin of victory for the recovery program.

The necessary imports which the 16 countries cannot finance without assistance constitute only a small proportion, in terms of value, of their total national production—some 5% over the four years of the program. These imports, however, are of crucial importance in generating recovery. They represent the difference between ever-deepening stagnation and progressive improvement.

Most of the necessary outside aid, if it is to come at all, must come from the United States. It is a simple fact that we are the only nation with sufficient economic strength to bridge the temporary gap between minimum European needs and war-diminished European resources.

We expect that other countries which have it within their power will also give what assistance they can to Europe. Canada, for example, has been lending assistance to Europe fully as great in proportion to its capacity as that which we have given. We also expect that international institutions, particularly the International Bank, will provide such assistance as they can within their charters. But the fact remains—only the United States can provide the bulk of the aid needed by Europe over the next four years.

It is necessarily a complex and difficult task to determine the extent and nature of this aid.

In some respects, the situation has changed significantly since the report of the 16 countries was completed. Some of these changes have been unfavorable, including price increases in the United States and other countries where Europe makes purchases, a serious drought in Europe, and aggressive activities by communists and communist-inspired groups aimed directly at the prevention of European recovery.

There have also been favorable changes. In the last few months coal production in the Ruhr district of western Germany has increased from 230,000 tons a day to 290,000 tons a day. Similarly, coal production in the United Kingdom has risen markedly in recent weeks. Iron and steel production has correspondingly increased. Such increases in production, which lie at the heart of industrial recovery, are of far-reaching importance.

Further changes in the situation, now unpredictable, are to be expected as European recovery progresses.

All our plans and actions must be founded on the fact that the situation we are dealing with is flexible and not fixed, and we must be prepared to make adjustments whenever necessary.

Weather conditions will largely determine whether agricultural goals can be met.

Political events in Europe and in the rest of the world cannot be accurately foreseen. We must not be blind to the fact that the communists have announced determined opposition to any effort to help Europe get back on its feet. There will unquestionably be further incitements to strike, not for the purpose of redressing the legitimate grievances of particular groups, but for the purpose of bringing chaos in the hope that it will pave the way for totalitarian control.

On the other hand, if confidence and optimism are reestablished soon, the spark they provide can kindle united efforts to a degree which would substantially accelerate the progress of European recovery.

Despite these many imponderables, the dimensions of the necessary assistance by the United States can now be determined within reasonable limits. We can evaluate the probable success of a bold concept of assistance to the European economy. We can determine the principles upon which American aid should be based. We can estimate the probable magnitude of the assistance required and judge whether we can, safely and wisely, provide that assistance.

Extensive consideration has been given to these problems. Congressional committees and individual Members of the Congress have studied them at home and abroad during the recent Congressional recess. The report of the European nations has been carefully analyzed by officials of our government. Committees of the Executive Branch and a group of distinguished private citizens have given their best thought to the relationship between Europe's needs and our resources.

Program for United States Aid

In the light of all these factors, an integrated program for United States aid to European recovery has been prepared for submission to the Congress.

In developing this program, certain basic considerations have been kept in mind:

First, the program is designed to make genuine recovery possible within a definite period of time, and not merely to continue relief indefinitely.

Second, the program is designed to insure that the funds and goods which we furnish will be used most effectively for European recovery.

Third, the program is designed to minimize the financial cost to the United States, but at the same time to avoid imposing on the European countries crushing financial burdens which they could not carry in the long run.

Fourth, the program is designed with due regard for conserving the physical resources of the United States and minimizing the impact on our economy of furnishing aid to Europe.

Fifth, the program is designed to be consistent with other international relationships and responsibilities of the United States.

Sixth, the administration of the program is designed to carry out wisely and efficiently this great enterprise of our foreign policy.

I shall discuss each of these basic considerations in turn.

Recovery — Not Relief

The program is designed to assist the participating European countries in obtaining imports essential to genuine economic recovery which they cannot finance from their own resources. It is based on the expectation that with this assistance European recovery can be substantially completed in about four years.

The aid which will be required from the United States for the first 15 months—from April 1, 1948, to June 30, 1949—is now estimated at $6.8 billion.

These funds represent careful estimates of the cost of the goods and services which will be required during this period to start Europe on the road to genuine economic recovery. The European requirements as they were stated in the Paris report have been closely reviewed and scaled downward where they appeared to include non-essentials or where limited supplies will prevent their full satisfaction.

The requirements of the remaining three years of the program are more difficult to estimate now, but they are expected to decrease year by year as progress is made toward recovery. Obviously, price changes, weather and crop conditions and other unpredictable factors will influence the overall cost of our aid. Nevertheless, the inherent nature of this enterprise and the long-range planning necessary to put it into effect on both sides of the Atlantic require that this Government indicate its plans for the duration and the general magnitude of the program, without committing itself to specific amounts in future years. The best estimates we can now make indicate that appropriations of about $10.2 billion will be required for the last three years.

I recommend that legislation providing for United States aid in support of the European recovery program authorize the appropriation of $17 billion from April 1, 1948, to June 30, 1952. Appropriation for the period from April 1, 1948, to June 30, 1949, should be made in time for the program to be put into effect by April 1, 1948. Appropriations for the later years should be considered subsequently by the Congress on an annual basis.

The funds we make available will enable the countries of Europe to purchase goods which will achieve two purposes—to lift the standard of living in Europe closer to a decent level, and at the same time to enlarge European capacity for production. Our funds will enable them to import grain for current consumption, and fertilizer and agricultural machinery to increase their food production. They will import fuel for current use, and mining machinery to increase their coal output. In addition they will obtain raw materials, such as cotton, for current production, and some manufacturing and transportation equipment to increase their productive capacity.

The industrial goods we supply will be primarily to relieve critical shortages at a few strategic points which are now curtailing the great productive powers of Europe's industrial system.

The fundamental objective of further United States aid to European countries is to help them achieve economic self-support and to contribute their full share to a peaceful and prosperous world. Our aid must be adequate to this end. If we provide only half-hearted and half-way help, our efforts will be dissipated and the chances for political and economic stability in Europe are likely to be lost.

Insuring Proper Use of United States Aid

A second basic consideration with regard to this program is the means by which we can insure that our aid will be used to achieve its real purposes—that our goods and our dollars will contribute most effectively to European recovery. Appropriate agreements among the participating countries and with the United States are essential to this end.

At the Paris conference the European nations pledged themselves to take specific individual and cooperative actions to accomplish genuine recovery. While some modification or amplification of these pledges may prove desirable, mutual undertakings of this nature are essential. They will give unity of purpose and effective coordination to the endeavors of the peoples of the 16 nations.

In addition, each of the countries receiving aid will be expected to enter into an agreement with the United States affirming the pledges which it has given to the other participating countries, and making additional commitments.

Under these agreements, each country would pledge itself to take the following actions, except where they are inapplicable to the country concerned:

(1) To promote increased industrial and agricultural production in order to enable the participating country to become independent of abnormal outside economic assistance.

(2) To take financial and monetary measures necessary to stabilize its currency, establish or maintain a proper rate of exchange, and generally to restore or maintain confidence in its monetary system.

(3) To cooperate with other participating countries to reduce barriers to trade among themselves and with other countries, and to stimulate an increasing interchange of goods and services.

(4) To make efficient use, within the framework of a joint program for European recovery, of the resources of the participating country, and to take the necessary steps to assure efficient use in the interest of European economic recovery of all goods and services made available through United States aid.

(5) To stimulate the production of specified raw materials, as may be mutually agreed upon, and to facilitate the procurement of such raw materials by the United States for stockpiling purposes from the excess above the reasonable domestic usage and commercial export requirements of the source country.

(6) To deposit in a special account the local currency equivalent of aid furnished in the form of grants, to be used only in a manner mutually agreed between the two governments.

(7) To publish domestically and to furnish to the United States appropriate information concerning the use made of our aid and the progress made under the agreements with other participating countries and with the United States.

The United States will, of course, retain the right to determine whether aid to any country is to be continued if our previous assistance has not been used effectively.

Financial Arrangements

A third basic consideration in formulating the program of United States aid relates to the financial arrangements under which our aid is to be provided.

One of the problems in achieving the greatest benefit from United States aid is the extent to which funds should be made available in the form of grants as contrasted with loans. It is clear that we should require repayment to the extent that it is feasible and consistent with the objectives of the program, in order that no unnecessary burden be imposed upon the people of the United States. It is equally clear that we should not require repayment where it would impose paralyzing financial obligations on the people of Europe and thus defeat the basic purpose of making Europe self-supporting.

Recovery for Europe will not be achieved until its people are able to pay for their necessary imports with foreign exchange obtained through the export of goods and services. If they were to have additional burdens to bear in the form of interest and amortization payments in future years, they would have to plan for an even higher level of exports to meet these obligations. This would necessarily increase the requirements of the recovery program, and delay the achievement of economic stability.

It is also important that an increasing portion of the financial needs of Europe be met by dollar loans from the International Bank, and by the revival of private financing. This prospect would be seriously jeopardized if the United States, as part of the recovery program, were to impose all that the traffic will bear in the form of debt obligations.

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President Submits Plan for European Recovery

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be taken against a resurgence of military power in Germany. The United States has made clear on many occasions its determination that Germany shall never again threaten to dominate Europe or endanger the peace of the world. The inclusion of Western Germany in the European recovery program will not weaken this determination.

As an occupying power in Western Germany, the United States has a responsibility to provide minimum essentials necessary to prevent disease and unrest. Separate appropriations will be requested for this purpose for the period through June 30, 1949.

Above this minimum level, amounts needed to assist in the rehabilitation of Western Germany are included in the overall estimates for aid to European recovery.

Another significant area of the world which has been considered in developing the recovery program is Eastern Europe. A number of the governments of Eastern Europe which were invited to participate in the work of the Paris Conference on Economic Cooperation chose not to do so. Their failure to join in the concerted effort for recovery makes this effort more difficult and will undoubtedly prolong their own economic difficulties.

This should not, however, prevent the restoration of trade between Eastern and Western Europe to the mutual advantage of both areas. Both the report of the 16 nations and the program now submitted to the Congress are based on the belief that over the next few years the normal pattern of trade between Eastern and Western Europe will be gradually restored. As this restoration of trade is achieved, the abnormal demands on the Western Hemisphere, particularly for food and fuel, should diminish.

The relationship between this program and the United Nations deserves special emphasis because of the central importance in our foreign policy of support of the United Nations. Our support of European recovery is in full accord with our support of the United Nations. The success of the United Nations depends upon the independent strength of its members and their determination and ability to adhere to the ideals and principles embodied in the Charter. The purposes of the European recovery program are in complete harmony with the purposes of the Charter—to insure a peaceful world through the joint efforts of free nations. Attempts by any nation to prevent or sabotage European recovery for selfish ends are clearly contrary to these purposes.

It is not feasible to carry out the recovery program exclusively through the United Nations. Five of the participating countries are not yet members of the United Nations. Furthermore, some European members are not participating in the program.

We expect, however, that the greatest practicable use will be made of the facilities of the United Nations and its related agencies in the execution of the program. This view is shared by all the participating countries.

Our intention to undertake a program of aid for European recovery does not signify any lessening of our interest in other areas of the world. Instead, it is the means by which we can make the quickest and most effective contribution to the general improvement of economic conditions throughout the world. The work shops of Europe, with their great reservoir of skilled workers, must produce the goods to support peoples of many other nations.

I wish to make especially clear that our concentration on the task in Western Europe at this time will not lessen our long-established interest in economic cooperation with our neighbors in the Western Hemisphere. We are first of all a member of an American community of nations, in which cooperative action, similar to that which the European nations are now undertaking, is required to increase production, to promote financial stability, and to remove barriers to trade. Fortunately we in the Americas are further advanced along this road, but we must not overlook any opportunity to make additional progress. The European recovery program will require procurement of supplies in many nations of this hemisphere. This will act as a stimulant to production and business activity and promote the reestablishment of world trade upon which the prosperity of all of us depends.

While our present efforts must be devoted primarily to Western Europe, as the most important area in the world at this time for the future of peace, we also have a special concern for the war torn areas of Asia. In Japan and Korea, the United States has supplied extensive aid to support life and commence reconstruction. Since the war's end, we have provided China with varied and important assistance which has aided that nation substantially.

The United States should continue to do all it appropriately can to assist in the restoration of economic stability as a basis for recovery in the Far East. Extensive study has been given during the last few months to the means by which we might best aid in meeting the special needs for relief and rehabilitation in China. I expect to make recommendations on that subject to the Congress during its next session.

Administrative Arrangements

I have set forth several basic considerations which should govern our aid to the recovery of Europe. One further consideration which vitally affects all the others is the necessity for effective administrative arrangements adapted to the particular requirements of the program. If the work to be done is not well organized and managed, the benefits of our aid could be largely dissipated.

The administration of our aid will involve the performance of several major functions. The needs of the participating countries must be reviewed in close cooperation with them. Continued relationships must be maintained with the United Nations and with an organization of the participating nations. The requirements for each commodity or service under the program must be carefully evaluated in relation to United States supplies and domestic needs and to the resources of other nations which can help. Decisions must be reached as to the best means of supplying aid and the conditions of aid for each country. Assistance must be given to facilitate the procurement, transportation, and efficient use of goods. A constant review must be maintained over the use of our aid and the execution of agreements. The results of the program must be evaluated and reported to all concerned—the President, the Congress, and the people.

While these activities are complex, they are not comparable, in magnitude or in character to our wartime supply activities. Under this program, most of the operations can be carried out through private channels and existing government agencies.

Nevertheless, the scope and importance of the program warrant the creation of a new organization to provide central direction and leadership. I therefore recommend the establishment of a new and separate agency, the Economic Cooperation Administration, for this purpose. It should be headed by an Administrator, appointed by the President and directly responsible to him. The Administrator should be subject to confirmation by the Senate.

The Economic Cooperation Administration will sponsor the European aid requirements as they are reviewed and adjusted, with other governmental agencies, to form a practical program in the light of available supplies and capacities. The Economic Cooperation Administration will be responsible for initiating the approved program project by project and nation by nation and for regulations as to supervision, cooperative assistance, and other policy matters which will guide the program at every point. In keeping with the importance and nature of its task, the new agency should have flexibility in the determination of operating methods, the use of funds, and the hiring of key personnel.

The relationship of the Economic Cooperation Administration to the existing governmental establishment is of crucial importance. In the determination of programs for the several countries, the assessment of individual projects, and many other matters involving our activities abroad, the Economic Cooperation Administration must work closely with the Department of State. Similarly on many actions affecting our domestic economy the Administration must work, with, rather than supplant, existing agencies. For example, the Department of Agriculture should be relied upon for any required government action in the procurement and allocation of food, and the Department of Commerce for the allocation of certain other commodities in short supply, and for continued administration of export controls. The facilities of these agencies will be in some cases need to be strengthened, but no major changes in governmental organization to perform important domestic functions will be required.

Under these circumstances, I expect that the Economic Cooperation Administration will need only a small staff. No vast new agency or corporation is needed to perform functions for which government facilities now exist.

It is essential to realize that this program is much more than a commercial operation. It represents a major segment of our foreign policy. Day in and day out its operations will affect and be affected by foreign policy judgments. We shall be dealing with a number of countries in which there are complex and widely varying economic and political situations. This program will affect our relationships with them in matters far beyond the outline of the program itself. Its administration must therefore be fully responsive to our foreign policy. The Administrator must be subject to the direction of the Secretary of State on decisions and actions affecting our foreign policy.

The United States' activities in Europe under the program will constitute essentially an extension of our present relationships with the participating countries. In order to maintain unity of United States representation abroad, our Ambassador in each country must retain responsibility for all matters requiring contacts with the government to which he is accredited, including operations under this program. Some additional personnel, technically qualified to perform specialized functions arising out of the program, should be placed in the embassies to represent and carry out the responsibilities of the Economic Cooperation Administration abroad.

In addition, I recommend that provision be made for a special United States Representative for the European Recovery Program. He would represent the United States at any continuing organization of the participating countries and he would exercise general coordination of our operations in Europe under the program. He should be appointed by the President, subject to confirmation by the Senate, and have Ambassadorial rank. Because of the joint interest of the Secretary of State and the Administrator in his activities, the special Representative must serve both as the President may direct. The activities of this Representative in promoting mutual self-help among the European nations will be of the utmost importance in achieving the success of the European recovery program.

The administrative arrangements I have described are in keeping with the character of the job to be done and will provide the most efficient and economical means for its performance.

Conclusion

In proposing that the Congress enact a program of aid to Europe, I am proposing that this Nation contribute to world peace and to its own security by assisting in the recovery of 16 countries which, like the United States, are devoted to the preservation of free institutions and enduring peace among nations.

It is my belief that United States' support of the European recovery program will enable the free nations of Europe to devote their great energies to the reconstruction of their economies. On this depend the restoration of a decent standard of living for their peoples, the development of a sound world economy, and continued support for the ideals of individual liberty and justice.

In providing aid to Europe we must share more than goods and funds. We must give our moral support to those nations in their struggle to rekindle the fires of hope and strengthen the will of their peoples to overcome their adversities. We must develop a feeling of teamwork in our common cause of combating the suspicions, prejudices, and fabrications which undermine cooperative effort, both at home and abroad.

This joint undertaking of the United States and a group of European nations, in devotion to the principles of the Charter of the United Nations, is proof that free men can effectively join together to defend their free institutions against totalitarian pressures, and to promote better standards of life for all their peoples.

I have been heartened by the widespread support which the citizens of the United States have given to the concept underlying the proposed aid to European recovery. Workers, farmers, businessmen and other major groups have all given evidence of their confidence in its noble purpose and have shown their willingness to give it full support.

I know that the members of the Congress have already given much thoughtful consideration to the grave issues now before us. I know that the Congress will, as it should, consider with great care the legislation necessary to put the program into effect. This consideration should proceed as rapidly as possible in order that the program may become effective by April 1, 1948. It is for this reason that I am presenting my recommendations to the Congress now, rather than awaiting its reconvening in January.

I recommend this program of United States' support for European recovery to the Congress in full confidence of its wisdom and necessity as a major step in our Nation's quest for a just and lasting peace.

HARRY S. TRUMAN

The White House,
Dec. 19, 1947.

International Trade and Economic Reconstruction

(Continued from first page)

wars the balance of payments was in favor of the United States, and the rest of the world sent their gold to us to pay their obligations. When their ability to pay ran out, they defaulted. The effect of these conditions upon our American employment and production are alleged to have been the major forces in creating the speculative boom of the 20's and the economic collapse of the early 30's resulting from the breakdown of international trade and finance.

Today, the unbalance of international payments in our favor is greater than ever before in peace time. We are moving faster and faster toward another international financial catastrophe unless immediate steps are taken to avert it. In 1946 the balance of payment in our favor exceeded $7 billion. At the rate of exports over imports for the first quarter of this year the balance for 1947 may reach $12 billion.

What would happen if the rest of the world was compelled to settle these balances by shipping us gold or goods? If other countries send us gold for these balances, we will soon have all the world's gold and the rest of the world will have only inconvertible paper monies. The rest of the world could not send us goods to pay for these balances because they do not have the goods. But the rest of the world does have many products that we need in larger abundance. It also has an abundance of raw materials that can be manufactured into useful products for themselves, as well as for export.

The ideal condition which will keep employment high on our farms and in our factories and a balance between import and export payments is for the people of the United States to import from the rest of the world as much in dollar values as we export in goods and services in free multilateral markets.

Present Policies Unsound

The present policies of loaning to foreign countries and selling on credit with bilateral trade restrictions can only lead to another smash. If we are to be helpful in reconstructing the economic conditions of the world for the best interests of all the peoples concerned, foreign countries must cooperate with us and return to sound economic policies and practices. First, each country should take steps to restore stable monetary conditions. Second, as a result of sound monies, multilateral trade and payments would naturally follow the removal or confirmation of trade barriers. Countries seeking our financial aid should first provide a political and economic environment that will impart confidence to private foreign investors in their respective countries.

With the restoration of confidence in private enterprise and protection for private property rights, either domestic or foreign, capital would flow to places of need and production and the employment of labor would follow as a natural course. Unless foreign countries are willing to set up and maintain an economic environment which will justify foreign capital taking the risks of investment, they are certainly not deserving of loans by the government of the taxpayer's money.

Multilateral Trade and Payments

Without the restoration of sound monies and multilateral settlements our present policies can lead only to losses for the American people and disillusionment of the world. Unfortunately, a very large percentage of the population of all countries are uninformed about the finely balanced mechanism of sound money and international exchange. But there are some people in every country who understand sound economic and financial policies as well as we do. In addition to setting up standards for the would-be users of our credit and capital—which is the product of our labor—in the reconstruction of their wealth production, we are justified in making as a condition of our help the establishment of practices which will lead to successful payment of debts and the transfer of capital.

A country that illustrates sound policies in the present world of maladjustments is Canada. Some other countries may have managed their international financial relations as well as Canada, but no country has done better. Canada does not always have a favorable balance of payment from other countries. But under the conditions of multilateral trade, even as restricted as before the recent war, Canada had a favorable balance of payments with the United Kingdom, and with all of the rest of the countries combined, exclusive of the United States, but an unfavorable balance with the United States.

For the period 1935 to 1939 her yearly average favorable balance was $155,000,000 in spite of her average unfavorable balance of $372,000,000 with the United States. For the war years 1940-1945, Canada's average favorable balance yearly in world payments was $948,000,000. In spite of her unfavorable balance with the United States of more than $600,000,000, in 1946, her favorable balance for all countries combined is estimated to be about $458,000,000. In a world of sound currencies and multilateral trade and payments, Canada would be a very prosperous country and would be in urgent need of seeking foreign capital investments or increasing her imports in order to balance the payments between Canada and the rest of the world.

The strong position of the Canadian economy, with many billions of foreign-owned capital working in her country, lies in the fact that this capital owned by foreigners can only be withdrawn from the country in the form of a small percentage of net profits paid out to foreign stockholders. In order to have a net profit the capital must be productive, and in its employment of labor and use of materials the gross earnings and the original capital which was exported to Canada remains in the country and continues to contribute to the country's production and employment.

Countries with capital and skill to export, and Canada is one of them, would quickly rehabilitate the productive enterprises of any country in the world if the laws and people of the country in need would only restore confidence by adopting fair and equitable principles governing the rights of private property and the necessary freedoms for production and trade to thrive, together with sound monies.

The sound financial management of Canada has been, in peace time, duplicated by many other small countries, such as Finland, Sweden, Norway, Switzerland, Holland, Denmark and Belgium. Unless other countries which are seeking loans and capital from the people of the United States adopt sound monetary policies and return to multilateral trade payments, together with proper protection for property rights that will encourage productive enterprise, our help is not justified.

It seems to me a little sound economic education from the tried and proved Adam Smith and John Stuart Mill schools, on the wealth-creating power of trade and free markets in raising the standard of living for all peoples, would be productive of the kind of conditions that would help restore balance in world trade. While every country in the world and every people as well as each individual should be free to have their own ideas, we also should be free to decide where our money and capital is to go and under what economic conditions we are to risk our savings.

It would be natural for us to risk our capital and make loans in those countries where the government and the people respect the rights of private capital and create an environment that encourages production and the repayment of debts. If any individual wishes to loan his money or take risks with his capital in some other country or help the people of another country to carry on a socialistic or communistic experiment that is his privilege. But when individuals are free to use the savings of their labor in their own way, you can bet that they will seek out the best opportunities for investments and speculation in countries where property rights are respected.

The Immediate Problems

To solve the immediate "dollar exchange crisis" by loans and gifts could impoverish this country and make the long-term problem of restoring balanced payments in international finance more difficult. To make loans to needy countries on a business basis for productive purposes and for the restoration of stable currencies is good business for both the borrower and the lender. But unless a correct philosophy of sound currency, multilateral trade, and free enterprise, based upon merit and not upon subsidies, is established, these loans will only be temporary relief and the demands will grow for larger "doles."

Many countries in a relatively strong position are short of dollar exchange because they are victims of the bilateral and other trade restrictions, planned economies, and soft currencies. An understanding of the simple truths about money, costs of production and prices, the wealth-creating power of trade, and international trade with multilateral exchange clearings, plus the will to return to self dependence, can hasten the revival of efficient production and distribution much more rapidly and on a sounder basis than loans and gifts.

Recovery is taking place rapidly in many of the small countries of Europe. Holland is one example of a country that still has the stuff it takes to recover on a sound basis. Determination and an understanding of the simple principles of wealth production and distribution are powerful forces promoting a speedy recovery in the land of the hard-headed sensible Dutch. This little country suffered complete disruption of its domestic production and foreign markets. It has been estimated that as much as one-third of Holland's national wealth was destroyed. Her currency was inflated by the Germans and large amounts of her working capital were destroyed or confiscated. But 15 months after the war was over, and Holland was again a free country, the destruction of the occupation had been repaired as fully as resources permitted. All roads and bridges were restored, railroads repaired and farm lands reclaimed.

In the meantime a sound currency had been restored as a first necessity. Both the Dutchman and the foreigner who wants to do business with him have confidence in new credit arrangements, and it is only the bilateral restrictions and soft currencies of less well managed countries that hold back the swift strides of recovery and prosperity with a high standard of living in Holland. Holland has floated a successful bond issue in the United States, and has applied to the World Bank for a loan, which she will undoubtedly get.

Why this great confidence in a small country of only four million people? The answer is simple. Look at the quality and characteristics deserving confidence. First a speedy return to sound money, and then work and recovery with the resources at hand. One of the best examples of enterprise in Holland is the draining of all the land that the Germans flooded within a year after Holland was liberated and now more acres are planted to farm crops than before the war.

Why do not Austria, Germany, France and even England take a lesson from little Holland, or some of the other small countries that have done just as much for their own recovery, such as Belgium, Denmark and Norway? If the people of Europe who are suffering from poverty will abandon "isms" and return to the elementary principles of sound money, honest production and distribution of goods with the resources at hand, and respect the property rights of foreign capital, recovery will come fast and confidence will bring foreign capital from every corner of the world to any place where there is freedom and opportunity.

Recommendations

The making of loans and ventures with American capital in foreign countries can be successful if we first aid in restoring an economic climate that will create confidence. Unless foreign countries are willing to return to tried and proved economic and financial policies that will respect the rights of all capital and create an environment in which private, free enterprise can work its miracles of production and distribution in the free markets of the world, we should not risk our money and energies. We should aid countries that disclose their policies and direct their efforts along the lines that we know will succeed in production and repaying borrowed capital and savings of other people's labors.

Our first obligation to ourselves, and as an example to the rest of the world as a democracy, is to restore sound economic and financial conditions in the United States and set up foreign policies that are dependable for ourselves and the rest of the world in the matters of commerce and finance.

To maintain prosperous conditions here, and to help other democracies, will go further to defeat communism than all the loans we can squander in the form of a reward for a return to economic sanity. Foreign loans of all kinds should be made on a strictly business basis.

This does not mean that we would refuse to help countries anywhere who suffer from crop failures, famine and other catastrophies. We have always aided countries in need and always will. But that is different from this effort to hire people with loans to practice monetary, production and distribution policies that will serve them best.

The rapid rise in prices in the United States has greatly reduced the value of loans made to foreign countries to buy American goods. These conditions, however, can be partially corrected by foreign countries in need of American capital amending their economic policies and improving their treatment of foreign capital. That is, if these countries will adopt policies that will make foreign capital feel safe to engage in long term production operations there will be a migration of capital from this country to do the job that is to be done in production.

This export of capital and the building of productive facilities in foreign countries with private American capital is far safer both for the country in need and the United States. The chief handicaps lie in the unfriendly economic climate for American capital in many of these countries, and some unfavorable restrictions on the export of capital by individuals in the United States that should be removed.

It is perhaps not for us to tell other countries how to run their internal affairs. But if they want the help of American capital and production methods shipped to them to aid in their reconstruction, they should adopt legal, economic and transfer policies that would create confidence on our part. For example British and French coal shortage and other labor crises together with trade restrictions that have further weakened their economic conditions are for the most part results of unsound domestic and foreign economic policies.

The progress of the World Bank, the International Fund and the International Trade Organization have been of little help in ironing out international commercial and financial maladjustments. But these institutions can never solve these fundamental problems that must be solved by each country for itself. What Holland and Belgium have done, also can be done by France, England and Germany. Unless sound domestic policies are set up and followed, international borrowing and charity will never make any country prosperous.

Correcting these economic and policy deficiencies, however, will not solve the immediate problems which have grown up since the war. The immediate problems of our unbalanced payments with the rest of the world and how foreign countries in need are to get the tools and materials for production and trade can be partially solved:

(1) By the United States taking a long term point of view and encouraging sound business loans by private investors where countries put their domestic affairs in order and furnish the required security for such loans;

(2) By foreign countries adopting tried policies of dependable currencies, production and trade that come out of industrious efforts such as in the small countries I have cited, and the abandonment of silly "isms" and controls that destroy production and trade; and

(3) By countries in need of our capital creating an economic climate that will give confidence to foreign capital and foreign technical skills to risk their combined efforts by emigrating to these countries.

The world has plenty of gold and could have plenty of sound money. Labor, skill and materials can produce the needed capital. The chief obstacle is the adoption, all over the world, of dependable economic policies. The world needs an international Adam Smith. While there are signs that Adam Smith's home people are beginning to see the fallacies of the false doctrines they have been following in recent years, a more rapid return to his correct ideas in the production and distribution of wealth is needed to avoid great hardship from losses of the productivity of free enterprise and free trade.

The Quack Remedies of Devaluating the Dollar and Inflation Will Only Bring More Chaos

Already rumors are flying that the United States will have to devalue the dollar in order to enable foreign customers to buy our goods and to enable us to export our surpluses. This is the wrong road to foreign trade and prosperity. To be sure, a devaluation of the dollar would increase the buying power of foreign currencies and gold of the foreign buyers in our markets. But how long would that last? As soon as their dollars would be spent and our prices rose to offset the reduced prices to foreigners resulting from the devaluation, our balance of payments would be more unbalanced than ever before, prices and costs would be higher, and confidence in our money and integrity would be impaired for a generation.

The United States, and the whole world, can have monies that meet all the tests of soundness and dependability. These qualities are determined by the free convertibility of currency into gold, the stability of the buying power of the currency, and the ability of the country to balance its budget and meet its domestic and foreign payments in free markets. Countries that do not restore sound monetary conditions and free markets are enemies of their own prosperity and that of the world. Such countries are not worthy of either public or private loans from other countries and private risk capital will wisely avoid these countries.

The Dollar and Sterling Bloc Exchange—The Key to International Monetary Stability and Multilateral Trade

The Sterling Area and the Sterling Bloc countries, and countries allied with them with exchangeable currency arrangements, now comprise a large part of the western commercial world outside of the United States dollar area. A restoration of stable currency exchanges between the dollar and the Sterling Bloc countries with multilateral trade and payments would clear the way for all of these countries to obtain the productive capital they need.

Elliott Co. Preferred Offered by Eberstadt

F. Eberstadt & Co. Inc. on Dec. 23 made a public offering of a new issue of 60,000 shares of Elliott Co. $50 par value 5½% convertible cumulative preference stock at $50 per share.

Formed in 1901 and long prominent in the production of turbines, generators and other heavy duty electric power equipment, the company has recently been a leader in the development of gas turbines and is at present active in the development of tonnage oxygen equipment.

The increased volume of the company's business, as compared with the prewar level, has required approximately $2,000,000 expenditures for additions being made to the company's manufacturing facilities, as well as additional cash working capital. The company's backlog of orders at Nov. 1, 1947, was approximately $29,000,000 spread over all types of the company's products.

For the nine months ended Sept. 30, 1947, the company reported net income of $980,030, equal to 4.75 times the dividend requirements on the 39,650 shares of cumulative preferred stock presently outstanding and the 60,000 shares of new cumulative preference stock.

Upon completion of the present financing, outstanding capitalization of the company, in addition to the stock now being offered, will consist of 39,650 shares of $50 par value cumulative preferred stock and 328,079¼ shares of common stock, $10 par value. Its bank loans total $3,500,000.

Cassel to Admit Moses

H. Cassel & Co., 61 Broadway, New York City, members of the New York Stock Exchange, will admit Walter Moses to partnership on Jan. 1. Frederick Maier-Jung, Helmut Schalla, general partners, and Karl Nathan, limited partner, will withdraw on Dec. 31.

Holds Western Europe Forges Own Economic Chains

(Continued from first page)

prices against export of French merchandise to the United States. My purpose was to make it clear that by thus preventing exports to the United States the French Government had, by its own act, created a shortage of dollars in France and could relieve it by raising the barrier. A new spending project calling for advances unrelated to food to Western European governments, including that of France, is now before Congress. In its support it is urged that these countries are suffering from economic ills caused by events beyond their control; that they must have dollars which are unobtainable through their own exertions or they will "collapse." It is in respect to this new spending project that I am writing. What I am about to point out is this:

That the principal countries of Western Europe are in economic chains of their own forging and the major economic ills from which they suffer are the natural and inevitable consequence of these self-imposed shackles.

That they cannot recover until freed, and their freedom is to be had only through drastic political and economic reforms.

That these reforms present political difficulties of great magnitude and must come from within and not from without.

That sound and stable money must be provided and honestly maintained within these countries.

That production and trade must be freed from an intolerable control the purpose of which is to force persons having things to sell or services to render to accept in payment a debauched paper money at whatever values bureaus decree—decrees the people decline to obey since they know them to be founded upon false pretense.

That they must reduce expenditures to the level of revenues, a process which requires the cessation of subsidies and gratuities, the denial of handouts to powerful pressure groups, the abolition of the four-day week with reduction of salaries and wages to the fair level of production.

That they must purge the public payrolls of hosts of unnecessary clerks and useless functionaries.

In short that governments must return to those policies of fiscal sobriety and common honesty essential to normal life in an orderly society. Money must cease to be common harlot to political expediency and return to its true position as an honest and respected servant of the people. No member of Congress need be told that as things now stand in many of the countries such reforms present near insuperable political difficulties. Held prisoner by interests now well vested, the natural fruit of their own follies, these governments will encounter fierce resistance in respect to every necessary reform. Success will be possible only under indomitable leadership and then only when conditions are ripe. Under such circumstances subsidization will not be required. If governments are weak and conditions not ripe, subsidization will be worse than useless, since it will perpetuate the evils. This is because subsidies granted those in power will strengthen their hold upon office, and thus assure continuation of existing practices. Request for $3 billion to be expended in efforts to maintain pegged prices for debased paper moneys, of itself betrays lack of courageous purpose and intent upon the part of those concurring in the request.

Both reason and experience sustain each of the conclusions just expressed. But in their support I propose to summon not only reason and experience but painful circumstance as well, the first circumstance being that $20 billion already have been appropriated by Congress and spent by bureaus for world rehabilitation since the surrender of Japan with as little permanent good as $20 billion spent for wheat to be broadcast upon a desert as an agricultural experiment.

II

That there may be no misunderstanding of my position let me make it clear that I offer no objection to the gratuitous provision of food and all other necessities to the conquered peoples and those residing in occupied areas. Since we hold them in military custody and deny them freedom of action we must provide for them or confess ourselves no better than those keepers of starvation camps we have hanged. Neither do I offer objection to the gratuitous provision of food and clothing within the liberated areas where it is proven that the country itself cannot make provision for its own needy, and where its distribution to those for whom it is intended is adequately assured. I make this qualification since it is my understanding that foods heretofore sent abroad gratuitously have not been supplied gratuitously to the needy but on the contrary have been sold by those in power, and the money used as the government saw fit. Neither do I oppose combating the spread of totalitarian communism by methods likely to prove effective.

It is because the present project goes far beyond feeding and clothing needy persons and contemplates immense gratuities to existing foreign governments for expenditure in such manner as they choose that I am troubling myself to write this letter and you to receive it, for I do not believe that such gratuities under present conditions will either bring prosperity to the people of those countries or serve to combat the spread of communism.

III

Those who advocate this new spending project, despite the failure of those which have preceded it, say that the way to prevent the spread of communism throughout Western Europe is to make the people of that area prosperous and hence contented; that the people of the states they propose to aid are not prosperous, at least not as prosperous as they would like to be, and cannot become so through their own exertions. It is for this reason that they propose to aid them. The aid they suggest is 20 odd billions in American money to be secured through the imposition or continuation of extraordinary taxes on the people of the United States, this money to be transferred as subsidies to foreign treasuries. Upon receipt the money is to be used by the recipient governments in such ways as they deem proper to make their people prosperous. Even in a mad world, Congressman, it is difficult to soberly accept the doctrine of subsidizing governments which on their profligate record stand as proven purveyors of poverty and destroyers of plenty.

Since France is the largest and most important of the states proposed to be aided by gratuitous capital grants, I propose to consider this plan in respect to that country.

The French people are strong and capable. They possess great wealth both at home and abroad and invaluable natural resources. There are many wealthy individuals and families. I shall refer to these in greater detail before I have finished. Throughout a long history the French have demonstrated industrial genius as well as great military valor and aggressiveness. By force of arms they have conquered and now hold peoples and lands in subjection both in Asia and Africa. Since the year 1800, a period of less than a century and a half, which is less than the lives of two 75 year old men running consecutively, their armies have more than once overrun all of Europe. So complete was this conquest that throughout that Continent they were enabled to place French Kings of their own selection upon forcibly vacated foreign thrones. In turn, within that period, France herself has been overrun. Heretofore French recoveries both from defeat in wars and from internal revolution have been remarkable. The country is self-sustaining because of its naturally fertile and highly productive lands, and as a farmer the French peasant has no superior. He is industrious, frugal, and intelligent. He cherishes the land and spares no effort to maintain its fertility.

As compared to other war-torn countries the physical destruction in France was relatively little, and agriculture continued with slight interruption throughout the occupation. Nearly three years have passed since the liberation and the return of the French prisoners of war to their occupations. In addition to domestic production and that of her overseas colonies, France, since the war's end, has had several billions of American production in exchange for which she has parted with nothing. Yet despite the exertions of the French people supplemented by princely gifts from abroad their government has felt compelled to reduce their bread ration to a level below the lowest received during the German occupation, and, admitting no malfeasance in its own administration, appears as suppliant for free gifts from abroad.

IV

In my letter to you of June 28, to which I have already referred, I pointed out how invalid is the claim of the French Government that it has made a genuine effort to obtain American dollars through its own exertions, that is, by honest reciprocal trade between Americans and Frenchmen. But a moment's examination of its conduct is required to demonstrate that by deliberate act in establishing a grossly over-stated pegged price for the franc through the mechanism of the Stabilization Fund, it has so heavily penalized American travelers and merchants as to make substantial sales of French merchandise and services to Americans impossible. The facts speak for themselves and require no elaboration. By a coldly calculated expedient, whatever its purpose, the French Government has created its own shortage of the dollars of which it claims to be in need, and it is not an unfair deduction that the French Government proposes to part with French merchandise in exchange for American dollars only when hope vanishes of obtaining them for nothing. I say this because it is impossible to suppose that a government seriously desiring export business for its people would enact an insuperable barrier against it. But a government which believes that course of conduct to offer possibility of obtaining dollars without consideration would most certainly do so. The effort itself affords a melancholy commentary upon the French estimate of American intelligence.

V

In the period following the liberation the French Government, according to its statistical reports, has issued more newly printed francs in payment of treasury deficits than did the Vichy Government during the occupation. By this flagrant abuse of the sovereign power to issue money French politicians in office have made pretense of giving the people something for nothing. Its deficits represented subsidies of every conceivable sort; outrageously built up payrolls; free services and wasteful extravagances including increased pay for a four-day week. But in truth the miracle of providing the people with something for nothing consisted of nothing more than the shabby and ill-concealed robbery of every man, woman, and child in France who owned paper francs or obligations payable in francs, as well as all pensioners and annuitants and all wage and salary earners who lost steadily because of the lag between ascending prices and pay readjustments. Rationing and price and exchange controls were resorted to in the hope of concealing the declining purchasing power of the franc. With these controls came scarcity, their inseparable companion. These measures, senseless since they sought to defeat the protective forces of human nature itself, deceived no intelligent Frenchman and should deceive no intelligent American. They seriously aggravated a situation already becoming unendurable. They have driven free markets underground and forced trade from the hands of established tax-paying merchants into the hands of free-booters who dare not declare their unlawful gains to the tax collector even if so disposed. In this manner they have both dried up the revenues of the state and converted normal plenty into abnormal scarcity.

There are few among the French people who do not understand paper money inflation and none understands it more clearly than the French peasant. His understanding is born of experience and family tradition. He will not willingly submit to being victimized through an oft repeated deception. It is for this reason that he hoards gold coins, both of French and foreign minting, even resorting to the purchase of thin cuttings from gold bars to be added to his hoard. He also acquires such foreign currencies as he deems stable, and it is well known that a great portion of the U. S. currency spent in France by our armies found its way into French hoards where it still remains. It is because of his understanding of what has been and is daily being done to debase the franc that the French peasant withholds his produce from the price controlled markets and secretly disposes of it upon the underground free market where the true value of the franc is recognized. A realist from experience and hard circumstance, he declines acceptance of the doctrine that false pretense becomes truth at the will of the lawmaker or bureaucrat, and that by legal enactment and printed inscription paper can be given whatever value government decrees.

But the hoarding in France is not confined to peasants. Obeying the most natural of all protective instincts people of every class seek to save themselves from loss or impoverishment. Thus they quietly convert francs into things of permanent value and find ways to secretly get their money and valuables out of France and into other countries. The drain of French owned capital from France through such measures has been enormous. A vast amount of this French-owned capital is known to be invested in American securities deposited by French owners in American strong boxes. It is this French capital driven into hiding because of the notorious delinquencies of its own government that is to be replaced through taxation of Americans if Congress gives consent.

Yet all human experience proves that when the French Government again establishes and maintains an honest medium of exchange and discontinues price controls and rationing food will return in abundance to the free markets of the cities as it has many times in the past. Expatriated capital will come home, gold will be returned to the banks, commerce and industry will revive and the national revenues will be restored. Americans should understand this. Did not meat and butter disappear from our own controlled markets, reappear when controls were lifted, and disappear again when controls were reimposed only to promptly reappear when freedom was restored? Only persons of short memory can fail to recall this.

VI

Public distress in France because of the steadily falling value of the franc has now reached the stage where a resolute government might hope for success in drastic fiscal and monetary reform. All law-abiding persons in France and all who must work for wages or salaries or subsist upon income payable in francs are victims of a destroying force from which they are frantically seeking escape. The communist leadership understand this far better than do those Americans of little understanding who suppose the situation controllable by gifts to the French Government or some additional food for sale to the French people. The communists propose the overthrow of a government which has failed to provide either honest government or an honest medium of exchange. Under the leadership of Moscow, both intelligent and conscienceless, they have made headway, a fact which should astonish no one. A people fleeing from a great evil may readily fail to discern the greater evil toward which they are being directed.

In reply to those who in their desperation have aligned themselves under the leadership of the communists, the government has announced its purpose to print and distribute additional francs. This is perhaps its only feasible recourse at the moment. But this temporary palliative must be followed forthwith by the essential and drastic operation, or nothing permanent will have been accomplished. Should subsidization from abroad result in postponement of this operation, it will have worked evil and not good.

It must be borne in mind that monetary inflation is of political origin though its manifestations appear in the realm of economics. It finds its source and its continuation in political expediency. Its purpose is to enable those in power to increase public expenditure without a corresponding increase in taxation. As example, by the printing and expenditure of additional paper money or credits convertible into money, appearance is given of something being obtained for the people for nothing. So it is that by the mass of the people in its early stages monetary inflation is deemed Santa Claus, and, since in the homely vernacular of a great American, "Nobody is going to shoot Santa Claus," protests of those who understand the ultimate effect go unheeded. The people accept appearance for reality and vote to support those they deem to be their benefactors. Not until it is learned by the mass of the people through painful experience that behind the benevolent mask of Santa Claus hides the cruel countenance of an ogre which from the beginning has created nothing, but on the contrary has secretly taken cruelly and ruthlessly, is there political hope of bringing monetary inflation to an end. Once started, as long as there is political gain in its continuance, the practice will be continued; only when its continuance has come to mean political loss will it be discontinued.

If freedom survives the present crises, there is but one serious possibility of long postponement of remedial action in France. That possibility lies in unwise American interference by subsidizing the French Government. By supplying the French politician in office with the means with which to continue his subsidies, his extravagances, and services with neither increased taxation nor the printing of additional francs, it is within our power to prolong the French economic malady, even to the exhaustion of our own available resources. But in essence the operation will consist of nothing more than the temporary expedient of importing to our shores and unjustly inflicting upon our own people a portion of the misery brought upon the French people through the maladministration of their own government. And, in the end, when our own exhaustion compels cessation of our intervention, every responsible American official and every lawmaker and publicist party to the process will be detested for it both at home and abroad; at home for starting and continuing the practice, abroad because of its discontinuance. And, Congressman, should any of your constituents inquire as to the probable duration of economic distress in France, and you may be sure many of them are wondering, you may with perfect safety reply that the duration will at least be coextensive with continuation of the practice of shipping American wealth to France in attempts to shore up a rotting franc; a franc rotting not because of exhaustion of French resources, but because French politicians in office decline to be honest.

VII

There is ample support of a current factual nature for the conclusions just expressed. It is to be found almost daily in press reports from France indicating the declining value of the franc under pressure of new issues and the discontent of the people because of it. It is to be found in speeches by French Cabinet members; in strikes and demands for increased wages; in the withholding of agricultural produce from the price controlled markets of the cities, though there is no evidence of scarcity in the country. Of equal significance are reports from returned American travelers. The correspondent, Marquis Childs, has recently reported from Paris that expensive Parisian resturants are daily filled with French diners, while the French Riviera, the expensive gambling and resort center, has just closed its most profitable year. Others have made similar reports.

Dr. Heiser, the distinguished American physician and author who gave a lifetime to the service of humanity through the Rockefeller Foundation, has just returned from a three-months' motor trip through France and Italy. He speaks both languages and talked freely with the people of the country and cities. This competent man declared upon landing in New York that he found no evidence of serious lack of food in either country and that the shops of Florence in Italy where there is no meat rationing carried more steaks and chops on display than he observed in similar New York markets.

The distinguished San Francisco weekly, "The Argonaut," of Oct. 24 contains a letter from John Gallois, a prominent San Franciscan. It was written at sea to the editor by Mr. Gallois who was returning from a four-months' tour of Sweden, Belgium, Holland, France, and a small part of Germany. In this letter he says: "These Europeans are not suffering, although they appear broke. Never, even in the heydays of the late twenties have I seen such spending, luxury, gambling, and so forth as in France and Belgium. It's not like the old days when the Americans, British, and Russians were the great spenders in Europe. Now it's the local people. What these people now need is to get down to work and forget about our helping them. The countries and people look healthy and prosperous, and unless the 13 nations now assembled in Paris can form a sort of perpetual U. S. of western nations which would forget their dollar demands without productive planning, I would let them paddle their own canoe. * * * If France wants to get out of her mess, she must revise her ways of living and abandon the habits of luxury she has acquired in the years since the liberation. The exhibition of indecent riches I saw in French summer resorts has certainly not given tourists the impression she needs financial help. You cannot ask for help and live as well as before the war. * * * At present France offers a strange picture. Her industrial production is equal to 1938 but she lacks essential manufactured commodities. Her agricultural output equals 1938, yet she goes begging for wheat and meat. The cause is hoarding for black market prices. Her cities go short of food and the countryside eats as never before." Many other disinterested travelers have reported similar observations. None of the indecent display of wealth and luxury on the part of Frenchmen, described above, has escaped the eyes of the helpless middle and wage earning classes of France, desperately struggling against the declining value of their francs. Their bitterness and resentment are manifested in the strikes and disorders now being experienced. This resentment will continue until conditions are changed, and change will come only with removal of the causes.

VIII

Proof of the cause of scarcity in the French cities and of the rapidly declining value of the franc is to be found in the government's financial reports. In January of this year there was published in "The Commercial & Financial Chronicle" of New York a study of the French situation by a competent economist, Egon Kaskeline. The figures which follow are taken from that study. I have seen none of them questioned and have no reason to doubt their authenticity. The French national debt is \$453 per capita as compared with a per capita debt in the United States of \$1,185 and in Great Britain of \$2,152. In December, 1946, the controlled price level in France, as a consequence of the paper money inflation, had reached 800% of the 1938 level. It is now much higher and moving upward steadily. Upon the free or black markets which were then doing over one-third of all French business, the price levels had reached 1,600% of the 1938 levels. The franc, officially valued at the pegged price of 119 plus per U. S. dollar by the International Stabilization Fund, was selling at 350 per U. S. dollar. It was estimated by M. Phillip, the new Minister of Finance, in his December address to the Assembly that the tax frauds of the year 1946 ran as high as 150 billion francs. 150 billion francs, Congressman, at the pegged rate of exchange is 1¼ billion dollars. The total deficit of the French Government for the year 1946 was reported as 415 billion francs of which 203 billion came from losses in the nationalized railways and industries. This deficit was met by the issuance of newly created paper francs. The deficit for 1947 was estimated at 500 billion francs to be met in the same manner.

The foregoing are shocking figures but those which follow must appall every Congressman who is giving serious consideration to the question of voting taxes against his own constituents on behalf of a French Government which openly declines to do its duty. Taxes collected in France represent but 22.7% of French income as against nearly double that percentage in the United States and 40% in Great Britain, while from the estimated annual 400 billion francs worth of agricultural production, but 2 billion francs (one-half of 1%) are taken in taxes. It is in the face of these figures that it is gravely proposed that additional taxes be laid upon all Americans, rich and poor, farmer and factory worker, to support the Government of France.

The French Government's reported income for the fiscal year ending in 1946 was 373 billion francs. This equals \$3,130,000,000. The division of this by 40 million, the estimated population of France, gives \$78 as the per capita tax burden imposed upon its people by the French Government in the fiscal year ending in 1946. Now, subject to the same calculation the \$40 billion tax collection of the Federal Government of the United States from the American people. In a word, divide \$40 billion by 140 million, the population of the United States. This calculation discloses that the tax collection from the American people by the Federal Government alone during the year 1946 was \$285 per capita, nearly three times that collected by the French Government from its people.

It is not for taxing lightly that the French Government is to be condemned. It is for taxing lightly while spending heavily and meeting the deficits by the printing of paper francs. For this it is inevitable that it will soon be called to account by the French people. That is, Congressman, the French Government will very soon be called to account by the French people unless you and your colleagues can be persuaded to tax your own constituents to make good its deficits.

IX

If the Congress of the United States is to become Tax Collector Extraordinary for the bankrupt governments of Europe and the American citizen Taxpayer Extraordinary on behalf of those governments, it is well that Congressmen visit those countries on whose behalf they propose to enact tax measures. But one day spent in examination of French books readily available in translation will afford great enlightenment both to those legislators who travel abroad in search of information and those who remain at home. For French scholars, with the industry and meticulous care characteristic of their race have assembled and analyzed the records pertaining to the great French paper money inflations of the past even to the daily police reports respecting the feelings and conduct of the people.

In these studies one is enabled to observe, as in a mirror, precisely the conditions to be observed in France today. The disappearance of food from the price controlled and policed markets of the cities; food in plenty in the country; black markets flourishing; expensive restaurants and gambling resorts filled to overflowing; speculation rampant and discontent and unhappiness everywhere; an over-staffed and wasteful government unceasingly pouring newly printed paper francs into the country's circulation while harassed and impotent officials struggle to force the people to accept the printings of the Government at such values as bureaucrats prescribe, the people declining to do so. History is repeating itself in France. The French people, knowing their own history, and understanding the ways of the French politician, far better than do Americans, are resisting and rejecting a great imposture. There are of course persons in France as in the United States who lay the blame for stagnation of trade in price controlled markets, the scarcity of food in the cities, and the steady increase of prices, upon the demands of labor and salaried persons for increased pay; others lay the blame upon merchants, others upon bankers, and still others upon industrialists and farmers. These charges are as false as they are unjust. The blame lies with none of these but upon those Frenchmen who co-jointly constitute the French Government. By their dishonest fiscal practices they have destroyed an essential factor in French civilization, the lawful medium of exchange of France, while the struggle of labor, of salaried persons, of merchants, of farmers and industrialists for additional francs is but the natural struggle to survive. In it is exhibited the protective instinct of the individual to safeguard himself and his family, and nothing more. The issue of economic recovery in France lies between the French people as a whole and the French politician, and there it must be decided. Our intervention can prolong the struggle and the agony and import a portion of it to our own country. But it cannot determine its final outcome.

X

I have used France as example, but in one respect the case of England is more illuminating. When I wrote you eighteen months ago expressing opposition to the British Loan in the form then advocated, I stated that I opposed it not because of antagonism toward the British people but because upon objective reasoning I believed the loan would prove harmful both to the British and to ourselves. I stated that reason led to no other conclusion than that it would impair Anglo-American friendship since the conditions attached to the loan could not be met and therefore should not be imposed. I also stated that the adverse effects of so great a drain on American resources, the total of \$20,000,000,000 then under consideration for foreign grants being, interestingly enough, the same as at present, could not be postponed but would promptly manifest themselves. Little time has been required to vindicate the accuracy of these conclusions. As an alternate to the blanket loan as planned, I suggested a careful examination of the fiscal affairs of Great Britain and that approach to its financial problems dictated by all experience. But it soon became apparent that the great mass of the American people, moved by humane instincts and high purpose, was being won by a skillful campaign of official propaganda to accept the representations inscribed upon the bottle with no real knowledge of its contents. Congress thereupon succumbed to the pressure of the Administration. It was but a repetition of similar Administration successes. The result was but a repetition of past failures. Events have moved swiftly in America. The people have demonstrated that they like neither the scarcity and the advancing inflation they are experiencing at home nor the news they receive from abroad. They have learned that fine phrases and lofty declarations of purpose are poor substitutes for objective reasoning, and that an economic untruth does not become truth because advanced in support of a cause deemed worthy.

XI

We now know in enlightening detail what happened to the British Loan. To make use of an ancient expression, it went for corn and games for the British populace, for food and clothing subsidies, for tobacco for Hollywood films, for doles, for losses incurred in nationalized industry with that increased pay for decreased production which makes for political popularity and national bankruptcy. By indirection through the subsidies it went for unprecedented welfare programs and the pay of new heavily staffed bureaus to control the mechanisms of the new order.

Bewildered Americans express astonishment that by-elections in Great Britain in regular succession have sustained the Socialist Government, a seeming anomaly if things in Britain are as bad as reported. There need be no astonishment. During the past year the pay of British labor in shillings has been higher than ever before, and the cost of food and clothing relatively less because of prodigious government subsidies made possible by the American loan. As a consequence of this and of the little left to buy because of the export program of his government, the British wage earner has a surplus of shillings in his pocket. It is for this reason that absenteeism has reached proportions hitherto unknown and the increased attendance at horse racing, dog racing, professional football matches, and all other forms of public and private gambling have become a national scandal. The Churches, gambling committee has just reported that receipts on greyhound racing tracks in England, Scotland, and Wales last year were \$796,000,000; that bookmakers' takings are estimated at slightly more bringing the total expenditure at greyhound racing tracks over \$1,600,000,000. And who, Congressman, one may ask, paid for the colossal food and clothing subsidies, for the tobacco, for the Hollywood films, for the absenteeism, for decreased work with increased pay? The answer is not difficult. It was paid for in substantial part by Americans under compulsion of an Act of Congress. It was paid for out of the Loan which, confidently supposed by well meaning Americans to last four years and assure the rehabilitation of British industry, was dissipated in living expenses and amusements in one, and served no real purpose except to enable the Socialist Government to keep itself in power.

Is it great wonder that so many Americans now meeting this bill through taxes and higher prices witness with grave concern the efforts of elements within the Administration to exact from them under force of law additional contributions to so little purpose?

XII

That which objective reasoning made clear has been proven by events. From every part of the world into which American money has been poured the story is the same. The \$4,250,000,000 received by the Government of Great Britain from the Treasury of the United States has all but disappeared in a year, and with what results?—increased austerity for the British people and no abatement in the economic distress of their country. Billions to the Government of France, and with what result? — conditions more critical than before, and a decrease in the bread ration of France to levels below that of the German occupation. Billions to Russia and her satellite states, and the measure of their gratitude is the murder of innocent young Americans and the denunciatory charge that we are Imperialists, War-Mongers and Enemies of Mankind. Billions for the liberation and rehabilitation of China, and our Government dares not publish the report of its Official Observer, so gruesome are the details of corruption and malfeasance; hundreds of millions for Greece, and the dispatches of yesterday disclose the discovery of \$75,000,000 in supplies abstracted and hidden in the interest of Greek individuals.

Among all who have accepted our benefactions, which since the surrender of Japan have aggregated the great sum of \$20,000,000,000, few are to be found who believe our motives to be other than those of calculated self-interest. Nor are they entirely without justification for this be-

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Holds Western Europe Forges Own Economic Chains

(Continued from page 29)

lief, since each successive overseas spending project has, like the present, been represented by its promoters as demanded in our own national interest.

In every city, village and hamlet in America people are crying out against scarcity and high prices. The oppression is real and not fancied. There is scarcity and prices are high. One has but to pass through the food markets and observe the anxious faces of poorly dressed women to gain first-hand knowledge of what this condition means to many. Even the President coupled to his demand for these new gratuities abroad a demand for action against scarcity and high prices at home. It is a demand for relief from the very ill he proposes to inflict. It is a demand that one be subtracted from five and the result be six.

To contend that these proposed shipments of billions of American resources and production abroad do not inflict definite shortages and consequent higher prices at home is to indulge in meaningless abstraction. To say that it is the American wheat eaten by Americans and not the American wheat eaten by Europeans that makes prices high; that it is the American steel consumed by Americans and not the American steel consumed by foreigners that makes steel scarce, are distortions of reason into nonsense. In appraising the working of an entire economy earmarking of portions in the manner indicated is impossible. But it is indisputable that for every million bushels of wheat and every million tons of steel sent abroad there is an equivalent decrease in supply upon the home market. It is also indisputable that the addition of dollars and convertible credits to our already over-expanded circulation sharply increases demand upon those markets.

XIII

There are persons who say that the United States can well afford to send an additional $20,000,000,000 worth of its resources and production abroad with nothing to be received in return, and should make provision to do so not only without delay but apparently without study insofar as Congress is concerned. In lieu of independent congressional study, they demand that Congress act upon the recommendation and report of Committees composed of lay individuals, selected by the Executive to instruct Congress respecting its duty. These committees have presumed to ascertain what "the economy of the nation" can afford. I propose to point out the callous falsity of the concept underlying these studies of what "the economy of the nation" can afford: a concept bearing no greater relationship to reality than the doctrine that the Government's debt is meaningless because "we owe it to ourselves".

The Government of the United States, the proposed bestower of these foreign grants, does not own the wealth of the nation. The purchasable and exportable wealth of the nation is owned by individuals and corporations, and in varying proportional shares. The income of the nation is also received by individuals and corporations in varying proportional shares. Whatever goes abroad pursuant to these spending projects must be purchased, paid for, and withdrawn from the supplies otherwise available for purchase by individual Americans. The impact upon individuals will vary with their income and their necessities. Every item must be secured in the markets in competitive bidding against American citizens, few of whom are rich, the vast majority of whom are at best in no more than moderate circumstances, and many of whom are desperately poor. I beg of you to mark carefully the contrast between these two classes of purchasers in the American market, the individual American who is compelled day by day to earn his own, often meager, supply of dollars, and the foreign government which is supplied with dollars gratuitously. And having carefully marked this contrast consider the handicap under which the American purchaser labors since he must not only earn his own dollars but provide the dollars spent by the foreign government as well. Slight analysis of the facts is required to demonstrate the falsity of that singular concept which presumes to determine a question so vital to individuals upon an examination of what "the economy of the nation" can stand. The question is not what "the economy of the nation" can stand. The question is what that tangible flesh-and-blood creature already desperately struggling to make both ends meet, the average American, can stand. It is upon his back that Congress is asked to strap this load and it is with him that Congressmen and the political parties to which they belong must reckon in the end.

I have in mind, Congressman, the average people of the United States, the men and women, old and young, of small or moderate income, who with mounting anxiety are struggling day by day not only against the present unparalleled rates of taxation which add heavily to the price of everything they buy but against the grinding burden of the national debt as well, a burden applied through the gross inflation of our circulating media. Among these men and women are to be found the best the country has, all salaried workers, all teachers, the clergy, all civil servants, all labor which suffers loss because of the lag between increasing prices and increased wages, the five million families recently declared by Government to be without present possibility of procuring homes of their own because of high costs and scarcity of materials. There are also those whose life savings, once sufficient for their support, are no longer adequate because of advancing prices.

It is true that there are poor persons in Europe and persons paralleling in circumstance those I have described. It is no less true that there are rich persons in Europe and great resources available to those Europeans willing to work as Americans work. There is poverty and destitution in Asia of an appalling character, and until the nature of man changes there will be poverty and destitution throughout the world as there always has been. But the cure does not lie in seizing that produced by the provident and industrious and giving it to the improvident and those who decline to work. Through that process all will assuredly be reduced to a common level of indolence and destitution.

XIV

A lawful medium of exchange in the continuing value of which the competent persons of a modern society repose confidence is as indispensable to production, distribution, and trade as tools are to the erection of buildings. Without such a medium a civilized society in the modern sense cannot exist since its existence requires a steady accumulation of liquid as well as of permanent capital, and contemplates a broad diversification of production with a continuing exchange of the things produced. When confidence in its established medium of exchange is lost or seriously impaired, every phase of the economic life of such a society sickens. It is a sickness for which there is no cure except in removal of the cause. France is suffering from this sickness in an acute stage. Great Britain suffers from it as well but in a lesser degree. Nevertheless her illness is aggravated by practices already pointed out. In both countries production and commerce are stifled with those controls never absent when money, forced to forsake its true function of handmaiden to commerce, becomes harlot to politicians. The purpose of such controls is neither to stimulate production nor facilitate distribution. The purpose is to force trade to accept debauched currencies at prices fixed by political bureaus. They constitute an attempt by government to enforce expropriations designed to serve the political interests of men in office.

To subsidize a government is to subsidize the men who constitute it and their policies. Demonstration of this is plain in the case of the British Loan, which is now clearly seen to have constituted subsidization of the Socialist Government of Great Britain. If the practices of a government are prodigal, subsidization of that government constitutes subsidization of prodigality. If the policies of a government promote scarcity and stagnation of production and thus promote the spread of communism, subsidization of that government promotes the spread of communism by perpetuating the conditions that foster it. If the correct method of combating the spread of communism in Western and Central Europe is to restore prosperity, measures calculated to restore prosperity must be adopted. The subsidization of Western European governments is not such a measure. Neither are measures for the reshackling of Americans. Such measures will do no more than destroy production at home. There is but one method of restoring prosperity in Western and Central Europe. That is to unbind the people, provide them with an honest medium of exchange and permit them to create prosperity.

Congress can tax Americans until they cry for mercy — and millions of them are uttering that cry today — and it can subsidize existing foreign governments without end, but until governments are set up which will establish and maintain honest media of exchange, live within their means and free their peoples from bureaus and harmful controls there will be no recovery. And when they do establish and maintain such media of exchange, reduce government expenditure to the level of government income, and free commerce from its chains, there will be no occasion to cry for foreign relief. The cure for Europe's economic distress, Congressman, is to be found neither in the exportation of American resources gratuitously to European governments nor in re-regimenting Americans. It is to be found in the freeing of Europeans.

Green, Ellis & Anderson

Green, Ellis & Anderson, 2 Wall Street, New York City, members of the New York Stock Exchange, will admit Edward B. Mulligan, Jr., to partnership on Jan. 1. Mr. Mulligan is manager of the firm's office in the Miners Bank Building, Wilkes-Barre, Pa.

John V. Jewell will withdraw from the firm on Dec. 31.

Drysdale to Admit

Drysdale & Co., 71 Broadway, New York City, members of the New York Stock Exchange, will admit James Watson to partnership on Jan. 1.

As We See It

(Continued from first page)

word for it and assume that I must be wrong; but, on page 32 of the same issue of your paper, Congressman Howard H. Buffet writes: 'Many people still nurse the hope that increased production will cure this situation. They forget that production creates its own purchasing power. If we produce in 1948 $150 billions of goods, there will be $150 billion of new money created to buy those goods.'

"It seems to me that this question is of such a fundamental nature that we should come to some agreement about it."

Our correspondent is right. There is a crying need for a better understanding of and hence more general agreement about the inter-relationships among such factors as money supply, credit volume, production and prices—concerning which there is, perhaps, more confusion than about almost any other phase of business or economics.

A number of fundamental relationships seem, however, to be established beyond any room for argument. The essence of these relationships we shall now set forth as they seem to us for whatever benefit our correspondent and our other readers may find in the exposition.

(1) First, let us distinguish clearly between "money supply" and "purchasing power." Possibly, the supply of money—that is both currency and bank deposits—in the hands of the public at any point in time may be as good a measure as we have of the purchasing power in existence at that moment. Its short-comings as such a yardstick—real though they be—need not detain us here.

What is clear, and what is of vital importance in the distinction we are now making, is the fact that there is a vast difference between the purchasing power in the hands of the public at any moment in time and the amount of such purchasing power which flows into the hands of the public in any period of time, such as a year. Each dollar in the money supply, whether it be a deposit at a bank or currency in the pocket of the individual, is used over and over again in the course of the year. A dollar changing hands 25 times in the course of a year, multiplies its original purchasing power by 25.

A Concrete Illustration

A concrete illustration may aid the exposition at this point. In 1929, some $22.5 billion in demand deposits (the main component of the money supply) settled transactions totaling roughly $1,250 billion. Expressed in other words $23 billion of demand deposits bought nearly $1,250 billion in goods and services, a ratio of nearly 54 to 1. In 1934 some $18 billion in demand deposits bought only around $480 billion in goods and services, a ratio of about 26 to 1. In 1946, roughly $90 billion in demand deposits bought less than $1,400 billion, a ratio of about 15 to 1.

Thus it is seen that the volume of transactions any given level of money supply can settle in the course of any given period of time is determined by the rate at which it is used, or what is usually termed, the velocity of turnover.

(2) An increase in the volume of production may or may not enlarge the supply of money—or of credit for that matter. It definitely tends to increase the rate at which money is used or turned over. Consider the fact, first of all, that the commercial banks of the country at the first of the year owned roughly $75 billion of government obligations. Suppose bona fide investors and Treasury surpluses were to take $25 billion of such holdings out of the portfolios of these banks. Expansion of production could be financed by these institutions in the amount of $25 billion without adding a dollar to the supply of money. Funds for the expansion of production, moreover, can be had from investors other than commercial banks. Such transactions as these add nothing to the money supply.

(3) The process by which goods and services are produced creates purchasing power in amounts equal to the cost (including profit) of producing them. Mere increase in production, other things remaining the same, can not, therefore, contribute to the elimination of inflation. But—and here is the catch—other things may not, indeed need not, remain the same.

Let Us Suppose

The amount of purchasing power created in the production process equals, let it be carefully observed, the cost of producing the goods and services in question. Now let us assume that production is increased, say by 25%, without increasing the funds laid out in total production. Then, of course, the volume of purchasing power created remains unchanged while the volume of goods offered in the markets increases one-fourth. In such a case, obviously, a basis for a substantial reduction in price has been created. Indeed, in most ordinary circumstances much more than that has been accomplished. For all practical purposes in usual circumstances a reduction in prices is all but guaranteed by such a process—and, of course, the end result is more goods for all.

Over the long run precisely this has been taking place. Technological advances, expanding know-how, and other similar factors, where they have not been offset by steadily contracting work weeks, diminishing willingness of workers to exert themselves, restrictive union tactics of one sort or another, have steadily enlarged the supply of goods available without adding proportionately to the cost of production. When arbitrary increases in the money supply have not interfered prices have declined accordingly.

Larger production at lower costs—that is a real weapon with which to fight rising prices!

Avoidance of public policies which inevitably play hob with money and credit, and insistence upon full and free competition are, of course, other weapons required.

Purchasing Power of Profits

(Continued from page 12)

for the BLS wholesale index. Thus, during the '20s, the index of road construction costs averaged 64% higher than the average for the years 1910 to 1914, while the index for equipment cost averaged 80% higher. The combined index for road, equipment and general costs reported by the Bureau, averaged 68% above the immediate prewar level. It will be recalled that this compares with an average rise in the BLS wholesale price index for that period of somewhat more than 40%. The relationship during the '30s furnishes an even sharper contrast in terms of the degree to which the level of costs then prevailing exceeded those in the 1910-1914 period. The index of road construction costs during the '30s averaged 35% above 1910-14, the equipment index averaged 80% higher, while the combined index averaged 45% higher. These large increases it will be recalled, compared with an increase of about 10% in the level of the general wholesale price index during the '30s.

For the entire 20 years from 1921 to 1940, it is found that the index of road costs were 50% higher, the index for equipment costs 80% higher, and the combined index 57% higher than in the years immediately preceding World War I. In using these indexes, it must be kept in mind that changing designs, changes in quality of materials, and other factors impair the significance of long-term comparisons.

For 1947, the road construction index is estimated at 238 (1910-14=100), or nearly 75% above the level prevailing in the years 1935-39. The index of equipment construction costs is estimated at 312, or about 65% higher than in the immediate prewar period. The combined index is estimated at 253, or about 72% higher than prewar.

In light of the past record discussed previously, and the types of pressures which have developed during and after the war, it seems fairly clear that in the years immediately ahead, even if prices decline sharply from the present level, the railroads will be faced with higher costs for plant and equipment than at any time in the last 50 years, with the possible exception of several of the World War I years and the years 1946 and 1947. Under these circumstances, the cost of replacing plant and equipment that is retired, and the cost of additions and betterments will be considerably greater than in the past. To the extent that depreciation reserves have been set up on the basis of original cost, they will prove to be inadequate by a significant margin to replace retired plant and equipment. The added funds will have to be obtained from undistributed profits or by raising new capital.

The index of railroad construction costs is estimated at 172 (1935-39=100) for 1947. This is about 70% above the weighted index of 101 for the years 1935-39 and 50% above the weighted costs of the '20s. While the percentages would vary somewhat, the relationships for railroad equipment and roadway and structures costs taken separately are substantially the same as for the overall totals.

These relationships can be expressed by showing the number of 1947 dollars that would have been required to purchase the volume of equipment and roadway and structures actually acquired in these earlier periods. Let me emphasize again, that due to changes in design and quality of the equipment and materials acquired, the application of 1947 dollars as reflected in the construction costs indexes will not necessarily reflect **actual** differences in costs. But my main point is concerned with the broad changes which have taken place in costs, not with the precise quantification of these new relationships. I readily concede that the exact dollar spending might vary significantly in terms of what is acquired today.

Table 2 shows how much more the additions and betterments acquired by the railroads during the period 1921-40 would have cost if 1947 costs had prevailed throughout the period. Thus, on the basis of the acquisitions in the 10-year period, 1921 to 1930, the average annual cost would have been $1,160 million or $387 million more than the average amount actually spent each year during that decade. Similarly, at today's prices the volume of equipment and roadway and structures acquired during the '30s would have cost an additional $200 million annually.

Another way of presenting this problem is to examine the real purchasing power of net railway operating income, since it is out of that income that part of these additions and betterments must be financed. There are various ways in which the reduction in the purchasing power of the business dollar may be measured. Three indexes are available for this purpose: (a) the railroad construction index prepared by the Bureau of Valuation of the Interstate Commerce Commission; (b) the index of average unit prices of railway materials and supplies, excluding fuel, prepared by the Bureau of Railway Economics of the Association of American Railroads, and (c) the index of wholesale prices other than farm products and food prepared by the United States Bureau of Labor Statistics.

TABLE 2

Average Annual Gross Capital Expenditures—In Actual Dollars and in 1947 Dollars Selected Periods—1921 to 1940

(in millions)

	Actual	In 1947 Dollars	Increase
1921-30	$773	$1,160	$387
1931-40	276	475	199
1935-39	297	505	208

Note—To obtain these estimates, the ratio of 1947 costs to the average weighted cost in the designated period was first determined. Then the resulting ratio was applied to actual expenditures during that period.

Insufficient Railroad Net Income

Table 3 shows net railway operating income and net income of Class I railroads annually from 1921 to date. In the last three columns of this table, net railway operating income is adjusted for changes in each of three price indexes.

An examination of column one shows that net railway operating income in current dollars in 1946 was $620 million as compared with an average of approximately $544 million in the years 1935-1939. However, when allowance is made for the changes in the BLS wholesale price index, that is an effort is made to measure the real purchasing power of net railway operating income, it is found that net railway operating income had a purchasing power equivalent to only $460 million in the base period. In fact, this level of real net railway operating income was the lowest for any years from 1921 to 1946 with the exception of 1932 and 1938. On the basis of a preliminary estimate of $759 million for net railway operating income in 1947, and an estimated index of 166 for wholesale prices other than farm products and foods, real net railway operating income will be only $459 million, or more than 15% below the 1935-39 average and the lowest level for any of the 27 years except 1932 and 1938.

If real income is measured on the basis of the railroad construction index, a similar picture emerges. However, since the railroad construction index rose more than did the index of wholesale prices other than farm products and foods, the real railway operating income was only $392 million in 1946 as compared with $544 million in 1935-1939. Here again, the 1946 level of real income was lower than that achieved in any years except 1932 and 1938. On the basis of the estimated 1947 net railway operating income and the 1947 estimated index of railroad construction costs, real net railway operating income will be approximately $441 million, or the lowest for any year except 1932, 1938 and 1946.

The index of prices of railway materials and supplies is available only since 1933. When this index is used for adjustment purposes, the net effect is similar to that found in columns six and seven which reflect the adjustment by the other two indexes.

To round out the picture, it must be recognized that fixed charges represent a claim against net railway operating income. The fixed charges are stated in dollars and do not vary with changing price levels. Thus, if net railway operating income were to increase in proportion to changes in prices, it would follow that net income after these charges would increase at an even greater rate.

The years 1935-1939 represented a depressed period by any standard that may be used. On a national basis, unemployment ranged from eight to 10 million people. Approximately one-third of the railroad mileage was in receivership. The average level of net railway operating income was less than half as large as during the '20s and only moderately higher than in the years 1931 to 1934 (For example, for all corporations the profit in years 1936-39 was about the same as for the period 1922-39. For railroads, the 1936-39 average was $555 million, or 28% below the 1922-39 average of $767 million.) This evidence could be multiplied in other ways (e. g., price level, industrial profits, business failures, etc.). The fact that real net railway operating income in 1946 and 1947 fell below the level prevailing in that depressed period is a sufficient commentary upon the situation in which the Carriers now find themselves.

One other point may be noted in connection with these changes in prices and costs and their effect upon the purchasing power of business dollars. For years the emphasis has been placed upon a return of 5½ to 6% as the legitimate objective for the railroads of this country. With prices more than 50% higher than in the prewar years, it is important to keep in mind that the attainment of a 6% return would have the purchasing power of a 4% return or less before the war. Moreover, since the purchasing power of the dollar is significantly lower than the average level for any past period, with the exception of several of the World War I years, it follows that the attainment of a 5½ to 6% return today would, in terms of real purchasing power, yield a poorer result than the average for the past half century. As has been previously stated, even a major decline in prices would leave the general price level in the near future substantially above the historic level. Thus, the attainment of the 5½ to 6% return in current dollars would yield a lower **real** net operating income than in most of the years during the past half century.

TABLE 3

Adjusted Net Railway Operating Income, Based on Trends in Wholesale Prices, Railroad Construction Indices and Prices of Railway Material and Supplies

Railways of Class I in the United States

(in millions)

Year	Class I Railroads: Net railway operating income	Class I Railroads: Net income	Adjusted net railway operating income based on trend in—: Wholesale prices other than Farm Products and Foods a	Adjusted net railway operating income based on trend in—: Railroad construction index b (1935-39=100)	Adjusted net railway operating income based on trend in—: Prices of railway material and supplies c
1921 ---	$600.9	$313.5	$465	$501	*
1922 ---	760.1	369.5	602	704	*
1923 ---	961.9	554.9	749	802	*
1924 ---	973.8	558.4	793	825	*
1925 ---	1,121.0	700.8	887	983	*
1926 ---	1,213.0	809.0	985	1,064	*
1927 ---	1,067.9	672.8	922	929	*
1928 ---	1,172.8	786.8	1,024	1,047	*
1929 ---	1,251.6	896.8	1,109	1,108	*
1930 ---	868.8	523.9	828	797	*
1931 ---	525.6	134.7	569	520	*
1932 ---	326.2	Def. 139.2	377	351	*
1933 ---	474.2	Def. 5.8	541	527	$596
1934 ---	462.6	Def. 16.8	479	487	503
1935 ---	499.8	7.5	521	515	540
1936 ---	667.3	164.6	680	688	709
1937 ---	590.2	98.0	562	568	552
1938 ---	372.8	Def. 123.4	370	369	352
1939 ---	588.8	93.1	588	583	585
Av. 1935-39	543.8	47.9	544	544	544
1940 ---	682.1	188.8	667	656	659
1941 ---	998.2	499.7	910	891	923
1942 ---	1,484.5	901.7	1,261	1,160	1,251
1943 ---	1,359.7	873.4	1,139	1,000	1,099
1944 ---	1,106.3	667.1	911	808	863
1945 ---	852.1	450.4	694	600	651
1946 ---	620.1	287.7	460	392	441
1947 ---	758.0	460.2	459	441	459

*Not available. Def. Deficit. a Bureau of Labor Statistics, U. S. Department of Labor. b Bureau of Valuation, Interstate Commerce Commission. c Bureau of Railway Economics, Association of American Railroads.

Business Man's Bookshelf

Census of American-Owned Assets in Foreign Countries—U. S. Treasury Department—Superintendent of Documents, U. S. Government Printing Office, Washington 25, D. C.—paper—35¢.

Full Employment in Your Community—A report of the W. E. Upjohn Institute for Community Research—Public Administration Service, 1313 East 60th Street, Chicago, Ill.—cloth—$2.75.

New Tools for Stock Market Analysis—Nicholas Molodovsky—Bowne & Co., Inc., 163 Front Street, New York 7, N. Y.—$5.00.

Earl C. Petersen Joins Hornblower & Weeks Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Earl C. Petersen has become associated with Hornblower & Weeks, 39 South La Salle Street. He was formerly with Paine, Webber, Jackson & Curtis and Rawson Lizars & Co.

Sills, Minton Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — James Colbert has become affiliated with Sills, Minton & Company, Inc., 209 South La Salle Street, members of the Chicago Stock Exchange.

With Nehring & Ricketts

(Special to THE FINANCIAL CHRONICLE)

ELGIN, ILL.—Louis A. Leonberger, formerly with Heath & Co., is now connected with Nehring & Ricketts, 4 South Grove Avenue.

Price Opens in Denver

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Roy S. Price has opened offices at 1407 Stout Street to engage in the securities business. He was with Marshall Adrian & Co. in the past.

With Merrill Lynch, Pierce Co.

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA. — Richard W. King is now with Merrill Lynch, Pierce, Fenner & Beane, 23 North Pryor Street.

Frazier With Chesley

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Garnet L. Frazier is now with Chesley & Co., 105 South La Salle Street. He was previously with H. Hentz & Co.

With Fusz-Schmelzle

(Special to THE FINANCIAL CHRONICLE)

BELLEVILLE, ILL.—Frank G. Oexner is now associated with Fusz-Schmelzle & Co.

Canada Meets a Challenge

(Continued from page 16)

refrigerators, radios and so on and had the money to do so. We produce large quantities of these goods in Canada but we import quite a lot from you as well and in any case our Canadian production of this kind of goods usually has a substantial U. S. content. We buy quantities of parts and materials from the United States and our inventories were low and needed replenishment. Prices of your goods were rising substantially. Moreover, we could not obtain adequate supplies from countries which were normal sources before the war so we turned more and more to the United States. You normally sell us about 60% of our imports, but recently the proportion has been 75%.

Because we could not get payment for a good part of our exports overseas and we were buying so much from your country, we had to dig deeper and deeper into our exchange reserves. Our gold and U. S. dollar reserves had declined from $1,245,000,000 at the beginning of this year to about $500 million by the middle of November. We postponed restrictive action so long as we reasonably could. We were most concerned that the Geneva tariff and trade negotiations should be successful and we did not wish to take any action which might have prejudiced the success of this concerted effort to reduce trade barriers and to establish a workable code of behavior in international trade. It was perfectly obvious, however, that we could not face a continued decline of this sort in our exchange reserves. So, in the middle of November, we put into effect a general program designed to correct our position and to bring about a better state of balance in our trade with the U. S. dollar area.

The Canadian Program

That program which is now in effect is a many-sided one. It is designed to overcome our U. S. dollar problem by constructive measures and with the cooperation of your country. Given time, these constructive measures should prove sufficient to overcome our difficulties. But in the interval, while the constructive program is taking effect, we had no choice but to restrict our imports from U. S. dollar countries. We have done this through a number of prohibitions and quota restrictions on our imports. While the effect of these restrictions will be largely to reduce our imports from the United States, they are applicable to all countries and we have generally followed the principle of non-discrimination on which our government, like yours, lays a great deal of emphasis. We have also levied heavy excise taxes on the sale in Canada of such things as automobiles and household appliances which will help to reduce the temporary protective effect of the import restrictions on Canadian industries and to safeguard the interests of American suppliers who are for the time being shut out of the Canadian market. The Canadian Government was loth to put such restrictions into effect and would not have done so had there been any satisfactory alternative. We could not, however, allow ourselves to get into a position which would have threatened the very working of our economy and would ultimately have necessitated far more severe restrictions than those we have imposed. As an extra margin of safety, as a standby credit in case of need, we have arranged a loan of $300 million from the Export-Import Bank of Washington.

On the constructive side, we are embarking on a program to increase our U. S. dollar receipts and to achieve a better balance in our transactions with your country. We do not believe that any satisfactory or lasting solution to our problems, and for that matter to the problems of other countries, can be found within the limitations of a restrictive approach. We intend to solve our problems by expanding our trade, not by restricting it. We believe that we can expand our exports to you very substantially and provide you with additional goods which you want and require, such as wood and paper products, metal goods and some farm products. We shall be assisted in this objective by the tariff reductions which were agreed upon at Geneva, and to some extent we shall divert our exports from overseas to the United States. Overseas countries are in such acute dollar difficulties that they are sharply restricting their purchases from us as well as from you. In these circumstances we are in a position to divert considerable exports to you, and in addition we shall have to reduce our own consumption of certain goods to some extent in order to ship them to your country.

We are also examining some of the operations of United States branch plants in Canada with the aim of achieving a better balance in our U. S. dollar transactions. As many of you know, there are a number of large branch plants in Canada, such as those of the "big three" automobile companies. These companies not only produce for the Canadian market but frequently export in volume to other countries within the Empire preference system. We have always welcomed the establishment of U. S. branch plants. The difficulty today, however, is that their operations in many cases result in a heavy drain of U. S. dollars since they import parts and components from the United States and export their finished products to countries which generally cannot pay in U. S. dollars. From the national point of view, this means that we have been putting up U. S. dollars for the heavy importation of parts and components and getting very few dollars from the exports of these concerns. We have every reason to believe that many of these companies can, if they make the effort, reduce the U. S. dollar drain which results from their Canadian operations. We want them to concentrate on the development of U. S. dollar sources of income with which to offset their U. S. dollar outlays. The Canadian automobile industry, for example, which produced large amounts of the cheapest and most efficient army transport during the war, should be able to produce parts for sale in the United States or otherwise share in U. S. dollar markets in order to reduce or eliminate the drain on our exchange position which its operations now involve.

Much Depends on Marshall Plan

You will appreciate, of course, that the speed with which our constructive program achieves the needed results depends on some factors beyond our control. We are going to solve our dollar problem—make no mistake about that. But we shall solve it more quickly and with less restrictive effect on ourselves and on other countries if certain external developments are favorable. The most important of these would be the implementation of the Marshall Plan. The development of this plan in my opinion is the great constructive and hopeful factor in the economic outlook. Anything that helps western Europe to get back on its feet, as the Marshall Plan most surely would, will ease our difficulties.

We hope that the Marshall Plan will be enacted in a form that will permit the expenditure of a portion of such funds in Canada and other countries to buy supplies that are not readily available in the United States. That will to some extent ease the pressure on your supplies and will increase the aid that can be provided to Europe. It will help us with our dollar problem and enable us to maintain our own program of aid to Europe on a larger scale than would otherwise be possible.

I should like to say that we had an understanding and helpful reception from your government officials when we informed them of our position and of the sort of measures we were going to take. I should add that we are consulting with your government on measures of cooperation designed to facilitate the earliest possible removal of these temporary restrictions. During the war, our two countries found that we could cooperate in a way that would increase our joint war effort, and we should be able to work out a cooperative policy again which will contribute to our joint interests. It is clearly in your interests to cooperate with us in a program designed to correct this present state of unbalance in the position of your largest customer and closest neighbor. By doing so you will not only be furthering our mutual interests but you will be adding to the contribution which an integrated North American program can make to European recovery.

No Depreciation of Canadian Dollar

Now, some of you have no doubt heard it suggested that Canada should depreciate her dollar as a method of correcting her present U. S. dollar deficiency, and I should like to make the Canadian Government's position in this matter quite clear. We have rejected currency depreciation because Canada has not the kind of problem for which it is an appropriate or effective remedy. Currency depreciation may be helpful to a country which is in balance of payments difficulties because its costs and prices are too high to enable it to compete effectively in world markets. There are undoubtedly a number of countries in this position today, but certainly not Canada. Price competition is not restricting our exports. On the contrary, we have kept our costs relatively low and at current rates of exchange, our staple exports can be sold in the markets of the world in competition with any country. Moreover, our current shipments to the world are just as large as our purchases. Our total balance of payments is not out of kilter. Our difficulty is a U. S. dollar shortage which arises out of the inability of some of our best customers to pay us in dollars.

Furthermore, the sort of moderate reduction in the exchange value of our currency which is open to us under our obligations as a member of the International Monetary Fund would not be likely to cause an early or substantial restriction in our U. S. dollar expenditures. Wholesale prices in your country have risen by some 40% since the middle of 1946, but despite this marked increase in your prices we have been steadily increasing the volume of our purchases from you. A devaluation of our currency, of 10%, which would add that much to the Canadian dollar cost of our purchases from you, would not be likely to result in any important reduction in our demand for your goods. It would far more likely restrict our purchases from Europe, where costs are relatively high and exports have been slow to recover. And we certainly do not want to reduce our imports from European countries since we have few problems of payment in that part of the world and we do not wish to add to their difficulties.

Currency depreciation is therefore not an alternative to the import restrictions which we have had to impose for the time being. It would not be an effective method of dealing with our problem. Moreover, it would have grave disadvantages. It would accelerate the rise in our cost of living which is troubling our people like yours. It would be inconsistent with our understanding of the responsibilities of a country in our position. If we depreciate our currency when our competitive position is strong and our production and exports high, what sort of conclusions would people draw as to the longer-range value of the Canadian dollar? We in Canada have a U. S. dollar problem not because of any weakness in our economy but because Europe has not recovered from the terrible destruction and dislocation of the war. We believe in maintaining a stable exchange rate. We want to see stabilization of currencies and we want to facilitate trade and investment particularly between your country and ours.

I believe you will agree that the interests of United States investors in Canada would not be furthered by a depreciation of our dollar. The interests of these investors who have placed their confidence in our country, like the interests of Canadians generally, are in the maintenance of an official exchange rate which will contribute to the soundness and stability of the Canadian economy now and in the years to come. Too much attention should not be paid to the variations in the unofficial market for the Canadian dollar in New York which reflect speculative influences and activities. This after all is a narrow market which is supplied by Americans who have obtained Canadian dollars from the sale of Canadian investments—dollars which we cannot afford to transfer at the official rate. The dollars purchased in this market are limited in their use to one or two purposes and can only be purchased by non-residents. Therefore, only a small fraction of the exchange transactions involving Canadian dollars goes through this unofficial market and it is not surprising that it frequently reflects unfounded rumors concerning possible depreciation of our dollar. The vast bulk of our business with your country—all the imports and exports and most other current transactions—goes through at the official rate of exchange. Every penny, for example, of the large interest and dividend payments which are made to your investors including the returns on their very large investments in branch plants is transferred at the official rate. Since the beginning of the war and in spite of all the exchange difficulties that we had in the early part of the war, we have paid over $1¾ billion in interest and dividends to your investors and we have paid every cent of it at the official rate. United States investors have had a remarkable record of safety and satisfaction with their Canadian investments. They have seen Canada face temporary difficulties in the past and always take the steps necessary to correct the situation. Those who really know us are confident that we will solve our problems. We are proud of that confidence and we believe it to be soundly based.

Canadians Can Handle Own Affairs

Those Americans who have taken a continuing interest in Canada that extends beyond holidays and the occasional purchase of a Canadian security, those that know something about our economy and our people know that Canadians can handle their own affairs. They know something of our past record. They know that we are a self-reliant people actuated by the same traditions and beliefs as yourselves. They know that Canada is one of the very few countries in the world today with a high and expanding production and with orderly economic and political conditions. They know that Canada is a land of opportunity.

What I suggest to my American friends is this, that they find out more about their largest customer, their largest supplier, and their largest field of investment. I suggest that they take more interest in the affairs of a people who like themselves are striving for order and freedom in international trade, who have grown up during the war and who intend to make their own contribution to freedom and civilization. We have ideas that may be of interest to you. We have opportunities that are open to you. We give a great deal of attention to what you are doing, as we obviously must. We learn much from you and we are much influenced by you. We discuss your policies and your ideas and we profit by your experience. If your people would take a fraction of the interest in us which our people take in you, our relations would be even better and our contacts even more fruitful.

In concluding, let me presume on the right of a good friend and neighbor to tell you a few things that Canadians are thinking about you. Your country occupies a very central place in the minds of thoughtful Canadians in these critical times. In your hands rests the responsibility for world leadership, for you alone have the power and the means. No other country can begin to do what you can do. Great Britain and Canada can help and can contribute but they cannot lead the world out of the sorry conditions which now prevail. Only the United States can do that. Only the United States can provide the leadership and the help that can make the world the sort of place that your people and our people want to live in.

There never has been a nation which possessed the influence and power that you possess today. There never has been a nation occupying a position of great influence whose motives were less open to question and whose leadership was more desired and more essential. We in Canada, who know you well, believe that you will accept the challenge with which history has confronted you. We see growing evidence of it in the Marshall Plan and we hope and pray that you will act promptly. On your response depends the welfare and the freedom of the world, the very future of our civilization.

Buenos Aires 3% Bonds Called for Redemption

Hallgarten & Co. and Kidder, Peabody & Co., as paying agents, are notifying holders of 3% external sinking fund dollar bonds of 1936, due July 1, 1984, of the Province of Buenos Aires (Argentine Republic) that all of these bonds outstanding have been called for redemption on Jan. 1, 1948 at par and accrued interest. The bonds may be redeemed at the New York offices of either of the paying agents.

With H. C. Robinson Co.

(Special to THE FINANCIAL CHRONICLE)

HARTFORD, CONN.—David W. Rabenhorst has been added to the staff of Henry C. Robinson & Co., Inc., 9 Lewis Street.

Strassburg in Reno

RENO, NEV.—F. P. Strassburg will engage in a securities business from offices at 119 East Liberty Street.

News About Banks And Bankers

(Continued from page 17)

Treasurer; and Henry F. Frey, Assistant Manager. Walter Koehler will be Assistant Manager at the Lyons Avenue Branch.

* * *

At a meeting of the Board of Directors of the **Tradesmens National Bank & Trust Co. of Philadelphia** on Dec. 19, Herbert W. Goodall, formerly President, was elected Vice-Chairman. James M. Large, formerly Executive Vice-President, was elected President.

* * *

Directors of the **Fidelity-Philadelphia Trust Co. of Philadelphia** have approved a proposal to split up the bank's capital stock on a 5-for-1 basis, it was disclosed by Stanley W. Cousley, President, in a letter to stockholders on Dec. 18. Reporting this, the Philadelphia "Evening Bulletin" of that date, stated:

"The proposal calls for an increase in capital stock from 67,000 shares of $100 par value to 335,000 shares of $20 par value, and will be submitted for stockholders' approval at the annual meeting to be held Jan. 20."

Paul Drewry Fox, Treasurer of the Pennsylvania RR. Co., was elected a director of Fidelity-Philadelphia Trust Co. on Dec. 12, it was indicated in the Philadelphia "Inquirer" of Dec. 13.

* * *

First National Bank in St. Louis, Mo., raised the quarterly dividend to 50 cents from 40 cents, payable Feb. 27 of record Feb. 20, and declared the usual year-end extra of 60 cents, payable Dec. 19 of record Dec. 12, according to the St. Louis "Globe Democrat" of Dec. 10, which also stated that the board voted to transfer $700,000 from undivided profits to surplus, bringing the latter to $10,200,000, same as capital.

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The Board of Directors of the **Citizens & Southern National Bank of Atlanta, Ga.**, on Dec. 16 appointed C. Norman Ramsey, Ivy J. Schuman and Thomas A. Moye as new Vice-Presidents; George E. Tomberlin, Assistant Vice-President; Wilson Clounts, Cashier at the main office; and G. P. Glover, Cashier at the Tenth Street office. The Atlanta "Constitution," from which we quote, also said that George McKinnon, formerly Vice-President and Cashier, relinquishes his Cashier duties to Mr. Clounts. The "Constitution" further stated that Miss Bessie Mann, one of two women becoming officers, was promoted from Manager of the Women's Department at the bank's main office to the post of Assistant Cashier; Mrs. Evelyn L. Worley, who has been connected with the bank since 1942, became Assistant Cashier of the bank's Tenth Street office.

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The directors of the **California Trust Co. of Los Angeles** elected P. H. Dyste and Virgil D. Sisson Assistant Trust Officers, and Gerald H. Zimmer Assistant Secretary at a regular monthly meeting Dec. 11, according to Frank L. King, President. California Trust Co. is wholly owned by **California Bank of Los Angeles.**

Joins Morgan Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — Robert C. Klahorst has joined the staff of Morgan & Co., 634 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with First California Company.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF. — George W. Glieve is now with King Merritt & Co., Inc., Chamber of Commerce Building.

The State of Trade and Industry

(Continued from page 5)

controls and allocations it is significant that the United States will produce 57% of the total world steel production for 1947, according to "The Iron Age," national metalworking weekly. This country, without controls, dictatorships and the free play of distribution based on supply and demand will produce this year 85 million tons of steel ingots compared to a world production of steel estimated at 148.6 million net tons of steel ingots.

It is estimated that Russia will have produced 21.8 million tons of steel ingots this year compared with 21.5 million tons in 1946. The Russian output this year will be 14.6% of world steel production.

England is expected this year to reach 14.1 million tons of steel or 9.5% of world output while France will produce 6.6 million tons or 4.4% of the grand total. About 4.1 million tons of steel ingots which constitutes 2.7% of the grand total, will be made in Germany, while the total output of all other countries in the world will be 16.9 million tons or 11.4% of world steel production in 1947.

It will be a long time before Russia will be able to step up its steel output to seriously vie with either the output of this country or the combined production of the United States, England and France, states "The Iron Age." The last three nations this year will produce about 105.7 million tons of steel ingots or 71% of the world total.

Unless the steel distribution picture is upset during 1948 with half-baked attempts at administration inspired allocation and control this country will surpass the 1947 peak production total.

Steel consumers are supposed to be the ones who would benefit from a voluntary system of steel allocations. Their reception of such an idea during the past several weeks has been anything but joyous, the magazine observes. During that period steel customers have tripped over each other in an attempt to buy every ton of steel that was not nailed down. They have exerted extreme pressure on regular steel mill sources for deliveries while at the same time enabling gray marketeers to enjoy one of the best Christmas seasons they are apt to have for many a year.

Such action indicates a realistic acceptance of a view that the country is in the midst of an inflationary movement and that any attempt to place controls over a basic industry which has already outdone itself in an attempt to distribute steel on a fair basis will leave steel users in worse shape than they were before.

Indications are that it will be many months before the size of steel stocks in customers hands will have any sobering effect on users buying habits, the above trade authority notes. This will be the case despite there being little or no chance of a steel labor incident in 1948. The only possibility of a temporary slowup in steel output next year involves the coal miners. If it takes some time to meet their demands there may be a temporary slowup in steel production due to a coke shortage.

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 86.6% of capacity for the week beginning Dec. 22, 1947, and compares with 97.8% one week ago, 96.3% one month ago and 72.8% one year ago.

This represents a decrease of 11.2 points or 11.5% from the preceding week.

This week's operating rate is equivalent to 1,515,400 tons of steel ingots and castings as against 1,711,400 tons last week, 1,635,200 tons a month ago and 1,283,000 tons one year ago.

FREIGHT LOADINGS DECLINE 2.8% UNDER WEEK AGO

Loadings for the week ended Dec. 13 totaled 854,159 cars, according to the Association of American Railroads. This was a decrease of 24,429 cars or 2.8% below the preceding week. However, they represent an increase of 25,408 cars or 3.1% above the corresponding week in 1946 and an increase of 82,565 cars, or 10.7% above the same week in 1945.

ELECTRIC OUTPUT TOPS ALL-TIME RECORD

The amount of electrical energy distributed by the electric light and power industry for the week ended Dec. 20, 1947 was 5,367,624,000 kwh., according to the Edison Electric Institute. This figure exceeded by 40,154,000 kwh. the previous high production record of 5,327,470,000 kwh. reached for the week ended Dec. 13, 1947, and exceeded by 8.6% the 4,940,453,000 kwh. turned out in the week ended Dec. 21, 1946. The week ended Dec. 20, 1947 was the eighth week in the history of the industry in which electric production exceeded 5,000,000,000 kwh.

AUTOMOTIVE PRODUCTION SETS NEW POSTWAR RECORD

Car and truck production in the United States and Canada climbed to another postwar high of 120,001 units last week, according to "Ward's Automotive Reports."

The previous record was 117,705 units the week before. Output for the comparable week in 1946 and 96,754 and in 1941 was 65,875.

Plants in the U. S. turned out 24,866 trucks the past week, compared with 22,416 in the preceding week, while passenger car production dropped from 90,083 to 89,731. Canadian output of 3,941 cars and 1,463 trucks represented a slight rise.

Continuing of overtime work by Chrysler Corporation divisions was an important factor in the week's high production figure, "Ward's" said.

BUSINESS FAILURES POINT UPWARD

Continuing the sharp rise of last week, commercial and industrial failures in the week ending Dec. 18, rose to 91, Dun & Bradstreet, Inc., reports. Only slightly higher than a week ago when 87 concerns failed, they compare with 27 in the same week of 1946, being more than three times as heavy.

All of the increase occurred among large failures involving liabilities of $5,000 or more. Totalling 77, they rose from 73 last week and 24 a year ago. Small failures with losses under $5,000 were only one-sixth as numerous as the large failures. Concerns failing in this size group remained at 14 this week but were almost five times as great as the three small failures reported last year.

WHOLESALE FOOD PRICE INDEX OFF FOR SECOND CONSECUTIVE WEEK

The food price level continued to slide this week as advances in some commodities were outweighed by declines in others. Down for the second successive week, the wholesale food price index, compiled by Dun & Bradstreet, Inc., registered $7.02 on Dec. 16. This was off 10 cents from a week earlier and represented a drop of 15 cents, or 2.1%, below the record high of $7.17 set two weeks previous. The current index compares with $6.28 on the corresponding date a year ago.

WHOLESALE COMMODITY AVERAGE RECORDS SLIGHT CHANGE FOR WEEK

There was little change in the general price level in the past week. After reaching a new postwar high of 302.87 on Dec. 10, the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., trended slightly easier to close at 302.36 on Dec. 16. This contrasted with 243.55 on the corresponding date a year ago, or a rise of 24.1%.

Wide fluctuations featured trading in leading grain futures markets during the week, largely due to uncertainties surrounding the Washington legislative outlook. Volume of trading on the Chicago Board of Trade declined moderately as increased sales of corn were more than offset by losses in wheat and oats.

There was a continued absence of government buying of wheat and some weakness developed as the result of a proposal that the government be authorized to roll back prices to the level of mid-June.

The market for corn was very strong, with the December and May contracts selling at new seasonal peak prices. Cash corn went to $2.71 per bushel, the highest on record, reflecting very small country offerings and a good demand from processors and elevator interests. The condition of the new winter wheat crop showed some improvement due to beneficial rains and snow in the Southwest. Except for some sizable government purchases for export in the early part of the week, the flour market was quiet with bakers holding to the sidelines, in the hope of lower prices. Hog receipts continued heavy. Prices weakened at mid-week but rallied later and finished sharply higher than in the previous week.

Cotton markets displayed strength and prices held at a high level during most of the week despite the unexpected increase shown in the final official crop report issued on Dec. 8.

During the week, prices for practically all future deliveries reached new high ground for the season.

In the final session the market suffered a technical reaction which left closing prices about unchanged from the preceding week. Sales for the week in the 10 spot markets totalled 287,000 bales, as compared with 293,500 the previous week and 230,900 in the like week a year ago. Aggressive buying resulting from good trade and mill demand bolstered prices in the early part of the week but legislative uncertainties acted as a brake in later dealings. Rains and wet fields retarded cotton picking in most sections of the belt. Cotton ginned through Nov. 30, according to the Census Bureau, amounted to 10,656,000 bales, or about 88% of the indicated production. Textile prices continued firm to higher. Carded gray cotton cloth markets were said to be well sold ahead through the first six months of next year.

RETAIL AND WHOLESALE TRADE MOVES HIGHER IN LATEST WEEK

Retail volume rose moderately last week as pre-holiday shoppers crowded stores in all sections of the country. Total dollar volume was moderately to well above that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its current survey of trade. Gift items of all types sold well, although careful consideration was given by consumers to both price and quality. There appeared to be an adequate supply of almost all kinds of goods.

Snappy weather in many areas created a brisk demand for heavy winter clothing.

Retail food volume declined slightly from the very high levels of recent weeks as most consumers busied themselves with the purchasing of gift items. Holiday packages of candy and fruits were in good demand.

Shoppers continued to shy away from the high-priced cuts of meat.

Prices of dairy products rose sharply in some areas with a noticeable drop in the demand for these items reported. The supply of fish and poultry was adequate and fresh fruits and vegetables proved plentiful.

Housewares, major appliances and furniture continued to be among the best sellers in durable goods. The demand for paints, hardware and automobile accessories remained steady at a high level. Silverware, books and stationery were popular and toys and novelty items of all types were heavily purchased. Perfume and inexpensive costume jewelry sold well.

Most retailers reported that the demand for high-priced jewelry, leather goods and other luxury items was not as heavy as it was in the corresponding week a year ago.

There was a very slight rise in wholesale dollar volume in the week. Although dollar volume in most lines was well above that of a year ago, unit sales in some lines were about even with or slightly above those of the corresponding period in 1946. Buyers continued to insist on prompt deliveries, though adequate stocks of most goods were available.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 13, 1947, increased by 10% from the like period of last year. This compared with an increase of 7% in the preceding week. For the four weeks ended Dec. 13, 1947, sales increased by 9% and for the year to date increased by 8%.

Christmas buying here in New York reached peak levels the past week though it was marked by considerable spottiness. Heavy increases were noted in several large stores, while slight to moderate gains prevailed among others.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 13, 1947 increased 6% above the same period last year. This compared with an increase of 1% (revised figure) in the preceding week. For the four weeks ended Dec. 13, 1947, sales increased 3% and for the year to date rose by 9%.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Current milling around in the 180 area is not unhealthy. Expect more of the same before resumption of up move. Look for about 190 in averages to be seen.

* * *

If Monday's (Dec. 22) market is any indicator, then the dullness expected around the 180 level, is no surprise. The prevalent reasons for it, in case you're interested, is tax selling and profit taking.

* * *

Chances are that taxes had something to do with it, even if only a little, but profit taking is something I can't believe. To accept the latter theory is to believe that enough people bought stocks at the recent lows and are now selling them. Actually there was more selling than buying at the recent lows if for no other reason than people tend to become pessimistic on declines.

* * *

In last week's column it was said that as the market got within reaching distance of the 180 range it would do one of two things—or both. It would go into dullness or decline. It didn't take any great ability to make such a forecast. All it needed was a knowledge of where stock was in supply and the forces that would either be strong enough to absorb this in one gulp, or whether these forces would lean back and digest their recent purchasing meal.

* * *

The fact that the rails managed to make a new high on the move was interesting. It certainly brought out the Dow Theory lads in full cry. Incidentally all the learned articles to prove the Dow Theory is fallacious, won't change the view of thousands of Dow Theory followers. It's too simple to follow to be discarded no matter how emphatic its critics are.

* * *

In the past few weeks I have been bullish in no uncertain terms. I deliberately avoided mentioning specific stocks, with few exceptions, preferring readers buy their own within certain groups. These groups were the steels, oils and coppers. I haven't seen anything in their market outlook to make me change my mind. The question remains of when will these groups go up some more. Up to this writing (Monday) they have already advanced nicely. I think that within the next few days they will go up some more.

* * *

Looking ahead I think that sometime between now and the end of January the market will make some kind of a top on which stocks should be sold. Primarily the top will be caused by Congressional plans to stop this inflationary phase. Right now both the Administration and the G. O. P. are playing Miss Hush. But with election coming up, something more than "voluntary" rationing will almost certainly be passed.

* * *

An additional advance to just under the 190 figure is not improbable. Though, before you see that, the chances are you will also see a minor decline to about the 178 level.

* * *

By the time you read this, Christmas will be over—I hope it was a Merry One. But it's still time to wish you a profitable 1948.

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.]

Shields & Co. Admit

Shields & Co., 44 Wall Street, New York City, members of the New York Stock Exchange, will admit John J. Stonborough to limited partnership in the firm on Jan. 1. On Dec. 31, Richard de La Chapelle will retire from the firm.

Herbert H. Childs, general partner, will become a limited partner on Jan. 1.

W. D. Investment Co.

LOS ANGELES, CALIF.—The W. & D. Investment Co. has been formed with offices at 626 South Spring Street. Officers are William S. Hughes, President; Willis H. Durst, E. F. Kitchel, A. E. Abernethy, P. M. Wagenseller, D. W. Davis and R. E. Murphy, Vice-Presidents; and V. R. Ericson, Secretary and Treasurer.

Shearson, Hammill Changes

Warren P. Smith and Robert C. Van Tuyl will become partners in Shearson, Hammill & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, on Jan. 1. On the same date Walter L. Johnson, now a general partner will become a limited partner.

British Imperial Preference and the Marshall Plan

(Continued from page 2)

was formulated in Ottawa in 1933.

This new preference system has four aspects: First, Britain was no longer able to admit free entry of goods directly competitive with her own, and enlarged the range of her protective duties. Second, she took power by which she would be able to impose duties for counter-discrimination in cases where other countries might treat her trade unfairly. Third, Britain granted preference over almost the whole range of her duties to countries within the British Commonwealth and empire in somewhat belated recognition of the preference long given by these countries to British exports and in return for further special concessions. Fourth, Britain introduced quota control over some imports of agricultural products from non-British and even British countries.

Action Was Over-Due

It was not surprising that Britain took this action in 1933, considering the state of international trade affairs, but rather that she waited so long to take such steps. The countries of the British Commonwealth have always had close ties, not only in matters of security and sentiment, but also in the economic field, and the Dominions had long been extending such treatment to the mother country.

Great Britain, however, did not feel that as the major world trading power it could afford to recognize its close ties with the Dominions in the form of trade privileges. By the 1930's, she no longer had a choice and thus took steps to cope with the unfavorable situation in which she found herself. Although it is not difficult to understand why Britain took this position, the policy itself as a general policy must be condemned as being one of the most effective ways of thwarting world trade.

At the time that the British were the greatest enthusiasts of free trade, the United States was following a policy of protective tariffs. Today, the situation is changed and we not only have the privilege, but the ability to be the greatest supporters of a free trade system, or at least of a flexible multilateral trade system, based on the realities of world needs and supply. It is encouraging to know that the United States has taken a position in the International Trade Organization that we must help not only ourselves, but the rest of the world in maintaining free channels of trade, and we have taken the initiative in getting the British to modify their imperial preference system by assuring the British and every other country dependent upon a free exchange of material, that such a system will be made to work to mutual advantage and not for the benefit of any one or small group of countries.

The British system was in no way exclusive in the sense of preventing British countries from trading with the other countries of the world (this would have been foolhardy since not only just Great Britain but the Dominions, such as Canada, Australia, etc., trade to a great extent with the United States), but it did impose tariffs on international trade in the critical years 1933 through 1938. Additional duties were imposed during those years, and in some cases specific duties were applied as alternatives, but by 1938 the process of adding additional restrictions was virtually at an end and the system became stabilized.

"Cleaning Out" Trade Channels

Following the introduction of tariffs and the imperial trade preference system, Britain began to "clean out" the channels of trade with other countries, including the Scandinavian, Baltic countries, Poland, and the Argentine, which sold large quantities of their raw materials and manufactures to Great Britain. Under these agreements, certain tariff restrictions and binding agreements not to increase tariffs were made on both sides. Wherever Great Britain set up quotas governing imports, she guaranteed in her trade agreements with any country concerned, a certain basic quality or a certain proportion of that country's exports to Britain in a basic year. In return, some countries undertook to take a certain proportion of their coal exports from Britain, or agreed through government agencies or private firms, to stimulate purchases from Britain. Such agreements were made with Germany and their "payment" or clearing agreements were made with certain countries that were practicing exchange control, such as Italy, Spain, Romania and Germany. These were designed to prevent the growth of "block balances" from these countries to Britain upon receipt of her exports, and to secure the repayment of accumulated arrears.

1938 Agreement with U. S.

One of the most important trade agreements was made with the United States in 1938. This agreement was an important contribution to the reduction of trade barriers and was made as a result of the reciprocal trade policy initiated in the United States. This agreement was important mainly because it involved the two greatest trading nations of the world. The relationship between these two countries is interesting. Britain is normally the largest single customer of the United States and buys more from us than any other country. British imports from the United States are much greater than United States purchases from Britain. The United States, however, buys more from the British Colonies and Dominions in almost every case, than they buy from us, and since the British Colonies were included in the Anglo-American agreement of 1938, it covered a very great area. Both countries agreed to reduce duties on a wide range of commodities and it was felt at that time that the agreement was symbolic in that it involved a modification of some preferences granted mutually by Great Britain and Canada, thus putting a leak in the preference system. The full effects of the agreement, however, could not be felt because of the outbreak of the war in 1939 and the disruption of normal trade among nations. But war and the destruction of manufacturing facilities, as well as raw materials, further distorted and disrupted the flow of materials in the international stream of commerce, making the situation more critical than it had ever been before.

The issues raised today no longer involve the rather cold and impersonal concept of a favorable balance of payments among nations, but rather whether or not men, women and children can eat and live peaceful, productive and helpful lives unless something is done to lower trade barriers and to stimulate trade in all directions without ingenious techniques which result from statism and in international chaos and depression. These are extremely serious issues and their importance was highlighted during recent months at Geneva.

Stumbling Block at ITO Sessions

The talks which began at the early ITO drafting sessions were halting and few were too optimistic about their outcome; so many problems came to the surface, and although men of good will were representing the various countries of the world, such staggering questions had to be solved that none could feel hopeful about the outcome. The British preference system was one of the main stumbling blocks, since it was based upon an artificial tariff structure which discriminated in favor of some countries at the expense of the others. Almost until the last days of the conference, it seemed that although other issues had been thrashed out and compromises of some sort concluded, the Empire trade preference system stood pat and the British would not give in. Within the final fortnight, however, reliable though still officially unconfirmed reports have it that Great Britain and the Dominions decided to modify the preference system approach. This was sensational news and fraught with happy significance — much more important than most of the newspaper reports would lead us to believe. The agreement as reported in the N. Y. "Times" of Oct. 17, provided for a 25% cut in imperial preference tariffs in the British Colonies to be carried out over a two-year period. It also provided that a ceiling of 25% should be placed on such preferences in the future. The British concession was made dependent on the United States refraining from imposing new barriers to the import of certain British Colonial products. This plan for settling the issue on imperial preference had previously been approved by the U. S. Government.

Breach Important to Britain

While the dollar value of the exports involved is small for the United States, the British concession constitutes an important breach in the imperial preference system. In addition, the British have agreed to reduce the preference accorded to Southern Rhodesian tobacco in the United Kingdom market—a concession that will be important to American tobacco groups when Britain's normal imports of tobacco can be resumed.

It is very interesting to note that the initiative in the move to modify the imperial preference system was taken by the Dominions. It is understood that the British agreed only after considerable pressure from the Dominions. This is important because the imperial preference system was created as a result of the Dominions' demand originally, and so Great Britain cannot be accused of taking action without their consent to modify a system which they themselves requested.

The Marshall Plan

It is extremely timely that this action has been taken in the light of the Marshall Plan which is laying the groundwork for the multilateral trading system which the ITO envisions and for which it is establishing much needed machinery and basic policy. The Marshall Plan, which has been designed to provide Europe with the basic tools and materials to help Europe reconstruct itself is only a temporary measure and can only be successful in a world which is not snarled in restrictions, political or economic. This concession on the part of Great Britain and the Dominions is a concrete measure which the whole world cannot fail to recognize as a guarantee that Great Britain, the world's greatest trader, is willing to forego special concessions which might work to her benefit in a narrow sense, in order to facilitate world trade among all of the nations which, in turn, will work to everybody's mutual benefit over the long run. It is important to Americans and to American business men in particular, because it heralds a new day in international relationships and negotiations. There has been a great fear on the part of many that we were entering into a new period of restrictions which would hamper trade and make life difficult for the American business man who is only now beginning to realize the significant role that international trade plays in his own business and in the economic welfare, not only of the United States, but of the whole world. Some countries are imposing new restrictions, but they are doing that on the defensive as a last desperate resort in an attempt to protect their own industries and to make the most of their dollar resources; if they can be shown that the major trading countries of the world mean business when they say that they do not want to engage in restrictive trade practices but rather are willing to eliminate those which already exist, it is probable that they will be willing to cooperate in a program which will free trade from strangling barriers. It also indicates that Great Britain is determined to have a more efficient product and is again becoming willing to take her chances in an open market. The nations of Western Europe are entitled to the helping hand of the Marshall Plan's European Recovery Program, if this is going to be their attitude.

I believe there is now every reason to expect that in view of what took place at Geneva during the preliminary talks and in this recent action on the part of Great Britain, the current meeting of the ITO at Havana will be successful and that the nations of the world will again be able to trade freely and peacefully without laboring under the burden of endless trade restrictions.

Meaning of the War Debt

(Continued from page 4)

of an article which is not paid for labor—that is, that part paid to a corporate body which is added to its surplus and is uninvested.

The government, therefore, paid individuals vast sums of money to produce goods and services. Between the end of 1941 and the end of 1945 it created and pumped into the financial system some $200 billion. Bank-held government debt in this period increased $91 billion, and that this amount of money was created is obvious. Government debt held by non-bank investors increased $121 billion, and nearly this amount of money was, in effect, created when the government spent it while at the same time providing, in effect, that these obligations were always encashable, the interest-bearing ones at par, and the savings bonds at diminishing discounts. To the extent that this money was never previously owned, it was a pure fiction. The creation of money, or credit, however, is a normal process in our financial system: banks do it every day. When a bank creates money, it becomes a creditor, but when a government creates money by a bond issue it becomes a debtor. This apparent paradox results, of course, from the fact that "the government" is only an imaginary body, a vehicle through which individuals give to, and take from, each other or themselves, their transactions registering in the name of the government so that they are always in balance. An internal government debt which creates money, therefore, simply records the fact that money was given to some individuals without being taken from others, and that this money has to be given up eventually by the same, or other, individuals in the form of taxes. Many, if not most of the "other" individuals are as yet unborn.

The government poured out such vast sums so extensively that the payments went practically to all the individuals in the country. Nearly all of us enriched ourselves monetarily while we set up, as an offset, our own indebtedness, in the name of the government. This process of borrowing (or lending) differs in another respect from the loan between individuals, where the lender denies himself the use of the money. The public process is wholly different when it is done on a scale so great it permeates into nearly everyone's pocket and when the bondholder takes no risk (in terms of money). Then the process is not a transfer from one to another, but the simultaneous enrichment of everyone. The reverse process of paying off the debt simply removes the enrichment.

This new and great supply of money in the possession of individuals who had made war materials was spent on the few things then available — amusement, liquor and other luxuries, and store merchandise. The common stocks of these industries soared between the end of 1941 and the end of 1945, 7- to 10-fold in contrast to a less than 2-fold average rise in high-grade common stocks.

That the tax payments to be made in the future are required for purely financial reasons and not for such fundamental economic reasons as the production of inordinate amounts of goods is very simply demonstrated by considering an imaginary society.

A War Without Debt

In time of war, the government of country X immediately takes possession of all non-personal real property. In the common interest, men and women drop their non-essential pursuits and go into war plants and produce equipment, just as we did. To avoid future financial complications and disruptions of their economy, all financial affairs are frozen, and all financial payments, all use of money, are abandoned. It is universally agreed that the ordinary, unrestricted pursuit of individual financial well-being is not only out of place in a total war of survival, but is actually detrimental to the welfare of society at large and ultimately to the individual himself. Money is not required, because by government fiat, everything is free to the extent required for war production; free, that is, in terms of money, for everyone has to work to his full ability. The war worker does not need money for food, because the farmer works for him and the grocer supplies his daily needs. He does not have to pay rent, nor does his landlord pay taxes or grocery bills.

The supreme patriotism, foresight, wisdom, unselfishness, or whatever it is to be called, which is no more remarkable than that of our soldier who gives his life, prevents individuals from acquiring more than current needs of commodities which are plentiful, and rationing of scarce essentials of life is conducted only because central planning must do what individuals separately cannot do. The patriotism obviates also any form of inducement to send individuals into the less desirable jobs. Though minerals are taken out of the earth, which had been owned privately, the peacetime owners consider it a far lesser contribution than that of the men who went to combat. The people of country X produce the war goods, just as we did, destroy most of it, just as we did, and junk the surplus. If they win the war, they simply return to the work and financial conditions prevailing at the outbreak of war. For them war was an interlude of, among other things, financial blackout, which did not disturb past and future finances. Physically, materially, they accomplished everything we did, but there is one vast difference. They will not in the future devote a great part of their labor, in the form of taxes, to the retirement of public debt.

It is unnecessary to describe the long evolution of their wartime system and the history of their experiments, such as the use of wartime money, universal manpower conscription, government payment of depreciation charges and of mineral depletion, and transitory rewards as inducements to take less desirable jobs, before these people reached their present wisdom; nor is it necessary to describe how those not engaged in war production support themselves; for that is not our purpose here. Moreover, even if their system is thought impractical on the grounds that man is always selfish, the illustration is useful nonetheless in distinguishing economic from purely financial activity. We are concerned here with the fundamental reason why in our society a great, sudden, wartime expansion of economic activity must be followed by the devotion of future labor to "pay for it".

Illusion of Financial Enrichment

The simple, fundamental meaning of the public debt is that a process of financial enrichment was used to induce individuals to work in the places, and to the extent, required. The $200 billion entry on the federal books is only testimony to the financial truism that those individuals, or their descendants, have to give it up, even though, in some forms, the process of giving it up is disguised.

We have followed a gigantic fallacy of assuming that because ordinary peacetime economic activity has a financial counterpart, an expanded wartime economic activity must have a correspondingly expanded financial counterpart. A carpenter who in peacetime worked for 40 hours a week and got $40 reasons that if in wartime he works for 60 hours a week he should get $60. Even more astonishingly, he compounds the fallacy by wanting an additional bonus of $10. It does not occur to him that the payer is not, and cannot be, some external benefactor who will "pay" him for winning his own war.

The pursuit of this fallacy is a gross misapprehension of the meaning of money in a free society. It is simply a means of facilitating the exchange of services and goods between individuals in their efforts to improve their own private economic well-being, a competitive process amongst themselves in which the score is kept in terms of money. Money serves man's economic activity and is not an end in itself. A society that inflates its money accounts during the swollen economic activity of a total war mistakes the peacetime means for the wartime end and confounds the peacetime and wartime purposes of its economy.

War Distorts Functions of Money

In the first place, when the entire economic resources and labor of the country are directed by the government toward a single end in a common interest, the ordinary function of money, as well as that of prices and of the law of supply and demand, is almost entirely replaced by central planning and direction. The objective of the society's whole economy is profoundly changed. A multitude of internal, individual, and competitive objectives is instantly replaced by a single, external, common, and non-competitive objective.

Secondly, the process of individual financial enrichment over a swollen economy of war is a fallacy in that the normal relation between financial accounts and economic activity is lost, for the additional money cannot be, and is not, spent by the recipient on current production. The result is a deferred, and logically unearned or unwarranted, claim on postwar production. A money claim is generally evidence that someone owes something to the claimant. But individuals do not owe each other for their past labors in war production, nor can their postwar labors suddenly produce goods and services $200 billion in excess of the outstanding prewar claims on each other, unless the value of money is debauched, as indeed it is. The classic sequence of inflation and collapse must be very largely a consequence of the fallacy.

We have begun to move away from the fallacies of wartime financial enterprise toward the arrangements of country X, which, however, are far in the distance. The principle of the excess-profits tax was prompted by moral aversion, rather than by economic wisdom, but it is applicable, by the realities of economics, to individuals as well as to corporations, which, too, are only imaginary bodies. Wage stabilization and price and manpower controls also are introductory steps to the realization that there can be no real profit in a war economy.

Fundamentally, a great war impoverishes economically, not only in the loss of mineral resources and in the destruction of property, but also in the reduction, on the whole, of the current standard of living. Nor is the future economic standard necessarily spared, for technological advances are partly, at least, offset by depreciation and neglect of plant. To expect financial, and thence economic enrichment from such a war ought to be *prima facie* an illusion. If we can find the means of moving away from the illusion, the system of private capital enterprise will more easily find the way to avoid not only postwar financial and economic debacles, but also the request upon our descendants to labor for those long since gone.

The First Sure Step to Dictatorship

(Continued from first page)

and mental welfare of American youth; but this, of course, should come through our long-established democratic way of life; that is, through our educational systems, our religious institutions and the medical profession, aided by group insurance plans and private charities. It is certainly obvious that one year of mass regimentation will not wipe out the innumerable causes of ill health that have their roots in childhood.

Furthermore, it is well-known that the centralization of large numbers of persons in camps leads to new and serious disease problems. Epidemics of influenza, pneumonia, scarlet fever, meningitis, venereal diseases, and, indirectly, even infantile paralysis, number among the scourges which come in the wake of crowded camp life, so that thousands die because of this very regimentation that is called beneficial. In addition, many of our young men who by inheritance, upbringing, accident or illness are unsuited to the rigors of mass regimentation and who under them sicken and die, nevertheless often possess an insight and intelligence of their own which in later life make of them great artists, leaders or inventive geniuses far more valuable to the nation than many a "perfect specimen." The fruits of the spirit do not often flourish under forced peace-time military training, as Germany and Japan bear witness.

Make Army Career Attractive

From the military point of view it will be argued that present conditions require a larger peace-time army than we formerly had. If this is true it should be achieved by making our army in time of peace a more attractive career and not an unpleasant compulsion. In this connection, however, the recent past has once again demonstrated that a large peace-time army is no protection against war, nor is it a guaranty of victory. Aside from the United States, the only large world power that has never lost a major war is Great Britain, and during the period of her success she never had compulsory peace-time military training. France, on the other hand, has had just such a law ever since the First World War. What good did it do her? Russia, under the Czars also had such a plan, yet it did not prevent her defeat by Japan in the Russo-Japanese War and later by Germany in the First World War, nor did it forestall a terrible and bloody revolution afterward. Even Germany, with all her vast compulsory peace-time armies and wide preparations before both the First and Second World Wars could not win by virtue of them.

In war, there is one inescapable conclusion. Victory is given to those who are morally closer to the right regardless of what odds may stand against them. It was this strong inner conviction that enabled the democracies to hold out until the tide turned in their favor. Again it has been proved that the upright and the free not only work best but also fight best. Peace-time regimentation, which is a form of slavery, only saps their strength, their will-power, and their faith in democracy.

Regimentation—First Step to Dictatorship

More than ever during the past quarter-century, it has been clearly demonstrated that the regimentation of the young by the government is the first and surest step to dictatorship. Government-controlled "youth movements" were part and parcel of the rise of Fascism and the dictator Mussolini in Italy; they were part and parcel of the rise of Nazism and the dictator Hitler in Germany; and they also were, and still are, much in evidence in Stalin's Russia.

Indeed, the classic formula for the overthrow of a democratic government seems to be one of gaining control of the nation's youth so that it becomes actually or potentially a vast armed force which sooner or later falls completely under the domination of the revolutionary party and the dictator that heads it. Once having obtained this grip on the young, how easy it is to inoculate them with the deadly virus which causes them to worship an artificial god, the state. Then the dictator turns to the representatives of the people (the Congress) and says, "We do not need you any more." Once they have been persuaded or forced to get out, democracy is gone.

It is quite understandable, therefore, that while the war hysteria is still in the air, the more dictatorial elements in our country, some of whom have already voiced their desire to teach their doctrines of regimentation to the young, are most desirous of having a plan of compulsory military training foisted upon our people. Thus, just as in the First World War, a misinformed group seeks to pass a law by which the children of this and succeeding generations, born and unborn, will lose their liberty at a time when so many of their fathers have fought and died to preserve it.

Trend of New York City Bank Earnings

(Continued from page 10)

than interest, such as fees, commissions, foreign department and service charges, and (3) a somewhat lower effective tax rate on net income.

Net current operating earnings of the 37 reserve member banks in New York City are likely to total about $126,000,000 for 1947, a decline of 10% from the $140,000,000 in 1946. Such 1947 earnings of $126,000,000 will represent a return of 5¾% on total capital accounts compared with 6½% in 1946. Cash dividend payments will constitute 3½%, leaving an operating retention of 2¼% in 1947. These results are before losses and charge-offs and exclusive of recoveries and profits. It is already apparent that banks today are no longer experiencing the excess of recoveries and profits seen in recent years.

These banks as a group will report total net current operating earnings of $126 million to stockholders at their forthcoming meetings in January. The public, however, will make up its mind on how well banks are doing not from reports to stockholders, but from figures and statements to be offered and released to the press by the banking authorities.

Although New York City banks in 1946 had net earnings from current operations of $140 million or 6½% on capital accounts, the reports by the official agencies for that year indicated that these same banks had "net current operating earnings" of $206 million, a return of 9½%, not 6½%. The public, unfamiliar with the real workings, could not tell that the difference of $66 million, representing taxes based on operating income, had not been deducted from the officially offered figure of $206 million. Public misunderstanding of how banks are doing arises from (1) defects in official terminology, (2) the fact that capital transactions are not properly segregated in the official reports of the government agencies, and (3) the fact that "net current operating earnings," item 3 on the official forms, is calculated without any provision for state and Federal income taxes. In the past, the true earning power of banks has appeared exaggerated in the official findings made public by the banking authorities. This has reacted unfavorably on banks and their stockholders, because it has prevented recognition of the depressed earning power of banks.

As in all industry, the "break-event point" of banks, too, has been rising. The yields which were sufficient yesterday will no longer keep banks out of the read today.

Thus, operating expenses, less operating income other than interest, is indicated at $162 million for the 37 New York City banks in 1947, compared with $150 million in 1946. This represents the amount of interest income, net after amortization of premiums, which these New York City banks as a group required in order to stay out of the red and just break even.

Average funds loaned and invested fell 12½% from $23.4 billion in 1946 to $20.5 billion in 1947, a fact generally overlooked. The "break-even yield" required on such earning assets in 1947 was 0.79%, which is an increase from the comparable fgiure of 0.64% in 1946. If the actual yields realized had been no higher, there would have been no net current operating income from which the government could get income taxes, stockholders cash dividends and banks new capital. Existing capital accounts would decline as losses and charge-offs developed.

Actually, interest income from loans and investments of the 37 New York City banks will total about $347 million in 1947, a yield realized of 1.69%, compared with $356 million in 1946, a yield realized of 1.52%. The differential between the yield realized and the yield required on the total of loans and investments, 0.88% in 1946 and 0.90% in 1947, constitutes net current operating income subject to taxes based on such income. In 1946, $206 million net operating income was subject to applicable taxes of $66 million, and in 1947 an estimated $180 million is subject to applicable taxes of $54 million. Net current operating earnings of $140 million in 1946 were net after an effective tax rate of 32%, while the $126 million in 1947 is after an effective tax rate of 30%.

The decline in average earning assets of the 37 New York City banks of $2.9 billion from the 1946 figure of $23.4 billion occurred entirely in investments, reflecting the retirement of bank-held debt by the Treasury. Average loans in 1947 remain unchanged at $6.7 billion, but interest income from loans at $141 million is up $19 million, an average yield of 2.10% compared with 1.81% in 1946. This improvement reflects the radical change in the composition of loan portfolios as business loans replaced lower-rate loans on government securities, and the firmer interest rates which became effective as the year advanced. At the year end the rate of interest income from loan portfolios is not only higher than the average yield of 2.10% for the year, but is improving daily as maturing loans are renewed.

Using recent bank stock quotations, all the outstanding capital stock of the New York City banks is appraised in the market place at $1,700 million. This is $550 million or 24% less than the $2,250 million total of book values shown in published statements of October 6. Obviously, as long as this condition continues, new banking capital will not be attracted, no matter how much needed, except at great sacrifice by present owners.

Bank stocks are quoted at a discount because banks' earnings are too low—too low, that is, in relation to their stockholders' equity. The banks in New York City as a group will have net current operating earnings in 1947 of 5¾% of total capital accounts. Therefore, for this group of bank stocks to be quoted at book value, they would have to be priced at 17½ times 1947 operating earnings and would yield 3½%. Actually, current prices at their 24% discount from book value, are 13½ times 1947 earnings, with a yield currently of 4.6%.

The banking authorities cannot belabor the banks, issue threats, bewail "the relatively large profits" of commercial banks, and still demand that banks build up their capital funds through sale of additional stock. It was never that simple. In the cold reality of the market place, the true and prospective earnings determine values, not the inflated figures offered to substantiate some political or social theory. The simple fact is that in returning to their normal function, banks are once again financing private business, and in so doing, are taking the attendant risks expected of them. There will be losses. The question is, will these losses be met out of current earnings or out of capital funds. The answer is important.

If the prospects are such that current earnings will be restricted and become insufficient to absorb these losses and still leave a fair hire for the use of capital, it will become increasingly difficult, if not impossible, to attract banking capital from private investors.

The fact is that the Federal Reserve authorities and the Treasury together have until recent months maintained conditions which prevented commercial banks from obtaining a fair and necessary rate on their risk assets, and thereby realizing adequate earnings on their capital accounts.

What does the present changing situation portend for tomorrow? Basic rates are now in the process of adjustment. The effect on all corollary rates in the short-term field is real, and could be sufficiently consequential to give commercial banks a sounder basis for their operations.

The Outlook for Utility Securities

(Continued from page 9)

vailed in early 1946. In some cases, the same equities which sold at 20 times earnings to yield around 4½% are now available at less than 10 times earnings to yield 7½%. Historically, such returns in a relatively stable industry are high, probably reflecting the belief of investors that insufficient earning power will be maintained to support present dividend rates.

While there is yet no evidence that the downward trend in earnings has halted it may well be that the market has discounted the major part so that some issues may be approaching a buying range. Just as utility stocks reversed their upward trend in 1946 before the deterioration became evident by reported earnings, in all probability they will discount any improvement in the same manner.

Since future earning power of the industry quite obviously depends upon the relative trends of operating revenues and operating expenses, it is pertinent to discuss the factors affecting these items.

Operating Revenues

Since 1932, operating revenues of the composite industry have gained in every year, although a few companies in highly industrialized areas suffered minor setbacks in 1938. This reflects the constant annual increase in consumption of electrical energy after periodic rate cuts. Electric output has been breaking all-time peaks in recent months and any sharp reversal is highly unlikely in the immediate future. With the present housing shortage and the number of new homes being constructed, even a decline in industrial loads should be offset by more profitable residential loads. Thus, on *present* rate schedules there is no reason to expect any set-back in revenues. Also, there is reason to believe that within the near future a large segment of the industry may be granted increased rates because of the rising trend of operating expenses.

Operating Expenses

Due primarily to higher wage and fuel costs, the break-even point of the electric power industry has increased substantially. Since wages are more or less a fixed cost and fuel a relative or variable cost, the implications of each trend bear careful examination. In 1937, fuel costs consumed about 8% of operating revenues, but had increased to nearly 14% in 1946. On the other hand, wages amounted to 17.1% of gross in 1937. Since that time they have fluctuated within 1% in most years and were 17.6% of gross at the end of 1946. While wages per capita have gone up, the number of employees had declined by approximately one-third at the end of 1945. With respect to fuel, little increase efficiency has been realized. In 1937, 1.42 pounds of coal was consumed per kwh. at a cost of $3.26 per ton. In 1946, 1.29 pounds of coal was consumed at a cost of $4.89 per ton. Thus, the cost in 1937 was $.0023 per kwh. and $.0032 per kwh. in 1946, an increase of 39%.

However, in the case of a sharp setback in business, the effects of these items might be reversed to some extent. Wages, being more in the nature of a fixed cost would not decline with production while fuel costs could be expected to do so.

Other Costs Higher

The above detailed discussion of operating revenues and operating expenses was directed primarily toward showing the cash earnings trend of the industry as a result of economic factors. While gross revenues have gone up $338,000,000 since VJ-Day, wages and fuel have gone up $333,000,000, leaving a net increase of $5,000,000 cash earnings for the industry. However, other charges have also risen. With the higher cost of new plant being installed, depreciation charges are higher, as they properly should be; also, general (property) taxes have gone up moderately. When the added dilution (even though temporary) caused by new property financing is considered, it is not difficult to understand why electric power stocks have acted poorly marketwise over the past few months.

Rate Increases Possible

Should the present trend of costs be continued in 1948 without compensating rate increases, there can be little question that earnings for the industry might be off 15% or more. Specific companies, of course, would vary sharply, depending on a number of factors, such as hydro or steam plant and, if the latter, the type of fuel used. However, before the upward spiral in expenses goes much beyond the present level, it is almost a certainty that applications will be made for rate increases.

In this connection, a number of power companies have already been successful in obtaining rate increases for their gas departments. The rate increases given throughout the Bell telephone system are also favorable precedents. Thus, there seems to be ample evidence that the regulatory bodies in the various states are cognizant of the present trend of expenses and that favorable rate decisions may be obtained.

The following tabulation sets forth preliminary 1948 earnings estimates for the more important companies, together with pertinent statistical data.

Conclusion

While the current upward spiral in expenses may continue well into 1948, there is reason to believe that it may be tempered in the near future through economic controls or offsetting rate increases. Thus, when present prices and yields are considered it would appear that most of the unfavorable factors are already reflected. With but few exceptions current dividend rates do not appear to be in jeopardy and such returns have not been equalled since 1942, which marked an all-time low for utility stock prices. Thus, when prevailing quotations are considered, equities of electric power companies appear to be as reasonably priced, in relation to longer (foreseeable) term prospects, as almost any major industry. While outstanding appreciation prospects may not be offered at the present, nothing short of a severe economic depression should justify a sharp decline in earnings and prices. Thus the investor whose primary consideration is income, should be able to find from the range of yields available a stock of suitable quality with reasonable assurance of dividend continuity.

William C. McOwen With Otis in Cincinnati

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO — William C. McOwen has become associated with Otis & Co., Mercantile Library Building. He was formerly Cincinnati representative for the First Cleveland Corporation. Prior to serving in the armed forces he was with Merrill Lynch, Pierce, Fenner & Beane.

With Livingston Williams

(Special to THE FINANCIAL CHRONICLE)

CLEVELAND, OHIO—Paul F. Cropper, Jr., has joined the staff of Livingston, Williams & Co., Inc., Hanna Building.

William Denmark Opens

William Denmark has opened offices at 2095 Broadway, New York City, to engage in an investment business.

ESTIMATED 1948 EARNINGS OF 25 LEADING UTILITIES

The 1948 preliminary estimates are on the basis of present rate schedules after allowance for increased operating expenses.

Company—	Capitalization %			Earnings Per Common Share					Common Earnings	
	Debt	Pfd.	Com.	1945	1946	1947 (Estim.)	1948 (Prelimin'y Estim.)	Div. Rate or 1947 Payment	% Gross Revenues	% Paid Out
American Gas & Electric	*	*	*	$2.31	$2.71	$3.50	$3.40	†$1.25	15	†32
Boston Edison	30	--	70	2.10	2.53	2.50	2.45	2.40	11	96
Carolina Power & Light	60	21	19	1.50	3.28	3.20	3.00	2.00	14	63
Cent. & South West Corp.	*	*	*	--	--	1.35	1.20	0.70	15	52
Cincinnati Gas & Electric	49	20	22	1.02	1.79	2.00	1.70	1.40	9	70
Cleveland Electric Illum.	38	10	43	1.95	2.55	2.40	2.25	2.00	12	81
Columbus & So. Ohio Elec.	53	22	25	4.40	4.34	4.15	3.60	2.85	16	65
Commonwealth Edison	45	--	55	1.89	1.91	2.10	1.85	1.40	14	67
Consol. Edison (N. Y.)	33	20	47	1.65	2.12	1.70	1.50	1.60	7	94
Consol. Gas, Baltimore	45	10	36	4.41	5.46	5.50	5.00	3.60	11	64
Consumers Power	52	23	25	0.95	2.84	2.80	2.50	2.00	16	71
Dayton Power & Light	51	18	31	1.36	2.58	2.55	‡2.15	1.80	15	70
Detroit Edison	42	--	58	1.25	1.67	1.45	1.30	1.20	12	83
Gulf States Util.	50	21	29	1.00	1.53	1.60	‡1.40	1.00	19	62
Houston Lighting & Pwr.	52	17	31	1.31	2.31	2.80	2.60	2.00	14	71
Indianapolis Power & Lt.	57	13	25	1.62	3.23	3.60	‡2.50	1.52½	16	42
Idaho Power	44	25	31	2.92	2.74	3.15	‡2.50	1.80	15	57
Ohio Edison	58	15	26	1.38	2.92	3.15	2.75	2.00	15	63
Pacific Gas & Electric	46	21	33	2.16	2.72	2.60	2.50	2.00	9	77
Penn. Power & Light	62	22	16	0.58	2.01	2.05	1.60	1.20	9	58
Philadelphia Electric	48	17	35	1.53	1.72	1.80	1.70	1.20	16	67
Pub. Serv. Co. Colorado	65	8	27	2.50	4.68	4.60	‡4.00	1.65	14	36
Southern Calif. Edison	45	23	27	1.72	1.94	1.75	1.80	1.50	6	86
United Illuminating	--	--	100	2.15	2.56	2.55	2.40	2.20	20	86
Virginia Electric & Power	48	24	28	1.39	1.71	1.60	1.40	1.00	16	62

*Integrated holding company. †Also stock dividend of subsidiary. ‡1948 earnings estimate allows for dilution because of recent or contemplated financing.

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. 28	86.6	97.8	96.3	72.8
Equivalent to— Steel ingots and castings produced (net tons)	Dec. 28	1,515,400	1,711,400	1,685,200	1,283,000
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 13	5,252,739	5,264,789	5,257,100	4,716,950
Crude runs to stills—daily average (bbls.)	Dec. 13	5,104,000	5,269,000	5,229,000	4,647,000
Gasoline output (bbls.)	Dec. 13	15,705,000	16,051,000	16,086,000	15,108,000
Kerosine output (bbls.)	Dec. 13	2,485,000	2,113,000	2,107,000	1,985,000
Gas oil and distillate fuel oil output (bbls.)	Dec. 13	6,337,000	6,525,000	6,159,000	5,508,000
Residual fuel oil output (bbls.)	Dec. 13	8,580,000	8,749,000	8,556,000	7,937,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 13	87,608,000	86,968,000	83,041,000	88,185,000
Kerosine (bbls.) at	Dec. 13	18,127,000	19,273,000	21,473,000	18,683,000
Gas oil and distillate fuel oil (bbls.) at	Dec. 13	55,032,000	58,241,000	63,283,000	64,046,000
Residual fuel oil (bbls.) at	Dec. 13	53,318,000	55,556,000	57,827,000	55,713,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 13	854,159	878,588	878,337	828,751
Revenue freight rec'd from connections (number of cars)	Dec. 13	729,416	699,898	714,848	656,741
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Dec. 18	$130,139,000	$95,623,000	$100,930,000	$86,192,000
Private construction	Dec. 18	69,218,000	29,589,000	54,084,000	46,197,000
Public construction	Dec. 18	60,921,000	66,034,000	46,846,000	39,995,000
State and municipal	Dec. 18	32,424,000	37,226,000	42,655,000	37,219,000
Federal	Dec. 18	28,497,000	28,808,000	4,191,000	2,776,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 13	13,495,000	13,300,000	12,600,000	13,607,000
Pennsylvania anthracite (tons)	Dec. 13	1,198,000	1,181,000	1,097,000	1,347,000
Beehive coke (tons)	Dec. 13	141,000	*141,600	123,800	78,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 13	569	*508	380	519
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Dec. 20	5,367,624	5,327,470	5,180,496	4,940,453
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Dec. 18	91	87	79	27
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 16	3.18925c	3.18925c	3.18925c	2.75655c
Pig iron (per gross ton)	Dec. 16	$36.96	$36.96	$36.96	$30.14
Scrap steel (per gross ton)	Dec. 16	$39.75	$40.25	$41.25	$28.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 17	21.200c	21.200c	21.200c	19.275c
Export refinery at	Dec. 17	21.425c	21.425c	21.550c	19.425c
Straits tin (New York) at	Dec. 17	80.000c	80.000c	80.000c	70.000c
Lead (New York) at	Dec. 17	15.000c	15.000c	15.000c	12.550c
Lead (St. Louis) at	Dec. 17	14.800c	14.800c	14.800c	12.350c
Zinc (East St. Louis) at	Dec. 17	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 23	101.86	101.86	101.94	104.09
Average corporate	Dec. 23	110.88	111.07	112.19	116.61
Aaa	Dec. 23	116.22	116.22	117.00	121.04
Aa	Dec. 23	114.46	114.66	115.24	119.20
A	Dec. 23	109.97	110.34	112.37	116.61
Baa	Dec. 23	103.80	103.97	105.00	110.15
Railroad Group	Dec. 23	105.00	105.52	107.27	112.56
Public Utilities Group	Dec. 23	112.93	112.93	114.08	117.60
Industrials Group	Dec. 23	115.24	115.24	115.63	119.82
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Dec. 23	2.37	2.37	2.37	2.23
Average corporate	Dec. 23	3.12	3.11	3.05	2.82
Aaa	Dec. 23	2.84	2.84	2.80	2.60
Aa	Dec. 23	2.93	2.92	2.89	2.69
A	Dec. 23	3.17	3.15	3.04	3.82
Baa	Dec. 23	3.52	3.51	3.45	3.16
Railroad Group	Dec. 23	3.45	3.42	3.32	3.03
Public Utilities Group	Dec. 23	3.01	3.01	2.95	2.77
Industrials Group	Dec. 23	2.89	2.89	2.87	2.66
MOODY'S COMMODITY INDEX	Dec. 23	459.3	456.9	454.3	378.6
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Dec. 20	236.8	237.9	233.6	216.9
Fats and oils	Dec. 20	266.0	275.6	282.2	259.7
Farm products	Dec. 20	275.8	274.9	261.2	229.4
Cotton	Dec. 20	336.7	342.4	324.8	313.6
Grains	Dec. 20	312.7	315.2	304.5	203.5
Livestock	Dec. 20	263.6	260.1	245.1	226.8
Fuels	Dec. 20	198.2	198.2	198.2	157.6
Miscellaneous commodities	Dec. 20	179.2	178.1	177.9	157.0
Textiles	Dec. 20	226.2	226.0	221.1	214.7
Metals	Dec. 20	159.3	159.3	159.4	139.0
Building materials	Dec. 20	236.7	236.4	235.4	207.0
Chemicals and drugs	Dec. 20	156.4	156.4	157.1	152.9
Fertilizer materials	Dec. 20	137.5	136.8	136.7	124.0
Fertilizers	Dec. 20	141.1	140.6	140.6	129.7
Farm machinery	Dec. 20	129.3	129.3	128.3	116.7
All groups combined	Dec. 20	220.0	219.4	215.9	190.2
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 13	162,012	229,231	154,639	167,937
Production (tons)	Dec. 13	183,345	179,582	182,686	175,640
Percentage of activity	Dec. 13	100	98	101	102
Unfilled orders (tons) at	Dec. 13	444,685	466,628	436,819	571,179
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Dec. 19	150.1	150.7	150.7	150.3
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Dec. 13	161.4	161.0	158.5	139.7
Farm products	Dec. 13	196.2	193.6	186.9	168.7
Foods	Dec. 13	179.0	179.6	178.0	161.3
Hides and leather products	Dec. 13	204.9	204.0	199.6	170.7
Textile products	Dec. 13	146.3	145.3	142.9	132.5
Fuel and lighting materials	Dec. 13	120.2	119.4	118.7	96.1
Metal and metal products	Dec. 13	151.5	151.3	151.3	132.7
Building materials	Dec. 13	188.4	187.6	185.3	151.1
Chemicals and allied products	Dec. 13	135.1	138.4	131.3	125.4
Housefurnishings goods	Dec. 13	135.2	134.8	133.5	120.0
Miscellaneous commodities	Dec. 13	119.8	120.1	118.1	107.9
Special groups—					
Raw materials	Dec. 13	180.9	180.0	175.8	154.3
Semi-manufactured articles	Dec. 13	157.0	157.3	155.4	133.7
Manufactured products	Dec. 13	153.7	153.3	151.7	134.8
All commodities other than farm products	Dec. 13	153.7	153.7	152.3	133.4
All commodities other than farm products and foods	Dec. 13	143.5	143.1	141.5	122.9

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM (BUREAU OF MINES):			
Production of virgin aluminum in the U. S.—Month of October	43,959	43,228	45,000
Stocks of aluminum (end of October)	31,876	54,279	------
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of October:			
Total shipments (thousands of pounds)	146,602	*119,202	138,767
AMERICAN GAS ASSOCIATION—For Month of October:			
Total gas sales (M therms)	2,152,536	1,984,486	2,041,981
Natural gas sales (M therms)	1,897,564	1,772,019	1,795,848
Manufacturing gas sales (M therms)	165,782	142,193	160,422
Mixed gas sales (M therms)	89,190	70,274	85,711
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of November	7,249,523	*7,560,365	6,457,771
Shipments of steel products, including alloy and stainless (net tons)—Month of Oct.	5,681,597	5,118,839	5,675,339
CIVIL ENGINEERING CONSTRUCTION—ENGINEERING NEWS RECORD—Month of November:			
Total U. S. Construction	$474,357,000	$575,089,000	$275,825,000
Private Construction	224,385,000	350,736,000	134,728,000
Public Construction	249,972,000	224,353,000	141,097,000
State and Municipal	204,100,000	193,590,000	86,106,000
Federal	45,872,000	30,763,000	54,991,000
COAL EXPORTS (BUREAU OF MINES)—Month of October:			
U. S. exports of Pennsylvania anthracite (net tons)	829,725	855,416	545,500
To North and Central America (net tons)	448,288	395,969	524,949
To South America (net tons)	1,219	10,864	------
To Europe (net tons)	370,172	448,581	20,551
To Asia (net tons)	10,044	------	------
To Africa (net tons)	2	2	------
COAL OUTPUT (BUREAU OF MINES)—			
Bituminous coal and lignite (net tons)—Month of November	52,350,000	*57,210,000	37,501,000
Pennsylvania anthracite (net tons)—Month of November	4,613,000	*5,506,000	4,975,000
Beehive coke (net tons)—Month of November	570,000	*613,400	372,100
COKE (BUREAU OF MINES)—Month of Oct.:			
Production (net tons)	6,410,643	*5,978,069	6,119,100
Oven coke (net tons)	5,797,269	5,396,151	5,545,200
Beehive coke (net tons)	613,374	*581,918	573,900
Oven coke stocks at end of month (net tons)	1,077,303	1,029,088	1,120,261
COMMERCIAL STEEL FORGINGS (DEPT. OF COMMERCE)—Month of September:			
Shipments (short tons)	108,804	98,009	101,987
Unfilled orders at end of month (short tons)	617,247	626,227	670,523
COTTON ACREAGE AND PRODUCTION—U. S. DEPT. OF AGRICULTURE—As of December 1:			
Acreage	21,148,000	21,147,000	17,615,000
Production, bales lint	11,694,000	11,505,000	8,640,000
COTTON SEED — DEPT. OF COMMERCE —			
Received at mills (tons) Aug. 1 to Nov. 30	3,106,691	2,452,918	2,336,828
Crushed (tons) Aug. 1 to Nov. 30	1,691,202	1,094,707	1,356,986
Stock (tons) Nov. 30	1,515,017	1,457,739	1,097,648
EMPLOYMENT AND PAYROLL—U. S. DEPT. OF LABOR—Month of September:			
Estimated number of production workers in manufacturing industries—			
All manufacturing	12,833,000	*12,638,000	12,244,000
Durable goods	6,481,000	*6,398,000	6,249,000
Non-durable goods	6,352,000	*6,240,000	5,995,000
Employment indexes—			
All manufacturing	156.7	*154.3	149.5
Durable goods	179.5	*177.2	173.1
Non-durable goods	138.7	*136.2	130.9
Payroll indexes—			
All manufacturing	337.2	*323.5	290.3
Durable goods	372.8	*357.5	323.3
Non-durable goods	302.4	*290.4	258.1
Estimated number of employees in manufacturing industries—			
All manufacturing	15,797,000	*15,593,000	15,035,000
Durable goods	7,880,000	*7,792,000	7,590,000
Non-durable goods	7,917,000	*7,801,000	7,445,000
FACTORY EARNINGS AND HOURS WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of Oct.—			
Earnings—			
All manufacturing	$50.97	*$50.45	------
Durable goods	54.72	*54.05	------
Non-durable goods	47.08	46.77	------
Hours—			
All manufacturing	40.5	*40.4	------
Durable goods	41.0	*40.6	------
Non-durable goods	40.1	40.1	------
Hourly Earnings—			
All manufacturing	$1,257	*$1,249	------
Durable goods	1,336	*1,331	------
Non-durable goods	1,173	*1,165	------
INTERSTATE COMMERCE COMMISSION—			
Index of Railway Employment at middle of November (1935-39 Average=100)	††130.3	††*128.9	134.3
METAL PRICES (E. & M. J. QUOTATIONS)— Average for month of November):			
Copper (per pound)—			
Electrolytic, domestic, refinery	21.200c	21.209c	17.036c
Electrolytic, export, refinery	21.460c	21.389c	17.619c
Lead (per pound)—			
New York	15.000c	15.000c	10.437c
St. Louis	14.800c	14.800c	10.287c
Silver and Sterling Exchange:			
Silver, New York (per ounce)	74.625c	71.625c	90.125c
Silver, London (pence per ounce)	45.019c	43.375c	55.500c
Sterling Exchange, "Checks"	$4.02632	$4.02727	$4.02973
Tin (per pound)—			
New York Straits	80.000c	80.000c	64.522c
New York, Chinese or 99%	78.900c	78.900c	63.647c
Gold (per ounce U. S. price)	$35.00	$35.00	$35.00
Quicksilver (per flask of 76 pounds)	$79.636	$80.692	$89.391
¶Antimony (per pound) (E. & M. J.)	36.030c	35.995c	22.125c
Antimony (per pound) bulk, Laredo	33.000c	33.000c	20.761c
Antimony, (per pound) bulk, New York	------	------	21.550c
Antimony (per pound), in cases, Laredo	33.500c	33.500c	------
Antimony (per pound), Chinese, Spot	Nominal	Nominal	Nominal
Platinum, refined, per ounce	$62.000	$60.269	$68.957
†Cadmium (per pound)	$1.750	$1.750	$1.250
‡Cadmium (per pound)	$1.775	$1.775	$1.275
§Cadmium (per pound)	$1.800	$1.800	$1.300
Aluminum, 99% plus, ingot (per pound)	15.000c	15.000c	15.000c
Magnesium, ingot (per pound)	20.500c	20.500c	20.500c
Zinc (per pound)—			
East St. Louis	10.500c	10.500c	10.120c

*Revised figure. †Based on the producers' quotation. ‡Based on the average of the producers' and platers' quotations. §Based on platers' quotation. ¶Domestic, five tons or more but less than carload lot, packed in cases, f.o.b. New York. **Adjusted to include tonnage earmarked for government account. ††Preliminary figures.

Observations

(Continued from page 5)

merely reflects the twin opinions of the marginal most optimistic non-owner and the least optimistic owner. It seems to me that this fallacy applies likewise to the ratio techniques as actually practised by both Mr. Molyodovsky and Mr. Mindell.

Merely the Lesser of Several Evils

And from close and long scrutiny of the writings and other discussion by advocates of the "internal" market approach, I am constantly forced to the conclusion that their motivation is *escapism* from other recognizedly abortive forecasting tools.

In their sub-section, "Stock Prices and Business Conditions," our authors point out even more emphatically than have I—and with citations from Burns and Mitchell and Harold T. Davis—the complexity and individuality of business cycles, the hazards, if not impossibility, of determining cyclical points of stock prices from cyclical economic developments; the difficulty of relating stock prices to *current* (italics mine) dividends or earnings; and the general divergence between behavior of "the stock market" and business conditions. But they then voice the conclusions (with italics theirs), which seems to embody the crux of our differences. They maintain, quoting Davis: "Hence, with present data, it would seem that any theory of forecasting market action would *necessarily* be an *internal* theory," and their own similar conclusion follows, namely that "a study of structural changes in the internal relations of the market can detect the probability of impending trend changes. For once we know how to isolate the elements out of which the trends are built, we are no longer helpless in determining the timing of their reversals."

This seems to me to (1) grossly beg the entire question, despite attempted analogies with historical progress in physics or the scientific medical achievements of the Mayo clinic; and (2) in any event transfer their discussion into the sphere of speculation ("beating the market") rather than the field of the "investment decisions" which they initially stated constitutes the premise of their approach. Contrary to that agreed-on premise of *investment*, apparently they have instead steered the discussion to the relatively narrow question of whether it is possible to forecast the price behavior of the stock market and, if so, whether their internal approach is the most logical.

With the "disclaimer" that this is wholly irrelevant to a discussion of investing policy, I would gratuitously offer my incidental conviction that it is *not* possible to forecast the stock market by their or any other approach.

Timing and Peace of Mind

Of course, as Molodovsky-Mindell say, "the selection of an appropriate moment for the execution of a decision to buy or sell can mean large differences in dollars and cents." But so does the selection of an appropriate horse or roulette number lead to profit—but they are activities recognized as irrelevant to investing. The confusion of Messrs. Mindell and Molodovsky on this is illustrated in their portrayal of the hardships befalling the investor in their following passage:

> "A stock which looks undervalued by the market can well remain so for a long time to come; and when it appears overvalued, it might still soar to much greater heights. If an *investor* [italics mine] is guided solely by values, he may remain out of the market during the most profitable period of a rise, and reenter it long before the downtrend is reversed, suffering heavy losses. It is small comfort to him to know that, although the going price for a stock he bought is 50% below the price he paid, he has a 'bargain' in terms of 'Intrinsic Value'."

This great concern over the security holder's discomfort resulting from disparity between his stock's value and its fluctuating market price seems to indicate complete misconception over the aims which the "*investor*" should have in practice or theory.

Affirmative Investing Principles

Is an investor, any more than the buyer of real estate, or a farm, or ordinary private business, to look for continuing market-cashability-without-loss and entitled to value in the form of protection of capital in addition to a return on his money sufficient to compensate him for the risk and use of his money? If Messrs. Mindell and Molodovsky agree that he cannot have both, they must decide which is preferable and attainable. But above all, they must leave speculation to the speculators, and not mix liquidity-preference with investing.

I definitely do not wish to tie my commentary to theoretical dialectics about the definition of investment and speculation, or about intrinsic value concepts; but rather to set forth a set of principles that are at the same time logical, empirically defensible, and practicable for hard-boiled, material purposes. The connotation with speculation is distinctly secondary, but long experience in the field has convinced me that a sound investment usually happens to turn out as also a good speculation. But that speculative consideration must be kept 'way in the background, or entirely disregarded, to avoid confusion.

Similarly, a sound investment appraisal of a number of individual issues is a better tool than are charts for judging the over- or under-pricing of the market as a whole (but not its future, of course).

The Margin of Safety

While space necessitates deferment of the detailing of my affirmative credo until next week's column, I must here emphasize the basic real and practical difference between the market approach and any worthwhile efforts to appraise the long-term worth of a share in a business. This is the *margin of safety* which can be included with the business appraisal method. Of course, any appraisal of a security's worth, as of real estate, involves certain assumptions about the future, as of its earning power, business competition and extensive elements like the interest rates. But in the first place, such elements of forecasting are necessary and incidental to the study and appraisal of the property's worth as a going concern, and in the second place, the investor can keep a concrete margin of safety, to compensate for blind spots, imponderables and other errors, in his appraisal work; by reducing the purchase price which he is willing to pay. On the other hand, in predicting the course of the market as a whole—a la Molodovsky-Mindell or otherwise—whether it is about to move up or down, surely no such safety backlog can be claimed.

While poetic justice is probably not the reason for the greater rewards for the constructive effort expended in business-like appraisal of specific companies as contrasted with the easier and more interesting game of market prophecy; in practice it does happen to work out that the virtue of the former is rewarded by more satisfactory material renumeration.

Hard-Boiled Credo

My hard-boiled businesslike investing procedure does not involve the use of any formula—whether simple arithmetic or advanced calculus—nor does the approach involve either functioning or language that is complicated.

One major premise is that there is no semblance of logic for an investor to gauge the value of a stock according to past or future intrinsic factors as earnings, or general business or other extrinsic events, of only one, two, or three years' duration; that so to do is to try to outguess the crowd, to find some sucker to take the security off one's hands at an unduly high price, or misguidedly to buy from him at a too low price.

Thus it is that there is such widespread annoyance with recent market action for its almost unprecedented intelligence in being afraid of capitalizing the current above-average earnings.

Another basic caveat would be to avoid looking at the price of an individual security or of the market as a whole until after one has made one's own appraisal independently—just as an appraiser normally calculates the worth of a piece of real estate without cognizance of price—or of what the smart operators are going to do later about taking it off one's hands.

Affirmatively and concretely, the present worth of a common stock should be estimated by capitalizing its carefully-determined *long-term average* dividend at a rate embodying the going yield of riskless interest as the rental value of the invested principal, plus an increment for amortization of the risk involved. Calculated with that approach, a cost yielding an average dividend expectancy of 6½% would roughly permit complete amortization of the investment in 25 years, and leave the buyer with the property and working capital without charge. Or looked at from a different angle, with a 6½% median yield backed by a strong asset position and generally favorable concomitants, the buyer can figure that he will be getting fair rental for his money plus an indeterminable increment of return ranging somewhere around the other 3½%.

Realism

This realistic approach is of course flexible and does not provide slide rule figures for determining three decimal-place prices, earnings-ratios, nor working-capital figures. But it does require judgment and relevant research which to this writer seem to be more businesslike and more realistic than engagement in mathematical analyses of market "structures" and "trends."

In next week's column we shall specifically detail such appraisal procedure, working out estimates of the worth of actual securities; and show also how the risks of business and economic elements can be guarded against.

Basically, irrespective of the matter of definition of investment as opposed to speculation, which may be put aside as secondary, our process is centered on gaining actual return directly from the property, not from the market decisions of other individuals. Our capital earns its profit through continuing return from property and not from expectations of resale.

A word should be added in conclusion about the possible combined use of various approaches like "tools." It seems to me that this kind of conclusion merely quibbles and beclouds the issues. One must decide as to the validity of individual approaches and principles according to relative importance.

This does not mean that one's eyes should be dogmatically shut against looking at all market phenomena. For example, the writer would go along with ratio principle to the extent of noting a highly abnormal price-earnings ratio for a stock as a warning to investigate the existence for generally unrealized factors (but not to assume that they justify the market price).

* * *

Terminology and Fantasy

Messrs. Mindell and Molodovsky say that my suspicions have been aroused because students of Internal Evidence use terminology which is unfamiliar to me; and point to the coining of terms and esoteric language employed in any form of scientific research; in chemistry, navigation, statistics, and in medical practice.

Actually, the question at issue seems not to be concerned with the use of technical terms as an efficient short-cut "to avert endless repetitions of elementary fundamentals"; in which usage they quite properly engage. The further major practice I do point to as highly significant and quite basic in their thesis, is their *distortion* of lay terms. This they do, along with other market technicians, not even merely to fit special definitions, but seemingly as fluid expressions of their subjective concepts. Let us remember that statistics constitute facts; their proper use knowledge. It appears to me to be not a question of the proper use of language—or even whether it is being used scientifically or artistically—but of the language disclosing the presence of varying extremes of fantasy present in the mind of the user.

A very simple example of this is the widespread use of the term "selling climax." To the unscientific observer like myself this would be a descriptive term historically denoting that a stock price decline ended with a high volume. But to attach "scientific" connotations of precision, recurrence, or a truth of nature, constitutes question-begging at least.

And consider such expressions as: "dangerous *internal tensions* in the market"; "gradual *corrosion* of the market's *structure*"; "the *underlying structural relations* which are the materials out of which trends are built"; "the brief recovery was not of an *organic* nature; it did not spring from the *inner depths* of the market, but seemed to reflect *pump-priming efforts*"; "internal resistance of the market"; or the market's head and shoulders envisaged by the Dow theorists. Is the following concept of price behavior recently contained in a widely-distributed service scientific?; "the measurements on our graph might be compared to the evidence provided by a barometer. When a barometer falls, the experienced man recognizes that conditions preceding a storm exist. *Sometimes, however, a weather front moves along, storm conditions dissipate, and the sun comes out again.*" (All italics mine.) And so on, cumulatively, at even dizzier levels of fantasy.

Hearing Stock Market Symphonies

This appears to me to contain a valid analogy with prevalent journalistic criticism of music. Like the above-cited market writing, it is not a question of the reader using a glossary for definition of technical terms, but of indicating the progressive subjective emotional building-up of fantasy. In both fields the language discloses the complete unreality of the generating thought.

Adolescent America—Awake and Challenge

(Continued from page 3)

took 9½ in prewar Germany. Sixty work-hours go into an average radio made in a United States factory; 171 in Great Britain; 262 in Sweden. A United States coal miner, using American methods and machinery, produces more than 7 times as much coal as a Russian miner in a given time. An American farmer, using American power-driven equipment, produces 4½ times more than a Russian farmer. An American steel worker produces as much steel as three Russians.

Our present farm wealth of about $111 billion, twice the 1940 figures, is far greater than the entire wealth of many industrial nations. Farm cash income for 1947 should be around $29 billion as against $25 billion in 1946 and $12 billion in 1929. This is food and purchasing power for hundreds of millions of people.

Only 6% of the world's population lives in the United States, which including the territories and possessions comprises but 7% of the total world land area. Yet, these people use 72% of all the automobiles made in the world, 42% of the radios, 54% of the refrigerators. In normal times, we consume 65% of the world's silk, 35% of the wool, 22% of the cotton. We have about 35% of the world's proved oil reserves and 50% of the known coal reserves. Estimates of the volume of iron ore lying in American earth vary from 25% to 50% of the world's store. The United States, which must import virtually all its tin, turns out 85% of all the food in the world preserved in tin cans. Over half of all the tires in the world are American made, although there is not a single rubber-tree plantation within our borders!

Our resources for production of electrical energy generated by gas, coal, oil and water power are unparalleled and bid fair to equal all that is generated in the rest of the world. Yet this dominant power of production is of no use to us unless we can preserve the form of government under which we achieved this world superiority. The question thus follows: Are we threatened, and if so, how?

Challenge of Russia to America

Russia threw off the Tartar or Mongol yoke in the 15th Century under Ivan the Great, whose son, Ivan the Terrible in the 16th Century conquered Siberia and opened trade with England. Modern Russia begins with Peter the Great in 1689. In 1904 and 1905 came the impact of revolutionary forces and the defeat by Japan. The first representative assembly, The Duma, was held in March, 1906. This was virtually wrecked in November, 1917 by the Bolsheviki. Thus the Soviet Union as a people are still far from political maturity. That its present leadership should have been brought into power by a cataclysmic battle for freedom is an unutterable tragedy.

Russia's limitations are congenital, and her political consciousness somewhat juvenile. After centuries of cruel despotic government, it has within the last 30 years conceived out of despotism, a mongrel form of pseudo democracy. In its crudest organic political form it was thrust in the greatest of all wars, in collaboration with States understanding basic liberties won hundreds of years ago. Ivan the Terrible and Peter the Great are still the immediate forefathers of Russia, as against our Thomas Jefferson and Abraham Lincoln.

America's faith in the survival of freedom the late Franklin D. Roosevelt expounded with youthful ardor to a Tartar, who as a despot knows only to conquer, exploit, and crucify.

The war gave Stalin the technique of the Western States, but left his despotic political philosophy of the Midde Ages untouched. Here is a malignant anachronism that cannot assimilate the charecter of a modern enlightened age. The Soviet Union has been instructed by Stalin, Hitler, Mussolini—a trio of would-be conquerers that represent mutation or breakdown in the growth and development of our modern world. This America must challenge.

The tensity of Russia's growing intransigence highlights all contemporaneous discussions of our relations. An example is Russia's summary occupation of Poland and its transfer of all the German territory east of the Neisse River to Poland. This was in violation of prior agreements and caused President Truman to ask how the reparation issue could ever be settled, "if part of the German territory is gone before we reach an agreement on what reparation would be."

Former Secretary of State, James F. Byrnes, comments in his book "Speaking Frankly," on the threat to peace the Soviet Union would make by refusing to join the Allies in concluding a German peace treaty and withdraw its troops from Germany. The "Times" of London remarked that "this seems little better than a simple recipe for war."

The late President Roosevelt earnestly and vociferously championed a "free Poland." This position was reenforced by Prime Minister Chuchill who said: "Our interest in Poland is one of honor. Having drawn the sword in behalf of Poland against Hitler's brutal attack, we could never be content with any solution that did not leave Poland a free and independent sovereign state." Marshall Stalin displaying great earnestness replied: "For the Russian people, the question of Poland is not only a question of honor but also a question of security . . . Twice in the last 30 years our enemies, the Germans, have passed through this corridor. . . . It is necessary that Poland should be free, independent in power. Therefore, it is not only a question of honor but of life and death for the Soviet state."

Solemn pledged conferences have no meaning to Asiatic overlords, and never did have. The fate of the world hangs in the balance as history repeats itself in the various empires where despotism and military power become ascendant, followed by decline. We have witnessed that process with mighty England, that held sway for centuries. America was the first diamond to be taken from the proud imperial crown in 1776, and today England is only an embattled island in a mighty sea of imperial tolerance. America now is to take England's place through democratic processes in the "course of empires," which Russia now challenges.

World history bristles with the "Man on Horseback" who emerges as a sordid conquerer out of idealistic defensive war for the freedom of the people. Now Russia falls into the course of history, with Stalin the equestrian. Alas, this is still Hitler's maniacal war and he can still win it if we do not.

There is little precedent to guide us in politics, history, finance or economics. The Soviet Union has definitely broken its pledges. Nowhere on their wide perimeter of geographical contacts have they failed to use every subtle political machination to obtain control of peoples and territory and bind them to their great communistic influences. The eastern lands and peoples of China, Manchuria and Korea are on the verge of collapse into the Soviet orbit. Along the Middle East powerful influences to the same end are at work. To the west those nations that we fought for with Russia, so that the might enjoy freedom—Poland, Finland, Hungary, Czechoslovakia, Yugoslavia, Bulgaria, and Roumania—are helplessly under the directing influence of the Soviet Union; Austria, Greece, France and Italy hover on the brink.

Challenge of America to the Soviet Union

The challenge of America to the Soviet Union is confined to an unalterable decision to resist any attempt to prevent democratization of Western Europe, and to resist any further encroachment inconsistent with the faithful execution of the agreements made with Great Britain and ourselves to go into effect at the end of the war.

The Soviet Union is not ready for war and does not want it. Her wounds—economic, industrial, and otherwise—are wide and deep. She needs peace for a long period to restore her national resources and vigor. But in her concept of Asiatic diplomacy to push and acquire, at any cost even of "losing face" diplomatically, as a fundamental policy of her trained diplomats. Her system of penetration by nefarious methods has been perfected by long experience. Despotism can survive only by expansion, consolidation and further intensification of power. Like a rolling hoop, it must go on or fall.

A breath of freedom or of self-determination is anathema to their very existence. The Soviet Union is fearful of a clash before they can counter with their own atomic bomb. No instinct of humanity would deter them from immediate and destructive purposes if need be. Time works against us in that we have abiding faith that our high motives will be met with cooperation. The Soviet Union must be made to decide whether they will accept our international doctrines as to containment of the Soviet Union, or in continuing their policy of subterfuge and subtle penetration accept the inevitable challenge of war!

We are confronted with a "fait accompli" in the Eastern nations of Europe bordering on Russia, which have been politically and forcibly taken over. Europe and Asia, with more than a billion inhabitants, are ready prey for the Soviet Union as eligible for encompassment. With Russia's mighty power and incomparable technique of penetration, America dare not tarry or falter.

In France and Italy the communists in substantial numbers influence labor and foment strikes that ultimately bring chaos to the government and cause its downfall. England alone cannot long remain England. The ocean today is a narrow strait; Europe and Asia under control of the Soviet would leave us an impotent island in a communistic world. It is adolescent for America to have remained asleep so long and failed to see the mighty sea of a foreign political brew that is forming in a mighty tidal wave to engulf us—the final end of the "cold war" that bridged the gap between Hitler's exit and Stalin's entre! We cannot but stand firm and resolve that that sea shall go no further and, unlike that poetical and historical precedent of King Canute, we cannot fail. We have the power and the resources of production that are now mightier than fleets, armies and gold.

This is an issue we should press forthwith and settle for all time. The Soviet Union cannot meet us today—they need years. America as a nation is not allergic to foreign propaganda, due to immunization over many years. Therefore we can understand how the areas abroad, by reason of their past history and their present state of economic inadequacy, are susceptible to the communistic virus. The danger is serious that even with the withdrawal of the Soviet armies from the territory still free, a great number of the people will be affected by the communistic doctrines.

America's Inescapable Task

A grave catastrophe may be closer than we care to believe, while the immensity of the crises may be under-estimated. A tremulous approach to a great war, and a tremulous approach to a great peace, are the basic weaknesses of a democracy. Czechoslovakia, Munich, Pearl Harbor, Yalta and Russia should teach us to guard against these failings. To win the war and lose the peace has now become a chronic defect of our powerful democracy.

Wilson failed after World War I to give France the Rhine for her border as Clemenceau pleaded; instead he brought into being a shadowy Covenant of the League of Nations. Wilson as a learned student of constitutional law was pilloried by the constitutional power given to the Senate to reject a foreign treaty by the concurrence of two-thirds of the Senators present. That impasse was avoided at the Dumbarton Oaks Conference in the autumn of 1944 when the United States agreed in response to the insistence of the Soviet delegation that all decisions in the Security Council must be by a unanimous vote of the Major powers. This was followed up by agreeing ourselves that no decision committing our military forces to action can be binding without our consent.

We are thus confronted in the event of war with modern instruments of gargantuan destructiveness. None of this may happen, yet all of it is imminent. We must act decisevly and firmly now at a calculated cost, against the possibility of a disaster beyond calculation or appraisement. This involves the downfall of the American Republic and of western civilization.

What Is the Cost?

In this calculated cost we must figure what proportion we can give of what we have, not in stark dollars, for the enterprise assured or saved cannot be computed in dollars. Our basic wealth and power of production should enable us to furnish the nations of Europe that are to remain free with the means for financial and industrial reconstruction. This should, in the course of three or four years, bring about a balanced and prosperous economy. The approach of our government has been non-political, and the Marshall and Krug Reports have been long awaited as a well analyzed engineering program rather than an emotional surge to feed the starving. This is a production and reconstruction problem, and unless so treated will mean only temporary relief.

The Krug report offers a fundamental concept of what we can afford to give without affecting our own needs of production and supply. It states that our unprecedented economic activity "has resulted in the attainment of a gross national product, or total value of final goods and services produced or in process, of $204 billion in 1946 and a rate of $225 billion annually for the first six months of 1947."

While no money amount of this program was mentioned in the Report of Mr. Krug, he told a newspaper conference October 18 that his committee had weighed the nation's resources against a possible foreign aid program of $20 billion over the next four years. That would have been less than 2% per annum of that production without giving any credit for payment or return shipment.

In speaking of the effect on the economy of the United States, Secretary Krug cautions that we "cannot long underwrite the material deficits of other nations without serious impacts upon its economy and is resources." On the other hand, he points out that the American economy could be elastic as proven by war experience and "what we as a nation can do depends in great measure on what we set out to do." He concludes, "that a plan of foreign rehabilitation would pay for itself if geared to the objective of getting the world economy off dead-center and restoring normal trade."

The Inevitable Alternatives

We must practice the Good Samaritan in order to save the land from the disaster of hunger and lack of production for which Hitler's prototype awaits the fatal hour to take over. That region is poor because they have no production or tools of production. Food, energy, machinery, and concerted purposes are lacking—in accordance with Hitler's diabolical planning. We are literally blessed with plenty, amidst gaunt and impoverished economies abroad.

If we fail, the loss would be a mortal casualty. As fast as a nation would succumb it would be taken over by Stalin's invidous and subtle processes, the "people's democratic party" (with his Minister of the Interior commanding the police), and become our enemy in being. As this continued, those remaining would become vulnerable, until we would have given the world over to Hitler's successor. To avoid this supreme catastrophe we must give or loan a part of that with which we have been blessed. We cannot ask the fallen for compensation until they are restored to the potentiality of production.

Are we faced with the reality of Oswald Spengler's thesis in his book "Decline of the West" that the Western World, Europe and America are ripe for the final transformation and alignment of their present power, and will be prepared in three or four centuries for stagnation and decay? Will the "proletarian revolution" prophesized by Carl Marx, typified in Russia's status, mean her emergence as the dominant power in the world?

Arnold J. Toynbee, our modern prophet of history, advances the thesis that while western man and his works are no more invulnerable than the Aztecs, Incas, Sumerians, and Hittities, that as races have disappeared, we are, nevertheless, still masters of our fate despite historical precedent. He questions whether the United States and the other western countries can manage to cooperate with the Soviet Union through the United Nations. Unlike Spengler, he does not feel the inevitability of the decline of western culture, since "we are not just at the mercy of an inexorable fate." Indeed the inevitable path is before us and we must take it with courage and determination. In this we must be invincible!

In a letter by this writer appearing in the editorial page of the New York "Times" of Oct. 13, 1938, decrying the Chamberlain peace with Hitler, it was stated: "The tolerance of disorderly and degenerate moral processes in any nation is a danger to the world at large. The tolerance of one grave injustice speedily brings another, which, unrestrained speeds a host onward for brutal and egotistical supremary. . . . Decadence works insidiously among peoples that are free as well as among those that are not free."

We cannot fail posterity—without throwing the free world into the maw of the medieval Moloch that seeks to devour and destroy us!

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bring about this greater productivity; it has been contributed by the injection of more and more capital. Two points may be made in response to that assertion. First, the point of equity is not impressive if we recall that the accumulations of capital over the years have in fact involved deprivations of the rank-and-file worker. His children may now with reason expect to benefit from the fruitfulness derived from that contribution. But, second, and most important, is the strictly operational point that whether or not the worker is entitled in any abstract sense to the enlarged product, the system cannot go on progressing or even functioning efficiently unless its expanding product goes to all potential consumers. In a rich nation, the gap between the actual consumer satisfactions at the top and the bottom is bound to narrow. Real wages rise, whereas the rate of return on capital would normally fall in response to competitive forces as its ratio to the number of workers rises.

To Achieve Its Maximum, Production Must Anticipate Consumer Responses

Maximum production, like maximum employment, is a complex term. Just as the effort to define maximum employment must strike a balance of individuals' preferences between work and leisure, so maximum production must strike a balance of preferences between the public's desire for one type of goods and its desire for another type of goods. In the final analysis, whether we increase the supply of houses more rapidly or more slowly than we increase the supply of marginal house furnishings such as radios and television sets, is or should be a matter of consumer needs and preferences. Even with abundant purchasing power, the execution of a bold design for maximum production depends upon getting as much insight as possible into consumers' real desires and relative preferences, since these determine the willingness of buyers to release their dollars on the market—and to go on working to get more dollars. This tells the producers where to go forward and where to hold back.

It is not enough to say that our private enterprise system will be so aware of consumer desires that it will automatically build up the appropriate productive facilities, confident that a remunerative market will be forthcoming, and that this in turn will enable producers to supply the employment opportunities out of which the necessary consumer incomes will be generated. To an extent this is true, but we cannot afford to assume that it will be so completely true that we shall move from the high activity of the present period on to a sustained level of production in which our resources are adequately employed year in and year out.

In recent years, there is evidence that due to the "roundabout" methods of production, requiring heavy investment in capital equipment to produce goods for markets remote in time and space, serious imbalance of supply and demand often results. In other words, the so-called free market is neither as responsive nor as dependable a guide to production as it was in a simpler economy.

Practical businessmen and analytical economists have never been quite able to decide on the true relationship of production and consumption. Which came

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first—the hen or the egg? Naturally, we must produce before we can consume. But it is the urge to consume that sets us at work producing. With the growth of large, complex, and round-about processes of industrial production, the consumer certainly does become a less direct personal determinant than he was under simple conditions when the hunter went out to kill the meat for his dinner and provide the skins and furs for his clothing. The producer undertakes provision of what experience or analysis leads him to believe he can persuade the consumer to buy; he speculates as to the demand and assumes the risk of an uncertain market. Then the worker seeks a place to sell his labor to get the dollars to buy what he wants or can be sold. The enterprising producer both stimulates and guides consumers.

We are still in a somewhat abnormal, certainly unstabilized, type of production activity, in which we are making up the deficiencies in durable goods, particularly consumer durables, which had accumulated during the war period and the preceding depression. Present production, likewise, is going into military preparedness and foreign aid to an extent which would not be found in a true peacetime economy. We might continue maximum employment and high production on these somewhat artificial props through 1948 or even longer. But it would be improvident for us to fail during this interval to consider soberly and to provide prudently for the pattern of reciprocally balanced consumption and production which could reasonably be expected to become established thereafter and which could be maintained on a stable basis. . . .

Private Production, Public Demand, and the Role of Government

The Employment Act of 1946 in its declaration of policy explicitly embodies the proposition that the system of free competitive enterprise in which we live is to be maintained. This intention is implicit in the whole structure of the act and was emphasized throughout its legislative history. The Council reaffirmed and expounded this philosophy in its first annual report and has emphasized it at many points in this report.

But the Employment Act does not limit its purposes or our responsibilities to the carrying out of this intention. The declaration of policy in the Employment Act likewise affirms—

> the continuing policy and responsibility of the Federal Government to use all practicable means consistent with its needs and obligations and other essential considerations of national policy . . . to coordinate and utilize all its plans, functions, and resources, for the purpose of creating and maintaining . . . conditions under which there will be afforded useful employment opportunities, including self-employment, for those able, willing, and seeking to work, and to promote maximum employment, production, and purchasing power.

This statement *per se* does not involve precommitment to an expanding role for government at the expense of voluntary initiative. But it does involve frank recognition that the government accepts a complementary role in areas where, or in times when, private enterprise fails to provide adequate productive use of the nation's resources.

From our economic analysis of sustained maximum production, we have concluded that we have reached a state of the industrial arts where the full utilization of our resources makes possible and will call for the increasing enjoyment of satisfactions that go beyond merely "keeping body and soul together." The expectation that keeping our resources vigorously and steadily in use would give us not merely more adequate food, clothing, and shelter for the lower ranks of workers, but also reveal much reserve productivity to raise the level of health care and culture activities for all but the present top income layers, who are already well supplied, raises the question of how far private enterprise will cultivate the total field and particularly this latter area.

The United States has never barred private enterprise from running private schools, from law and medicine to dancing and modeling. We have never, except in time of war scarcity, deterred private promoters from developing any legitimate amusement enterprise. Nor have we barred private physicians, dentists, or oculists from developing the private practice of their profession, provided they met suitable standards of competence formulated by their own craft. On the other hand, in none of these areas has the public enterprise of local community, state agency, or the Federal Government hesitated to step in to organize facilities through which any one of these services would be rendered the public more amply than unorganized individuals or organized firms had been able or interested to supply them.

The point of our question, therefore, becomes this: Will private physicians and non-governmental hospitals, will schools and training agencies outside the public system, and will commercial ventures in music, art, drama, radio, and recreation attract a sufficiently rapidly expanding personnel and provide sufficiently enlarged facilities so that the satisfaction of wants in these areas, superimposed on those which have been more exclusively the area of industrial and commercial activity, bring the level of total activity in the economy up to an acceptable total of maximum production? If not, is it reasonable to expect that we shall channel more of our resources and derive more of our satisfaction through government agencies in these areas? We must then find ways of developing them no less prudently and operating them on the average as efficiently as the much larger area which we may hope will continue to be organized and operated through the agencies of the private market.

Transportation is another area in which a substantial measure of governmental participation has become traditional. The history of our improvements in transportation strikingly proves the case that certain public activities, far from competing with private business, are indispensable to its operations and give mighty impetus to its progress. Notable at the present time is the strong and legitimate desire to have both local and central governments move to establish municipal airports and an over-all system of regulation of air traffic. Actual transportation service by air is left to private enterprise, and popular sentiment has called for government patronage and several forms of financial aid so that the service might be developed more amply and rapidly than it could be through sole reliance on the commercial rates which the traveling and shipping public could or would pay.

Similarly, both manufacturers of highway machinery and road-building supplies on the one side and bus and truck companies and farmers and tourists on the other have been ardent proponents of the hard roads program. While both the building and the using of the roads remain in the realm of private enterprise, the economic leadership in developing these enlarged areas is the connecting link for which public action provides the most adequate agency.

Perhaps the most important of the new frontiers of private institutions in step with complementary government action is the field of urban redevelopment. Many of our cities and towns are outmoded in whole or in part. There have been telling dramatizations of the social consequences of this. But we are only beginning to probe the depths of the economic consequences, such as the effects upon property values, local tax structures, and institutional investments. Yet there is an almost universal realization that no single investor or group of investors can bear the cost of writing off this obsolescence at a sufficiently rapid rate. Some writing off does take place, it is true, through reorganization, recapitalization, and shifts in ownership. But adjustments of this kind are inadequate from the viewpoint of increasing our national wealth or releasing truly productive energies.

The application of some Government resources at all levels to the preparatory stages of urban redevelopment would have an extraordinary leverage effect upon opportunities for the private employment of men, money, and materials. Just as the hard surface road accelerated the automobile industry, and the automobile industry in turn touched so many points in our growth after the First World War, so an appropriate exercise of public initiative in urban redevelopment could serve to touch off varied economic developments of almost incalculable proportions.

In our first report, we indicated profound scepticism as to the theory that government spending should or could effectively be used to make up for huge deficiencies in employment and production caused by periodic breakdowns of the economic system. This did not mean rejection of the sound principle that public works should be accelerated or retarded somewhat to counterbalance the mild fluctuations in the operations of business which will occur periodically despite our best efforts. But it did mean that we consider the primary purpose of public works to be the provision of services that cannot otherwise be supplied. The offsetting of fluctuations in the business system, which is a secondary purpose, can be achieved only if these fluctuations are held to manageable proportions. We emphasize again that government economic activities should be carefully designed to add to the resourcefulness, the productivity, and the growth of our business system as a whole instead of being regarded mainly as a device for applying poultices to that system when it becomes infected.

Other economic policies of government, such as taxation, regulation, and international trade policies should be conducted in a manner which, consistent with the attainment of other national objectives, shapes these policies to the promotion of health and growth in our business life. No principle is more firmly embedded in the Employment Act. No one—"conservative" or "liberal," businessman, worker, or farmer—quarrels with the urgent need for this enlarged perspective within which the evaluation of governmental policies should take place. Depending on circumstances, this may mean more government or less government. But in any event, it will mean better government, more economical government in the true sense of that much abused word.

To conclude this discussion of the bases of maximum production, the whole congeries of mixed private and governmental efforts will not add up to continuous maximum production unless our business system itself functions increasingly well. This better functioning toward maximum production, and the more adequate consumption that goes with it, depends on the maintenance of certain balances to which we have allotted most of our discussion in this report. These include the balance between capital growth and consumer consumption of goods and services; the balance between work and leisure; the balance between output and absorption, or between supply and demand, which can be achieved only through ever-improving management of the wage-price-profit structure by those who shape it; and the balance which depends upon economically efficient distribution of national income not only between producers and consumers, or between employers and workers, but also between industry and agriculture and among the various sections of the country.

Although those who operate our business system will continue voluntarily to make the decisions that add up to or subtract from the various essential economic balances, it does not follow that any individual or group alone can acquire the perspective and sweep of view over the whole economy which would enable them to synchronize and coordinate their efforts with those of others. The Congress clearly recognized this in requiring that the President in his annual Economic Report to the Congress should state "needed levels" of employment, production, and purchasing power. In discharging this responsibility, the Chief Executive exercises some leadership, but these needed levels cannot be dissected and defined and amplified without consultation and advice from businessmen, workers, farmers, and consumers. This is necessary not only to decide what the Government should or should not do, but also to make available working forums in which these groups may meet together and come to better accords as to what they themselves can and should do.

In the pursuit of its clearly defined responsibilities under the Employment Act, the Council fully recognizes that the tasks of economic analysis which it is called upon to perform require more study, more exchange of views, and further improvements in the tools of economic and political science. We anticipate that in succeeding reports we may bring more exact measurements and refined judgments to bear upon the key issues that we have here disclosed.

Maximum Production Would Involve Real Price Consumption

Our review of the meaning of maximum production and means of attaining it has touched on the parts played by natural resources, created capital, labor effort, and managerial direction. It has emphasized the basic role of private enterprise and the complementary role of government action. In accord with the national purposes declared in the Employment Act, we have stressed the objective of continuous and well-balanced use of the Nation's productive resources as against shortlived booms of unbalanced overexpansion and overcapitalization, with neglect of prudent measures of conservation, these booms being followed by wasteful periods of unemployment, plant idleness, and demoralizing liquidation of property.

If this general analysis is projected against the concrete conditions which have unfolded during 1947, it should give us some sobering reflections. Have we used the time and opportunities available to us since VJ-Day to organize our economic life skillfully and effectively for sustained maximum production and peacetime prosperity? Or can we discharge ourselves of responsibility in the matter, assured that the productivity of our resources, spontaneously—even if tardily—expressing itself in a flow of goods, will automatically solve our economic problems?

In closing this report, we wish to focus attention on a broad issue, already touched on from particular angles, which we believe may have to be faced more definitely before the end of 1948. Or if not then, sooner or later in the not distant future. This issue may be put pointedly in the form of a question: Will our present economic problems—inflation, high cost of living, threatened recession, and all the rest—be solved merely by "production, more production, and still more production?" Or may full production, in catching up with market demand, force disastrous price breaks, result in production cutbacks and thus prove to be its own undoing?

In the midst of a period of post-war shortages and strong domestic and foreign demand, it is but natural that both consumers and businessmen should look to the acceleration of production as the panacea by which all their ills would be cured. Consumers have felt the inconvenience of not being able to find the goods they want even though they had dollars with which to buy them. They have also felt the pressure of mounting prices as a result of buyer competition for scarce goods. They clamor for all possible expansion of production as a means of relief from these conditions. Businessmen, on their part, have been glad to make the most of the scarcity argument to absolve themselves of responsibility for high prices and to hold out hope that fuller production will automatically remedy the situation.

Prominent leaders in business and public life have proposed that the standard work week be lengthened from 40 hours to 44 or even 48. This done, they say shortages would rapidly be brought to an end, prices would come down, and all would be well. This proposal, however, leaves several unanswered questions.

It is evident that we cannot all work longer hours and thereby end present shortages. There are many industries that are on a continuous process basis, and hours cannot be added to their working day. In some industries, too, the problem is shortage of materials; lengthening the hours of work would not produce more final output but simply aggravate the amount of unproductive time which already shows such an adverse effect on productivity rates. And farmers' output is not determined to any significant extent by standard hours, but basically by weather conditions.

Even in those manufacturing lines where materials are adequate and weather impediments not the significant factor, it is not clear that merely stepping up the amount of labor effort would meet the real economic problems which confront us. There is a dilemma presented by the assertion, frequently made, that stepping up production will bring prices down to the proper point and the assertion, often made by the same people, that prices must be where they are because of the level of costs or that any wage advance since VJ-Day not matched by like increase in labor productivity has been a maladjustment or inflationary factor.

If the producers who clamor for

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Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

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.

• Air Power Publishing Co., Inc., Tenafly, N. J.
Dec. 15 (letter of notification) 35,000 shares ($1 par) common. **Price**—$1 a share. No underwriting. For 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.

• Allied Distributors, Inc., Inglewood, Calif.
Dec. 17 (letter of notification) 150 shares of common. **Price**—$100 a share. No underwriting. For general corporate purposes.

American Bankers Insurance Co. of Florida, Miami.
Nov. 3 (letter of notification) 2,500 shares of class A (par $10) common, 5,000 shares ($10 par) class B common, and 11,250 shares 8% ($10 par) cumulative preferred. **Price**—$240 per unit, consisting of 2 shares of class A, 4 shares of class B and 9 shares of preferred. No underwriting. For capitalization of company to enter into stock fire insurance business.

• American Fidelity Co., Montpelier, Vt.
Dec. 15 (letter of notification) 4,541 shares ($10 par) capital stock, to be offered to present stockholders at $20 a share. No underwriting. For additional capital funds.

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.

• Armstrong Cork Co., Lancaster, Pa.
Dec. 19 filed 88,179 shares (no par) cumulative preferred. **Underwriters** — Smith, Barney & Co.; Kidder, Peabody & Co., and The First Boston Corp., New York. **Offering**—Initially to be offered to common stockholders in the ratio of one share for each 16 shares held of record Jan. 7. Unsubscribed shares will be offered publicly. **Price**—By amendment. **Proceeds**—To finance expansion program. **Business**—Manufacture of floor coverings.

• Associated Grocers' Co. of St. Louis, Mo.
Dec. 15 (letter of notification) 3,000 shares of capital stock. **Price**—$600 for 6 shares. No underwriting. For working capital.

• Buckeye Overall Co., Versailles, O.
Dec. 15 (letter of notification) 2,500 shares ($20 par) common. **Price**—$40 a share. No underwriting. For business operations.

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. Expected in January.

Central Maine Power Co.
Nov. 10 filed 160,000 shares ($10 par) common. **Underwriting**—To be determined by competitive bidding. On Dec. 8 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.

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.

• Coosa River Newsprint Co.
Dec. 23 filed 238,829 shares of common (par $50). Underwriting none. **Offering**—Stock will be offered direct to public through directors and officers. Price, par. **Proceeds**—Erect and operate mill for manufacture of newsprint from Southern pine. Company also contemplates the sale of $16,000,000 4% 1st mortgage bonds.

• Cotter & Co., Chicago
Dec. 17 (letter of notification) reorganization subscriptions for 250 shares of common ($100 par) and 125 shares of preferred. ($100 par). **Price**—$100 each. No underwriting. For working capital.

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. (1/5/48)
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.

Detroit Edison Co. (1/6/48)
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 Detroit. American Light plans to open bids about Jan. 6.

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.

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**—$5 25 per 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.

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.

• Great Western Oil Co., Denver, Colo.
Dec. 19 (letter of notification) 1,840 shares ($10 par) common. **Price**—$10 a share. **Underwriter**—Warner Morton Evenson, Denver. To develop oil and gas leases.

Greenwich Gas Co., Greenwich, Conn.
Nov. 25 (letter of notification) 7,333 shares (no par) common. To stockholders at $14 a share. No underwriting. To pay construction loans.

Gulf States Utilities Co. (1/8/48)
Nov. 13 filed 272,852 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.

• Huletts Landing Corp. (N. Y.)
Dec. 18 filed voting trust certificates for 4,500 shares (10c par) capital stock. The voting trust certificates will be exchanged for the capital stock.

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

(Continued on page 42)

(Continued from page 41)

NEW ISSUE CALENDAR

January 5, 1948

Americana Furniture, Inc.______Pref. and Common
Dee Stores, Inc.______Common
De Wart, Inc.______Common
Public Service Co. of N. H.______Bonds

January 6, 1948

Dayton Power & Light Co.____Bonds and Common
Detroit Edison Co.______Capital Stock
Illinois Central RR.______Equip. Trust Ctfs.
St. Louis & San Francisco Railway______Conditional Sales Agreem'ts

January 8, 1948

Gulf States Utilities Co.______Common
Delaware Lackawanna & Western RR. Noon______Equip. Trust Ctfs.

January 20, 1948

Potomac Edison Co.______Bonds

January 21, 1948

Southern California Edison Co.______Bonds

February 2, 1948

Iowa Power & Light Co.______Bonds

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.

● **Iowa Power & Light Co. (2/2)**
Dec. 22 filed $6,000,000 first mortgage bonds, series due 1973. **Underwriting**—To be determined by competitive bidding. **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.; Kidder, Peabody & Co., and White, Weld & Co. (jointly). **Price**—By amendment. **Proceeds**—Construction. **Bids** — Expected about Feb. 2.

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.

● **Joy Manufacturing Co.**
Dec. 19 filed 185,000 shares of common (par $1). **Underwriters**—Hallgarten & Co., R. W. Pressprich & Co. and Adamex Securities Corp. **Price**—By amendment. **Proceeds**— Repayment of $4,400,000 bank loans and increase company's general funds.

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.

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.

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.

● **Majestic Radio & Television Corp., Elgin, Ill.**
Dec. 15 (letter of notification) $62,588 (1c par) common, on behalf of British Type Investors, Inc., Wilmington, Del. To be sold at market through J. Arthur Warner & Co., Inc., New York.

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-Continent Petroleum Corp., Baltimore**
Dec. 17 (letter of notification) 2,500 shares ($10 par) capital stock. To be sold at market. No underwriting. For working capital.

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.

● **Motor City Consumers Cooperative, Inc., Detroit**
Dec. 15 (letter of notification) 10,000 shares ($20 par) common. **Price**—$20 a share. No underwriting. To establish retail food stores.

● **New Stages, Inc., New York**
Dec. 19 (letter of notification) 1,000 shares of capital stock (par $10). **Price**—$10. Underwriting none. Working capital.

● **Northeastern Water Co.**
Dec. 22 filed $10,000,000 sinking fund collateral trust bonds, due Jan. 1, 1968. **Underwriters**—W. C. Langley & Co. and The First Boston Corp. **Price**—By amendment. **Proceeds**—To pay bank loan.

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.

● **Oak View, Inc., New York**
Dec. 18 (letter of notification) Dr. Harry Ageloff, M.D., filed reorganization subscriptions at $100 per unit. No underwriting. To acquire and operate institution for alcoholics. Registration Statement.

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.

● **O. D. Keep Associates, Inc., Los Angeles, Calif.**
Dec. 19 (letter of notification) 20,000 shares ($5 par) preferred and 10,000 shares ($5 par) common. **Price**—$5 a share. No underwriting. For working capital.

● **Ohio Public Service Co.**
Dec. 22 filed $10,000,000 first mortgage bonds, series due 1978. **Underwriting**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley. **Price** — By amendment. **Proceeds**—To be used for construction.

● **Oklahoma Oil Co., Denver, Colo.**
Dec. 19 (letter of notification) 1,750,000 shares of common on behalf of the estate of Frank C. Myers, Fort Collins, Colo. **Underwriter**—Fleetwood Investment Co., Denver.

● **Olokele Sugar Co., Ltd., Honolulu, Hawaii**
Dec. 16 (letter of notification) 12,600 shares ($20 par) common. **Price**—$20 a share. No underwriting. To complete irrigation and water supply system and to repay indebtedness.

● **Palace Corp., Flint, Mich.**
Dec. 19, 9,331 shares of par common on behalf of James L. Brown. To be sold at market through brokers.

● **Palestine Rayon Corp., New York**
Dec. 16 (letter of notification) 14,500 shares of $1 dividend cumulative convertible preferred and 2,900 shares of $1 par Class B common. **Price**—$1,000 per unit, consisting of 50 shares of preferred and 10 shares of common. To be sold through officers and directors of the company. To determine feasibility of establishing rayon plant in Palestine.

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.

● **Portersville Oil Co., Baltimore, Md.**
Dec. 17 (letter of notification) 4,800 shares of preferred and 12,000 shares ($1 par) common. **Price**—$25 per unit, consisting of 2 shares of preferred and 5 shares of common. No underwriting. For development of oil fields.

Potomac Edison Co., Hagerstown, Md. (1/20/48)
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. Expected about Jan. 20.

● **Potomac Electric Power Co., Washington, D. C.**
Dec 19 filed $15,000,000 35-year first mortgage 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.; Kidder, Peabody & Co. and Merrill, Lynch, Pierce Fenner & Beane (jointly) White, Weld & Co., Glore, Forgan & Co. **Proceeds**—To finance construction and for other corporate purposes.

● **Precision Parts Co., Ann Arbor, Mich.**
Dec. 15 (letter of notification) 15,000 shares ($1 par) common, on behalf of six stockholders, including four officers of the company. To be sold at market to Baker, Simonds & Co., Detroit.

Public Service Co. of New Hampshire (1/5/48)
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. SEC Dec. 24 approved the issuance of the bonds and at request of company withheld action on the issuance of the stock. Competitive bidding expected Jan. 5.

● **Queen's Hotels, Inc., Cincinnati, O.**
Dec. 18 (letter of notification) 2,500 shares ($100 par) 5% cumulative preferred and 7,500 shares (no par) common. **Price**—$100 a preferred share and $1 a common share. No underwriting. To erect hotel and other expenses.

● **Sid Harvey of N. J., Inc., Newark**
Dec. 22 (letter of notification) 40 shares of preferred, to be issued to employees and executives, as a Christmas bonus, and 2,500 shares of preferred to be issued to individuals from time to time. **Price**—$100. Underwriting none. General operating capital.

● **Sid Harvey of Pa., Inc., Philadelphia**
Dec. 17 (letter of notification) 62 shares of preferred to be issued as Christmas bonus to employees and executives and 2,500 shares of preferred to be issued to individuals from time to time. No underwriting. For working capital.

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.

● **Southeastern Telephone Co., Chicago**
Dec. 19 (letter of notification) 13,999 shares of common. **Price**—$12.75 a share. No underwriting. For property additions and improvements.

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.

● **Southwestern Public Service Co., Dallas, Tex.**
Dec. 24 filed 10,000 shares ($100 par) cumulative preferred and 103,113 shares ($1 par) common. **Underwriting**—To be filed by amendment. **Offering**—The preferred will be offered publicly and the common will be offered to Southwestern's common stockholders at the rate of one share for each 11 held. Price by amendment. **Proceeds**—To retire bank loans and for construction purposes.

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.

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. Indefinite.

● **Tampa (Fla.) Electric Co.**
Dec. 24 filed $6,000,000 30-year first mortgage bonds. **Underwriting**—To be filed by amendment. Price by amendment. **Proceeds**—To pay construction costs.

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.

Udylite Corp., Detroit.
Dec. 10 (letter of notification) 825 shares ($1 par) common. To be sold at market. **Underwriter**—Shader-Winckler Co., Detroit. To be added to capital.

● **United Sound & Signal Co., Columbus, Pa.**
Dec. 22 (letter of notification) 400 shares of common stock. **Price**—$33 per share. Underwriting none. Pay short-term loan purchase machinery, working capital.

● **United Stores Corp., New York**
Dec. 17 (letter of notification) 637 shares of $4.20 noncumulative preferred, being sold on behalf of scrip certificates holders. To be sold at market. No underwriting.

Washington (D. C.) Gas Light Co.
Nov. 7 filed 85,000 shares (no par) common. No underwriting. **Offering**—The shares are 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.

● **Westcoast Aircraft Sales & Service, Inc., Seattle, Wash.**
Dec. 12 (letter of notification) 110,700 shares ($1 par) common. **Price**—$1 a share. To be sold through officers of the company. For machinery, equipment and working capital.

● **Wolfe Metal Products Corp., North Girard, Pa.**
Dec. 16 (letter of notification) 800 shares ($25 par) 6% cum. pfd. and 80 shares to be given to underwriter upon completion of sale. **Price**—$25 a share. **Underwriting**—Harry W. Mehl, Erie, Pa. For working capital and to pay off indebtedness.

Prospective Offerings

● **Dallas Power & Light Co.**
Dec. 20 company, applied to the SEC for approval of amendments to its charter to facilitate the sale of common stock and unsecured indebtedness to raise cash for its proposed construction program and for other corporate purposes. Company, a subsidiary of American Power & Light Co., has a construction program of $36,345,000 and contemplates new money requirements of about $21,000,000 to the end of 1952. It is planned to hold a special meeting of stockholders next February to act upon the proposed amendments.

● **Delaware Lackawanna & Western RR. (1/8)**
Bids for purchase of $1,600,000 equipment trust certificates series G will be received up to noon (EST) Jan. 8 at office of J. G. Enderlin, Treasurer, Room 2008, 140 Cedar St., New York. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Giant Portland Cement Co.**
Jan. 7 stockholders will vote on increasing authorized capital stock from 300,000 shares to 1,200,000 shares (par $1). Company plans to offer additional stock to stockholders in ratio of two additional shares and a stock purchase warrant for each share now outstanding. Unsubscribed shares will be underwritten by Craigmyle, Pinney & Co., Winslow, Douglas & McEvoy and Jenks, Kirkland & Co.

● **Illinois Central RR. (1/6/48)**
Company will receive bids Jan. 6 for the sale of $3,200,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon, Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Interstate Power Co.**
Jan. 7 Federal Judge Paul Leahy will hold a hearing on alternative reorganization plan providing for the negotiated sale of new securities. Company has asked the SEC for exemption from its competitive bidding rule with respect to the proposed sale of $20,000,000 of new first mortgage bonds, $5,000,000 of new debentures and not more than 1,500,000 common shares (par $3.50). A sufficient number of common shares will be sold to raise $3,635,500. There will also be outstanding a minimum of $1,000,000 of promissory notes. Proceeds from sale of new bonds, debentures and common stock would be used to pay, without premium, $26,035,000 of outstanding first mortgage bonds and to reimburse treasury for construction costs.

● **New York Telephone Co. (1/27)**
Dec. 22 hearing ended before Public Service Commission on application of company to sell $60,000,000 30-year refunding mortgage bonds through competitive bidding. Proceeds for capital expenditures. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc. Bidding expected Jan. 27.

● **St. Louis-San Francisco Ry. (1/6)**
Company will receive bids up to noon (EST) Jan. 6 for the lowest interest rate at which bidders will provide $1,641,400 through conditional sales agreements.

● **Southern California Elison Co. (1/21)**
Dec. 18 rumored company has under consideration plans for sale of $40,000,000 1st & ref. mtge. bonds due 1973, the proceeds to be used to raise additional funds. Jan. 21 it is expected will be selected as the date of sale. Probable bidders include The First Boston Corp.; Halsey Stuart & Co. Inc.

● **Southwestern Bell Telephone Co.**
Dec. 19 directors voted to recommend an increase in funded debt by no more than $100,000,000 through the sale at competitive bidding of a debenture issue of that amount. Proceeds would be used to repay advances received from the American Telephone & Telegraph Co., parent and to meet further requirements of the company's construction program in the first-half of 1948. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

Sees Prosperity Not Certain Without Price Competition

(Continued from page 40)

a longer work week have in mind primarily relief from payment of wage premiums for overtime work and a resultant lower average labor cost which would be reflected in lower selling prices, this could do something to check inflationary forces. But this would be true only so long as that saving is reflected in a checking of price increases or their lowering rather than giving employers or dividend receivers more buying power to bid up other prices.

Producers have been saying that they must move up their prices in order to keep up with costs and survive. If then the coming of larger production will make further rise impossible and force sharp reductions, will this be effected without checking of the level of productive activity? Or will be protective motive result in production cut-backs and cumulative recession? If producers must move up their prices in order to survive, how are they to go on producing in volume after prices fall in response to refilled pipe lines, unstopped bottlenecks, and a generally improved state of productivity?

Near-maximum production exists today by virtue of a whole group of rather abnormal circumstances. With special export demand, the more or less temporary crop shortages, the incompleted catching up on war and prewar depression interruptions of replacement in durable goods, and the continuance of postwar military preparedness, we are by no means in a stable equilibrium of a high production economy.

This means clearly that in the broader and longer-run sense, accelerated production or enlarging the flow of current product will not alone *solve the problem* of how to maintain a maximum level of production. It will simply advance the time when we shall have to *face the problem* of what price income, and property value adjustments have to be made to strike an internally consistent or stable equilibrium. It seems clear that in reaching this equilibrium many industrial prices must come down at least in relation to other prices. Many rates of profit must subside while reasonable profitability is established in other areas. Gross imbalances in the wage structure must be rectified by some drawing together of those now at opposite extremes of the wage scale. Better balances of income among sections, groups, and individuals must be attained.

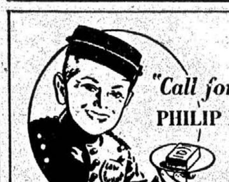
What relationships are needed in a given instance cannot be told by formula or foretold in advance of the evolving situation. But the attitude which should prevail is clear. In any composite of salutary policies, none is so significant as the achievement and maintenance of real price competition, which means the lowest price consistent with a fair return in a stable economy rather than the highest price that the traffic will bear in an unstable economy. Maintenance of a state of maximum production, once it has been reached, is absolutely inconsistent with the use of monopolistic control to exact for any organization or unit a more favorable distributive position than would be meted out to it by a system of completely fluid competition. This is recognized in the fallacy policy declaration of the Employment Act for "free competitive enterprise." The extent to which this policy is effectuated will be the supreme test of our business system.

DIVIDEND NOTICES

NATIONAL DISTILLERS PRODUCTS CORPORATION

The Board of Directors has declared a quarterly dividend of 50c per share on the outstanding Common Stock, payable on February 2, 1948, to stockholders of record on January 9, 1948. The transfer books will not close.

THOS. A. CLARK
Treasurer
December 23, 1947.



New York, N. Y.
December 17, 1947

Philip Morris & Co. Ltd., Inc.

The regular quarterly dividend of $1.00 per share on the Cumulative Preferred Stock, 4% Series, and the regular quarterly dividend of 90¢ per share on the Cumulative Preferred Stock, 3.60% Series have been declared payable February 1, 1948, to holders of Preferred Stock of the respective series of record at the close of business on January 15, 1948.

There has also been declared the quarterly dividend of 37½¢ per share on the Common Stock ($5 Par), payable January 15, 1948 to holders of Common Stock of record at the close of business on December 30, 1947.

Pursuant to a resolution adopted at the Stockholders' Meeting held on July 10, 1945, no Certificate representing a share or shares of Common Stock of the par value of $10 each is recognized, for any purpose, until surrendered, and a Certificate or Certificates for new Common Stock of the par value of $5 each shall have been issued therefor. Holders of Certificates for shares of Common Stock of the par value of $10 each are therefore urged to exchange such Certificates, for Certificates for new Common Stock of the par value of $5 per share, on the basis of two shares of new Common Stock $5 par value, for each share of Common Stock of the par value of $10.

L. G. HANSON, Treasurer.

DIVIDEND NOTICES

Combustion Engineering Co., Inc.
200 Madison Avenue, New York

The Board of Directors of Combustion Engineering Company, Inc., has declared a dividend of $3.00 per share on the outstanding capital stock of the Company, payable on January 8, 1948, to stockholders of record at the close of business December 26, 1947.

H. H. BERRY,
Vice President and Treasurer.

SOUTHERN CALIFORNIA EDISON COMPANY

Common Dividend No. 152
Preference, 4.48% Series,
Dividend No. 3

The Board of Directors has authorized the payment of the following quarterly dividends:

37½ cents per share on the Common Stock, payable January 31, 1948, to stockholders of record on January 5, 1948.

28 cents per share on the Preference Stock, 4.48% Convertible Series, payable January 31, 1948, to stockholders of record on January 5, 1948.

O. V. SHOWERS
Secretary
December 19, 1947

DIVIDEND NOTICES

The United Corporation

$3 Cumulative Preference Stock

The Board of Directors of The United Corporation has declared a dividend of 75c per share, accruing on January 1, 1948 upon the outstanding $3 Cumulative Preference Stock, payable January 12, 1948 to the holders of record at the close of business January 2, 1948.

THOMAS H. STACY,
Secretary.
December 23, 1947
Wilmington, Delaware

Colonial Mills, Inc.
498 Seventh Avenue
NEW YORK 18, N.Y.

The Board of Directors of this Corporation has declared a regular quarterly dividend of 25 cents per share on the capital stock outstanding, payable January 16, 1948 to stockholders of record January 5, 1948.

COLONIAL MILLS, Inc.
EDWARD A. WERNER, Treasurer
December 16, 1947

THE CHASE NATIONAL BANK OF THE CITY OF NEW YORK

The Chase National Bank of the City of New York has declared a dividend of 40¢ per share on the 7,400,000 shares of the capital stock of the Bank, payable February 2, 1948 to holders of record at the close of business January 2, 1948.

The transfer books will not be closed in connection with the payment of this dividend.

THE CHASE NATIONAL BANK
OF THE CITY OF NEW YORK
W. H. Moorhead
Vice President and Cashier

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

President Truman's message on long-term foreign aid has aroused a bitterness which is passing from private conversation to open attack. As a result the debate on foreign aid will be bitter and long. The outcome will be uncertain. Exactly what Mr. Truman did was to turn his back upon the "traveling Congressmen" who returned last fall from trips to Europe fully convinced that substantial aid must be afforded Europe, if carefully and realistically handled The President kicked over the recommendations of these Congressmen on almost every major point. It is upon these same MC's that the State Department must depend for the increment of support necessary to get foreign aid approved. Thus the President has put about a hundred Congressmen, typified by such men as Rep. Christian Herter, in a position where, if they vote for foreign aid, they must do it almost in spite of themselves. That is, unless they can overturn the President.

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Mr. Truman first overruled Congressmen on the amount. While placing the total at $17 billion, the President gave the impression this was just an open end. In his message, at least, he suggested that currency stabilization loans would bring the total above $17 billion. Aid for China and Japan and Korea will come later, and still further boost the total. There was even a broad hint of Santa Claus going to Latin America. The Harriman committee, conversely, placed the European aid total at from $12 to $16 billion—about the most Congressmen were thinking.

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Republicans are convinced that the President will set the dollar goal high enough to preclude a cut in personal income taxes.

* * *

Mr. Truman proposed that the 4-year authorization of $17 billion be voted in 1948. Majority sentiment leans strongly to the view that Congress should never commit itself to any dollar total for more than one year at a time.

* * *

One of the strongest convictions carried back by the visiting Congressmen was that realistic European currency adjustment is an indispensable element to the operation of ERP——European Recovery Program. It may not prove to be feasible to insist upon currency readjustment first. However, Congressmen sympathetic with foreign aid believe that this step should be initiated early in the game. They see it as so important that without it American aid will not work. The President, on the other hand, relegated this development as something to be undertaken vaguely, later.

* * *

Probably the greatest controversy, however, will settle on the machinery for operating foreign aid. Mr. Truman completely backed the State Department. His proposed Economic Cooperation Administration would be dominated entirely by the White House and the State Department.

"This throws all bi-partisanism in the administration of foreign aid out the window," it was stated privately by a voice which Mr. Truman will have to reckon with. Republicans and Democrats alike had recommended the creation of an aid administration corporation headed by outstanding businessmen and industrialists. In their selection Republicans would have a voice. Mr. Truman specifically rejected the corporation idea.

* * *

Congressmen feel most strongly that the gentlemen of the foreign office are in no way equipped to handle the job, even though Mr. Truman insists. It is an economic and technical job, the Congressmen assert. Technically trained men must make the decisions, subject only to foreign office check on major policy.

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So strongly does the President cross sentiment in this issue, that it creates the possibility the first fight will be on foreign aid administration, not whether, or how much. "I would rather give $2 billion annually through a competent administrative agency than $4 billion through the State Department." This, another key view. So an effort may be made first to determine what kind of an agency will handle foreign aid before Congress determines whether it will legislate any program, and how much.

* * *

There is a saying that in a presidential election year, the veterans always get something. That "something" may be no bigger than moderately larger subsistence for the boys and girls studying at government expense.

Two major drives of veterans organizations are for universal military training and housing. The Taft-Wagner-Ellender public housing bill is at least for the moment under the "anti-inflation" cloud. The Legion housing bill is making so little headway the House Veterans Committee is trying to run it through, in lieu of the Banking Committee. Universal Military Training is favored by the Chairmen of the two Armed Services Committee, but can be put through only by some overt Russian aggressiveness. So maybe the old rule of a big sweet for the veterans in a presidential year will not work out.

* * *

Senator Taft has sponsored the TEW housing bill, Federal aid for education, and Federal health insurance. These are intended to provide one-package appeal for the left-wing customers, in case the Ohio Senator can get the Republican presidential nomination. The Senator, it is a good bet, will settle next year for Senate passage of just one of these. The one favored—Federal aid for education. Even should this hurdle the Upper Cmamber, it will be pigeon-holded securely in the House.

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Unless the many differences of opinion within industry and government over the future of rubber policy can be reconciled, the status quo will be continued for another year or so. That means continued RFC operation of the synthetic plants.

Alex. Brown & Sons To Admit

BALTIMORE, MD. — Alex. Brown & Sons, 35 East Baltimore Street, members of the New York and Baltimore Stock Exchanges, will admit Carolyn Griswold Egerton and Betty Griswold Fisher to limited partnership on Jan. 2.

A Christmas Day Editorial

Once more the curtain is all ready to rise on Christmas, Anno Domini 1947. Rumors of a third world war, or no war, the Star of Bethlehem will rise on the broad Atlantic this coming Christmas Day, and as surely as day follows night the Christ-birthday will travel the world 'round to the illimitable Pacific and to the farthermost parts of the earth to cheer and hearten the sad and weary hearts of this war-torn world.

The "Merry Christmas" of today and Dickens' "Christmas Carol" will not fail to again relieve the drab and sordid commonplaces of our daily existence and, particularly so this year, it should help us to forget the disappointing peacetime trend of world events.

Once again we will drop the heavy burdens of daily routine to play Santa Claus with the children; to dance around the Christmas tree, to sing carols and to gather about the festive board to talk about God's children and our friends.

Weighty problems of politics, finances and economics will be left behind at the shop and the office door and our thoughts will turn sympathetically to the sick and infirm, the troubled souls and the deserving destitute.

While many of us will be literally broken financially, we at least have smiles, hand-shakes, good will and friendly, encouraging words left in the family possessions to bestow on those fellow creatures less fortunate than ourselves.

If there is one thing this old world needs at present, it is the Christmas spirit, good will toward others and more faith in God and Mankind.

We should, every mother's son of us, give a prayer of gratitude to our Maker that we are privileged in this land of the Free to enjoy our American birthrights unmolested while the big Show Boat of Life goes on and on; perhaps not always for our personal aggrandizement, but at least for our edification and amusement.

For over half of a century many of us elders have been heavy lookers-on at the world scene; sometimes it has been comedy or melodrama, but more often pathos or tragedy, yet there have been plenty of laughs, fun, satisfactions, simple pleasures and worth while experiences we wouldn't have missed for anything.

Next year promises to be brimful of adventure for Mankind, nationally and internationally. Thank God! the average American has a sense of humor to balance him in his toils and struggles. That is why it is good to live awhile longer in this blessed country of ours, to be an American, to hope, to work, to play and never lose our interest in humanity.

The genuine satisfactions of life are not to be had from the accumulation of wealth, power, honor or fame, but rather from the simple, every-day performance of unheralded, unobtrusive kindnesses to our fellow beings exemplified by a friendly act, a cheery word of praise or disinterested advice to a distraught, discouraged or needy individual.

This then may be said to be the essence of the Christmas spirit this year and every year and the code that the lowly Nazarene practiced in his few years on this old earth.

For the youth of America, what greater inspiration and hope is needed to understand these troubled times when the shades of Communism are fast enveloping the world, than to be reminded that the great spiritual leader and Saviour of Mankind was an humble carpenter who taught love and unselfishness to an unbelieving and cruel world. For it was He who said, "Greater love hath no man than this, that a man lay down his life for his friends."

If we practice the religion of the Man of Galilee which was—to help others to help themselves—we will face the eventualities of 1948 with unfailing courage and resolution.

The example shown us by the Prince of Peace and its influence down the ages is still civilization's guiding light and hope this Christmas Day for there is no room in this world for hate or force.

It is heartening indeed to think that Jew, Catholic and Protestant worship the same God, and are a mighty force to work and fight for peace on earth and good will toward man.

"Above the voices of the world
We hear the angels' song;
Amid the hate and greed of war
We know that love is strong.
For long ago God dreamed a dream
Of peace, goodwill to men.
He knows men will remember
and dream His dream again."

San Fran. Bond Club Elects New Officers

SAN FRANCISCO, CALIF. — The San Francisco Bond Club has elected Frank F. Walker, Dean Witter & Co., President for the ensuing year. Paul Pflueger of Max I. Koshland & Co. was chosen Vice-President and Leonard Renick, J. Barth & Co., was named for Secretary-Treasurer. Club directors are Charles Harkins, Blyth & Co., Inc., and H. P. Schlemmer, Schwabacher & Co.

Frank F. Walker

Steiner, Rouse to Admit Metzger & Goldberg

Steiner, Rouse & Co., 25 Broad Street, New York City, members of the New York Stock Exchange, will admit Jerome Metzger and Harry Goldberg to partnership in the firm on Jan. 1. Mr. Metzger has been with the firm for some time as co-manager of the Bond and Trading departments.