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Tax Cut and Reduced Spending to Come

By HON. J. W. MARTIN, JR.*

Speaker of the House of Representatives

Speaker Martin scores New Deal spendthrift policy and promises Republican Congress will cut Government expenditures and continue to seek tax reductions. Says foreign aid program should not be such as to bankrupt U. S.

I'll talk about Federal Government expenditures and taxes. "Spendthrift" describes New Deal Democrat administration, past and present. Tax and tax, spend and spend, has been their guiding philosophy as they traveled the road to ruin, bankruptcy, and the police state. For any whim, or any experiment in collectivism they could think of, the New Dealers taxed and taxed and spent and spent. They claim if the government takes the people's money and spends it, the result is not inflationary, but if the people spend their own money the result is inflationary. That is nonsense. The American people know the

Hon. J. W. Martin, Jr.

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*A statement by Speaker Martin at the Republican Party Rally, broadcast over the Mutual Broadcasting Co., Jan. 5, 1948.

Can the Federal Reserve Serve Two Masters?

By DOUGLAS H. BELLEMORE

Chairman, Department of Economics, Boston University

Dr. Bellemore points out Federal Reserve Board is neglecting its major responsibility to public by endeavoring to serve the Treasury's aim to keep interest rates low. Says Reserve Board wants more power to control credit, because use of existing powers, especially in open market operations, runs counter to its commitment to Treasury to hold down interest rates. Argues rise in interest rates will not adversely affect Treasury in refunding operations and will not cause financial difficulties to banks. Wants interest rates decontrolled.

For some years the Federal Reserve Board has tried to serve two masters. It has tried to fulfill its major responsibility to the general public and at the same time answer "Yes" to every request of the Treasury Department. Until recently, policies generating from the two sources were not too far apart; but lately, in the presence of a typical postwar inflation, the two policies have become diametrically opposed. Specifically, while the Board of Governors of the Federal Reserve System has strongly expressed its anxiety over the rapidly expanding credit structure, it has, at the same time, stated its inability to restrict credit. The cause of its impotency stems from its commitments to the Treasury Department to support government bond prices and prevent the yield on government securities from rising. This then is the dilemma: to prevent higher interest rates and correspondingly lower prices on government obligations in line with

D. H. Bellemore

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As We See It

A Forceful Reminder!

Developments in the Government bond market during the past month or two, particularly during the past two weeks, will serve, we must all most ardently hope, as a pointed reminder of an underlying condition long existing, but nonetheless heavy with portentous meaning. That underlying condition is, of course, an interest rate which is simply and solely the product of manipulation on a scale never dreamed of prior to 1933, and an interest rate which, through the sale of public deficits in astronomical amounts in a "rigged" market, has now imbedded itself in the economic system directly or indirectly from bottom to top and from end to end.

The portentous meaning of this condition is that any sustained and sincere attempt to unpeg or free the Government bond market must, unless care is taken to prevent it, place in jeopardy many of our most fundamentally vital financial institutions, to say nothing of millions of individual citizens throughout the land. The welfare, almost the very life, of these institutions and

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Truman Urges Higher Taxes on Business

President, in message on State of the Union, proposes tax reductions on lower income groups be offset by $3.2 billions additional taxes on corporations. Says inflation is nation's major problem and there should be no general reduction in taxes until it is stopped. Would expand social security legislation and raise minimum wage requirements. Urges compulsory military training.

In his State of the Union message, delivered in person to Congress on Jan. 7, President Harry S. Truman proposed a tax program which would reduce individual income taxes by allowing a $40 tax reduction by the taxpayer for each dependent, in addition to present allowances, but which would provide additional taxes on business corporations so as to offset the estimated revenue loss of $3,200,000,000 from individual levies. The President also proposed a further expansion of the Social Security Program and a lifting of the 40-cent minimum wage to 75 cents per hour.

The text of the President's message follows:

Mr. President, Mr. Speaker, members of the 80th Congress:

We are here today to consider the state of the union.

On this occasion, above all others, the Congress and the President should concentrate their attention, not upon party but upon country; not upon the things

President Truman

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Let Life Insurance Companies Satisfy Our Capital Needs!

By BENJAMIN J. BUTTENWEISER*
Partner, Kuhn, Loeb & Co.

Mr. Buttenweiser notes industry's enormous annual capital requirements, of which $6½ billions must come from investment market. Points out severe drop in savings of individuals, at same time those going to insurance companies are rising. Strongly recommends that for economic, financial, sociological, and practical reasons, life insurance companies be permitted to invest portion of their funds in equities, under codified safeguards.

I think it was the late Robert Louis Stevenson who once said that if he only knew what to leave out of a book he would write the greatest novel ever written. He wrote some good works, so I shall speak about equity capital, and, in doing so, try not to make it the same old hooey to which your Chairman referred in his gracious introduction.

B. J. Buttenweiser

I think any discussion of this subject, as I evaluate it, involves consideration of its five major facets and trying to formulate answers to the five consequent problems that are posed. Just to save you time, I have jotted down what I think are the five major facets of this problem:

First: What are the capital requirements, present and reasonably foreseeable?

(At the outset I would like to make it very clear that the views expressed herein are my own and not necessarily those of the firm of which I am a partner.)

Second: What and where are the present actual and future probable means for purveying such needed capital under present methods and laws?

Third: What are the economic and social implications of not meeting capital requirements along sound financial lines?

Fourth: What changes would aid in meeting capital requirements along these sound financial lines?

And Fifth: Would such changes really represent any drastic or radical or even actual departure from present realities or from time-tested principles and experience as to investments?

Let's consider each of those, one at a time. First: What are the capital requirements, present and reasonably foreseeable? It was not very long ago, early in the thirties, with the advent of a new administration and accentuated, I think, during the TNEC investigation, that a great many people preached the doctrine that America had reached its economic maturity, that we had no more frontiers. I think such opinions represented mental atrophy.

I think I can show you from rather cogent excerpts from recent writings that the shoe is completely on the other foot now. It is not a question of are there

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*From special transcript of talk of Mr. Buttenweiser before N. Y. Society of Security Analysts, Jan. 6, 1948.

Gold in the News

By HERBERT M. BRATTER

Mr. Bratter reviews recent developments in gold markets throughout world and indicates considerable amount of gold still sold in black markets at varying premiums. Discusses International Monetary Fund's difficult situation relating to currency parities and efforts being made to discourage gold speculation and gold premiums. States Bretton Woods Conference meant to encourage gold sales at premium prices. Explains Canada's subsidy plan and reasons for U. S. opposition, and contends payment of gold mining subsidies does not violate articles of agreement of International Monetary Fund. Sees increased gold output flowing to United States.

For those interested in gold there has been no dearth of news in recent weeks and months. Gold is the thermometer by which the monetary health of the world is judged. The metal is always one sure way to raise dollar balances, and doubtless will continue to possess that attribute, despite the implied threat of discontinuance of gold buying which may be contained in the National Advisory Council's Dec. 12 statement disapproving tendencies for foreign countries to become dependent on subsidized gold production as a solution of their dollar-exchange problems.

Herbert M. Bratter

Although in most of the world a whole generation is growing up without ever touching or seeing a gold coin, unless in a museum, gold is still the basic element in this country's monetary and credit structure; and from the standpoint of external convertibility for all practical purposes the dollar is on the gold standard, although it would be closer to the truth to say that gold is on the dollar standard.

This also is true of the World Fund, whose articles of agreement reserve an honored place for the yellow metal, but whose transactions and thinking are none the less reckoned in dollars. The fact that the par values of the currencies of Fund members must be expressed in gold gives a sometimes exaggerated importance to the many unofficial markets about the world where gold is traded in at a premium. Yet the precarious nature of the structure of currency parities which the Fund last year formally accepted cannot be wished away merely by saying that the volume of trading in black-market gold is very limited. Moreover, there has been evident in some Fund member countries a tendency to grope for loopholes in the Fund's articles of agreement as they apply to maintenance of parities.

From the outset, the Fund recognized that it would have to take a stand in opposition to the premium traffic in gold as soon as possible; and the soonest that it was possible for the executive directors to reach an agreement was when this year the Fund issued its well-known June 18 appeal to members to discourage such traffic. It was pursuant to that appeal, in the formulation of which the United States as the Fund's biggest "shareholder" had taken a leading role, that the Treasury last month put into effect amended regulations governing the re-exportation of gold sent to this country for refining. The amended regulations, it is interesting to note, are decidedly weaker than what the Treasury contemplated at the outset. It proved impossible to find the power to control the overseas commercial activities of American citizens such as gold-and-foreign-exchange arbitrageurs.

The trading in gold at premium prices has been unwelcome to the authors and supporters of the Fund agreement not only because it tends to weaken public confi-

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The State of Business

By SUMNER H. SLICHTER
Lamont University Professor, Harvard University

Asserting it is time to be alerted for signs of a downturn, Prof. Slichter enumerates conditions which may bring about business recession in 1948. Says, however, reasons for expecting continuation of upward trend are predominant and little will be done by government or business to control inflation. Foresees third round of wage increases and holds inflation can be curbed by controlling credit expansion and stimulating saving. Attacks policy of supporting government bond prices, but sees danger of loss of confidence if support is lacking. Cautions rising short-term debts may lay groundwork for "big bust."

I.

Is a recession in business imminent? Seventy-five out of 100 economists recently polled by the F. W. Dodge Corporation believe that it is. February and March 1948 were most frequently mentioned as the beginning of the recession. Forty-one of these economists believe that the recession will be "mild"; 19, "moderately serious"; and 11, "serious." Four did not say.

Prof. S. H. Slichter

For over two years—ever since the transition from war production to civilian production in the fall of 1945—business has been expanding. The expansion has taken the form of a rise in prices more than a gain in production, but both have increased. The index of industrial production has risen from about 162 in October 1945 to 192 in October 1947 but wholesale prices have increased about 50% and the cost of living 25%. In an attempt to meet the demand for goods, industry has increased civilian employment by 7.5 million—from 51.4 million in September 1945 to 58.9 million in September 1947. The keen demand for labor has kept the labor force substantially larger than normal, causing hundreds of thousands of persons to postpone retirement and hundreds of thousands of "temporary" women workers to remain in the labor force. The increase in demand for goods has been facilitated by a growth of 17% in the money supply (demand deposits and money outside of banks) during the last two years and by a rise of about 13% in the turnover of money.

Two years is not a long period for business to expand without recession, but the price level usually does not rise as much as 50% without the development of maladjustments which halt the advance. Hence it is time to be on the alert for signs of a downturn. Let us begin the analysis of the state of business by attempting to build up the strongest possible case for an early recession and see how convincing it is.

II.

The principal conditions which might bring about a recession in 1948 are:

(1) The output of goods will increase as bottlenecks are gradually eliminated. Industry has had a difficult time increasing output. For nearly a year during the latter part of 1946 and the first eight months of 1947 the index of industrial production remained at about 185. Significant and encouraging has been the rise to 190 in September and 192 in October. This jump indicates that bottlenecks at last are being overcome and that industry may soon obtain a return on its huge expenditures of the last year for new equipment.

Scarcity of steel and other materials will still limit output, but it is reasonable to expect the index of industrial production soon to be somewhere between 195 and 200. The increase in output could bring about a spotty weakness in prices which in turn might cause some liquidation of inventories and some postponement of commitments until price adjustments had occurred. Thus the rise in production could easily halt itself and, in conjunction with other conditions, bring about a downturn in output.

(2) The shortages of the past year have driven many prices to levels from which a drop may easily start. This is particularly true of cereal prices. Western Europe suffered a combination of unfavorable conditions which is not likely to be repeated in its entirety—an exceptionally severe winter followed by a serious drought. In France, cereal output in 1947 was scarcely half of normal. Substantially more wheat will be available from the Argentine and Australia this winter and spring than a year ago. Winter wheat acreage in the United States is up and the crop has made a good start. Indeed, the December crop report forecasts one of the largest winter wheat crops in history. The livestock population of the United States is being reduced. If cereal supplies rise, cereal prices may drop substantially. Such a drop might be contagious and induce a considerable postponement of commitments.

Food prices as a whole are particularly vulnerable to contraction because the country is spending a much larger fraction of its income after taxes on food and drink than it did before the war—about 30% now as compared with 25% As other goods become available, the proportion of incomes spent on food will drop.

(3) The Federal budget is running a large cash surplus. Indeed, unless there is a recession before the end of the present fiscal year

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Raising Income Levels vs. Consumer Credit as Inflation Factor

By E. C. GRIFFITH

Associate Professor of Economics, Washington and Lee University

Prof. Griffith analyzes past relationships between consumer credit, price levels and rise and fall in personal incomes, and concludes level of personal income is fundamental causal factor in creating spiral of inflation. Holds since credit levels result from income variations, credit expansion is offset by increased savings and hence effort to combat prise inflation by credit controls will prove fruitless. Concludes consumer credit is not significant in causing changes in trend of incomes and retail sales.

As a wartime anti-inflation measure the Federal Government employed a program of consumer credit control. On Nov. 17 the President asked that these controls be imposed again as a peacetime anti-inflation weapon. The implication of this request is that a rising volume of consumer credit is highly inflationary.

E. C. Griffith

There are at least three portions of the economy that consumer credit is supposed to effect, and through its influence on them it is supposed to be inflationary or deflationary as the case may be. For this reason, it is said controls must be imposed on consumer credit, and thereby the inflationary trend can be controlled and the depression that would otherwise follow can be modified. The factors that are influenced in this way by changes in consumer credit are: (a) personal income (which determines the demand for goods); (b) sales (which represent demand); (c) prices (which are the evidence of the volume of demand relative to available goods).

It is always difficult to weigh the influence of a given variable in causing an event when the latter is the result of many variables. That is the difficulty involved in weighing the role of consumer credit in influencing personal incomes, sales and prices. It is possible, by showing the relative trends of these variables and the timing of changes in the variables, to obtain some indication of the role of different variables in causing the event one seeks to explain.

It is the purpose of this paper to review the normal relation of consumer credit trends to personal income, sales, and cost of living indices from 1929 to 1941. It will be shown (a) that changes in consumer credit during those years consistently lagged behind changes in personal income payments, indicating that consumer credit trends are normally results, not causes, of variations in the ability of buyers to purchase goods as measured by the level of incomes; (b) that the volume of consumer credit is so related to the volume of savings that efforts designed to control consumer credit without the appropriate effort to control savings will not prevent price increases except to the extent that those who save do not use consumer credits; (c) that the principle that causes cosumer credit expansion is apparently the *expectation* of rising incomes; hence, credit controls, to be effective, must come in the form of controls of personal income payments; (d) that consumer credit variations usually follow changes in the trend of sales; hence, they appear to be the result, not the cause, of rising and falling sales volume; (e) that retail price indices normally show little correspondence to consumer credit trends.

The years chosen for this analysis carry us through the period of a business cycle on which a minor cycle is imposed. They end before the full impact of the war was felt. In this way the role of consumer credit can be reviewed without the necessity of considering scarcities that, *per se*, create inflation. It may be argued that the presence of scarcities in the present period distinguishes it from the era under consideration and, therefore, places the role of consumer credit in a different light. That is true, but it does not alter the fundamental conclusion of this paper that consumer credit controls in the absence of adequate control of savings and incomes will be ineffective in preventing inflation.

I.

Consumer Credit and Personal Income Payments—The relations of consumer credit and personal income payments are important in finding the answer to these questions: (1) Are fluctuations in consumer credit a cause of variations in personal income payments? If they are, then credit controls will tend to stabilize incomes and act as a preventive in controlling inflation. (2) What is the relation of different types of consumer credit to personal income payments? It is possible that one type of consumer credit may have an influence on personal income payments that consumer credit as a whole does not. It may be wise, therefore, to select the type of credit that should be controlled. (3) What is the relation of consumer credit levels to the annual rate of savings out of incomes? If savings out of personal incomes rise with consumer credit, then the savings will counteract the inflationary tendencies of consumer credit expansion. An important proposition follows from this: namely, if rising income *causes* credit expansion *and* savings expansion, then the success of efforts designed to control consumer credit alone will be modified for consumers will spend their savings if credit is not available. It will follow also that if the level of income determines credit volume then effective consumer credit controls can come only through income controls.

If the indices of total short-term consumer debt are compared to the indices of disposable personal income for the years 1929-1941 (cf. Table I), it is evident that total short-term consumer credit showed more intensive variations in trend than disposable personal incomes. This would indicate that if fluctuations in demand are a function of variations in purchasing power as represented by personal income trends, then short-term consumer credit intensifies the fluctuations.

This conclusion means little; for it leaves unanswered the question of the relation of consumer credit variations as a casual factor to the fluctuations of income; it leaves unanswered the question of the relation of specific types of consumer credit to income variations; and it leaves unanswered the question of the effect of total and specific types

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Peace Targets for 1948 and 1950!

By HON. HAROLD E. STASSEN*

Presidential aspirant declares we can have peace and prosperity by 1950 if meanwhile we promote "modern people's capitalism" at home, back Marshall Plan with Vandenberg, maintain strong military position, cut off strategic goods from Russia, and combat Communist propaganda line. Wants UN charter rewritten.

I would discuss with you seriously and in direct terms the future program of our Republican party upon the vital question before our country, and the effect which the Young Republicans of the nation might have upon that platform of 1948. I specifically urge upon you, and upon the millions of other young Republicans throughout America an increasingly vigorous participation in the affairs of the Republican party and in the organizations, delegations, conventions, campaigns and issues in the party.

Harold E. Stassen

Willingness to Pioneer

You will bring to the party an expanded vision of the realties of world conditions, a needed willingness to pioneer, a greater determination to succeed, and a larger measure of optimism. You can be of major importance in making the Republican party in 1948 the party of hope for the people, of service to the people, and of victory with the people in November 1948. But to do so requires a willingness to take issue within the party with those whose primary glance is backward, whose most cherished word is no, whose outlook is limited by the territorial borders of our country, or worse, by the borders of an election district.

The overshadowing question of our time is that of future world war or world peace. The primary objective of America must be to win and maintain expanding individual freedom for ourselves and for others without the holocaust of a third world war. It is an objective so challenging in its difficulties and so thrilling in its rewards for all mankind as to inspire the best that is in the youth of America.

Considering the current state of world relationships, and analyzing the clash and conflict of systems and ideas with Russia, I believe it is imperative that our Republican party proposes a positive far-reaching foreign policy in 1948 and seeks democratic agreement upon it as a bipartisan policy, and enlists general public approval for it as an American policy.

UN Must Be Revised

As the capstone of that policy, I propose that the United States initiate the calling of a major United Nations Convention in the year 1950 for the purpose or amending and rewriting the Charter and strengthening the United Nations for its noble and vital task.

Such a Convention can be called under the present Charter without a veto. It appears to me that it is necessary and essential that it be called.

In the first instance, it will set a constructive goal out ahead of all the current clashes and disappointments and failures of parleys and of relationships. It will serve to emphasize that our ultimate objectives are for peace and progress and freedom of mankind. It will brighten the hopes of peoples everywhere. The sum total of depressed minds and helpless attitudes is now a staggering millstone on the world.

Clearly the United Nations needs strengthening. Definitely it requires a new voting method to end the single power veto, new means of developing its own police force, new steps toward the rule of laws in special problems and in human rights on a world-wide level, in the place of the domination of men or of absolute sovereign states. Certainly atomic energy must be inspected and controlled on a world-wide scope.

There is ground for hope that if we measure up to our interim responsibilities, the situation in 1950 will be right for progress in the United Nations.

The Immediate Steps

But while I sketch in broad strokes the imperative need of setting this target in 1950 before the world, I do not minimize the importance of the interim steps. In fact, the decisions and actions in the intervening months and years will in large measure prescribe the prospects of success of the major later venture.

First: We must demonstrate the continued success of our free economy in America with its modern people's capitalism, its high production and its excellent distribution. This requires a network of interrelated measures of limited powers in government, of curbs on excessive credit to decrease inflationary pressures, of supervision of exports to avoid too great an impact of world-wide shortages, of limiting of inventories to prevent hoarding, of economy in the civilian activities of government, and of a variable Federal fiscal program, all to check booms and avoid depression busts. Supplementary action on the housing and health and education shortcoming is also indicated.

Following Through With Vandenberg

Second: We should follow through thoroughly with Senator Vandenberg on the Marshall Plan for rebuilding Europe, placing it on a sound and businesslike basis, establishing proper economic con-

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*An address of Gov. Stassen before New York Young Republicans, New York City, Jan. 5, 1948.

The State of Trade and Industry

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

The aftermath of Christmas and the impending New Year's holiday worked to cut total industrial output last week somewhat below the high levels of recent weeks.

Production schedules in a number of factories were curtailed because of the holiday and snow and sleet storms in various sections of the country impeded travel and played havoc with business and industry in general.

An increased number of clearance sales encouraged consumer buying last week, but retail volume in the period was moderately below that of the preceding week and slightly exceeded that of the corresponding week a year ago. Markdowns were generally not as large or widespread as they were a year ago but consumers responded favorably.

Buyer attendance at the wholesale centres declined substantially following the Christmas holiday. Wholesale volume was somewhat below that of the preceding week but slightly exceeded that of the corresponding week a year ago. Purchasing was largely confined to a current stock replacement basis and deliveries were generally reported to be prompt.

Entering upon the New Year several desirable factors presently obtain in permitting it to get off to a good start. Among them is found the labor supply market which is generally adequate with payrolls steady and at a high mark. Highly important, too, is the fact that demand for most manufactured products continues to run very large with order backlogs remaining substantial.

Of some importance last week was the action taken by President Truman in finally affixing his signature to the Republican-sponsored anti-inflation measure which he stated was "pitifully inadequate."

Senator Robert A. Taft, (R.) of Ohio responding to the President's remark charged Mr. Truman with "playing politics with high prices" and added, "The truth is that the President has every power, except the power of imposing price control. And that is just like saying we will go on stoking the boiler as hard as we can, then tie down the safety valve and everything will be all right."

Steel Output of Close to 86,000,000 Tons Forecast for 1948

Balance between supply and demand in steel will not come in 1948, say "Steel's" editors, although some strides will be made in closing the gap. That balance may be as little as 12 months or as much as 24 months away. Steel production in 1948 should hit close to 86,000,000 tons, more than a million tons over the 1947 figure. Although three million tons capacity each for ingots, pig iron and coke are being added, shortage of scrap and transportation facilities will prevent full utilization during the year.

Construction Predicted to Stand at $15,000,000,000

In the construction field, the Commerce Department predicts tight supply conditions in a few construction materials, which will prevent activity from going "much above $15,000,000,000" in 1948.

The bottleneck in scarce products, it reports, is confined to lumber, gypsum board, wire nails and certain iron and steel items.

However, if the Commerce Department's predictions hold, construction in 1948 should exceed that of 1947 by approximately $2,122,000,000.

Automotive Prospects in 1948

In the automotive industry prospects for 1948 are relatively good states "Ward's Automotive Reports," which forecasts a total of 5,500,000 cars and trucks from the U. S. and Canada.

It predicted during January and February output would be about 10% below figures for December, because materials were used up ahead of time in a drive to reach production records the last months of 1947, but forecast a steady climb from the first quarter onward.

Selling electric appliances may not be as easy in 1948 as it was in 1947, but the market will be there and ready for energetic cultivation, says "Electrical Merchandising," magazine.

In compiling figures on 1947, the publication states, the editors were repeatedly struck by the fact that the output of all major appliances exceeded the reasonable anticipations of a year ago. Few manufacturers, the paper adds, were even confident that the materials could be procured for the very large totals that the year's end disclosed. Without major obstacles, in the economic or political fields, it further notes, there is no reason to believe that the 1948 volume will be less than that of 1947.

November Incorporations Lowest in Two Years

The rate of new business incorporations dropped sharply in November, according to the latest survey by Dun & Bradstreet, Inc. The count of 7,855 represented the smallest total for any previous month during the past two years. There was a decline of 1,754, or 18.3%, from the 9,609 recorded in October, and a decrease of 630, or 7.4%, below the November 1946 figure of 8,485.

Stock company formations for all states during the 11 months ending with November numbered 102,479. This was a decrease of 20,443, or 16.6%, under the peak total of 122,922 for the similar period a year ago.

STEEL OPERATIONS RATE HIGHEST SINCE MAY, 1944

If steel firms agree to voluntarily allocate 10 to 15% more steel to the farm implement industry, the petroleum industry and to freight cars, thousands of other steel customers are going to get less steel, states "The Iron Age," national metalworking weekly.

If the industry should decide to bitterly oppose a voluntary allocation program directed by the government, it will be castigated and held up as recalcitrant at some later date. Then if the steel picture continues tight, as it is bound to do no matter what happens, steel firms might eventually find themselves faced with strict controls backed by governmental authority.

The plan which the Commerce Department is to discuss with the steel industry Thursday of this week is as mild as possible under existing circumstances. Nevertheless, it does not eliminate the fact

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Will Stocks Leap This Year?

By MAURICE S. BENJAMIN
Senior Partner, Benjamin, Hill & Co.

Mr. Benjamin asserts current bull and bear arguments are defined with unusual clarity. Maintains that irrespective of which category of analysis is correct, stocks are now cheap, as they have discounted business recession predicted by the bears while not following continuing prosperity forecast by the bulls. Hence concludes definitely that there will be progress toward higher market levels.

Economists have made their forecasts for 1948 and as usual are crowded into the two pens of bulls and bears. As if there was a leader for each herd, the reasons given to sustain each opinion are in a narrow category. The bulls point to the unprecedented demand for goods that is worldwide, the high wage scale, huge farm income and enormous expenditures for our greatest of all international efforts to prevent World War III. The bears say that prices are too high and therefore consumers are forced out of the market, that wages are so high, break-even points for industry are dangerous that the peak of the inventory, plant expansion and export boom have been seen and that money not only won't buy off Communism but will break the United States.

Maurice S. Benjamin

The arguments for each side are so clearly defined, for a change, that from them it does not seem too difficult for us to make some conclusions regarding the stock market.

There is no doubt that leaders in business see things from the point of view of the bulls. They have budgeted and planned expansion programs for a big volume of business in the future based on orders in hand and their appraisal of future demand. If they are right, stocks are at attractive levels.

Bearish Predictions from Chartists and Politicians

Most of the bearish pronouncements come from Wall Street and political sources — chartists, who will turn bullish for no other reason than that the market goes up, and planners, who want a depression so they can take over. Most bears feel that after certain adjustments are made the future holds in store some optimistic factors. In analyzing their assumptions and consequences we feel that security prices have largely discounted the extent of their predicted recession.

Throughout all of 1947 we continued to write of the psychological pessimism that pervaded investment circles. It was easy to understand when one read the daily headlines of Russia's behavior, labor's power and inflation of prices. However, we took our stand with the bulls that world recovery would tax all efforts and resources for years to come, entailing full employment, record incomes and business activity. The final figures for 1947 will pass all peaks. National production is 235 billions against 100 billions in 1929; national income is 196 billions against 82 billions; but the Dow-Jones stock averages are 180 against 383.

Many stocks of industries such as railroads, public utilities, and aviation are quoted at 1/10th to 1/20th of their market 19 years ago. Most of these companies would realize more value in bankruptcy. In most other cases if we allow for a sizeable recession in gross business, and cut profits accordingly, we find that stock prices are reasonable.

Industries in Best Position

To be more specific we can mention some industries where a boom will begin or continue regardless of other factors. The President's Air Policy report will call for an aircraft program that will bring prosperity to that group for many years. The construction industry is scheduled to break new records. Public works and private residential building are scheduled to the extent that the Department of Commerce forecasts a 10 to 20% increase in construction over the record year of 1947. Building materials and household equipment and furnishings will be large beneficiaries.

The railroads will order more new equipment this year than any other in history. Freight rate increases, so far authorized by the ICC, amount to 1¼ billions and will help the roads towards their modernization program. Freight cars and locomotives are high on the priority list for other countries.

The world food situation is only too well known to realize that farm machinery will be in worldwide demand for several years.

Oil and natural gas face a shortage. As a result the price of crude oil has been advanced sharply. This emphasizes the need for every kind of oil and gas equipment.

Labor and material costs are responsible for the tremendous demand for labor-saving machinery, office equipment and certain machine tools.

One automobile year of 3½ million cars and 1½ million trucks is hardly the answer to that great industry which could turn out only war equipment for five years. This business and those furnishing its accessories will make records over the next few years.

With full employment, farm income at 18 billions and a wage scale that is still on the increase, the standard of living is continually increasing for the majority of our people. National income figures have steadily shown an increase over the cost of living. The latest official report to the President showed that during the entire period from 1939 to date, money wages more than doubled; and after ⅘ths of the increase was offset by the rise in the cost of living there was left an advance of 20% in real wages or purchasing power.

Caution Is Healthy

We recognize that readjustments are still in the making in many sections of our economy. Efforts by individuals and government to remain cautious and urge restraint is a healthy sign. The National City Bank aptly states: "In essence, consumers and industries alike are trying to get through a gate all at once, and at a time when the passage is narrowed to make room for foreign aid. Anti-inflation action requires standing in line, and easing the congestion. If this is understood and acted upon the prospect is for years of rebuilding and of progress in lifting living standards."

We feel that stock prices have discounted the worst of our psychological fears and have ignored the basic fundamental economic factors that point to a future of peace and prosperity. In our opinion, the march of progress will continue, and our question is repeated: Will stocks leap this year?

Menace of Communism's Growth

By J. E. LeROSSIGNOL
Dean, College of Business Administration, University of Nebraska

Dean LeRossignol traces growth of Marxism and Communism over last century, and stresses its aim to produce revolution in Europe by force and violence. Sees in recent revival of Comintern an attack on Marshall Plan by trumping up "imperialistic designs" of United States, but warns it might signify Soviet Government believes time is ripe for Communist revolution in Europe.

One hundred years ago—in November, 1847—Karl Marx and his friend, Friedrich Engels, already ardent revolutionists, came to London to attend the second Congress of the Federation of the Just, a secret society founded in 1836 by German exiles in Paris and later known as the Communist League. The Congress asked them to prepare for publication a "complete theoretical and practical program," and the result was the celebrated "Manifesto of the Communist Party," which was written in German and printed in London a few weeks before the French revolution of February, 1848. A French translation was brought out in Paris shortly before the insurrection of June, 1848, and the first English translation, by Helen Macfarlane, appeared in Harney's "Red Republican" with a note saying that it was "the most revolutionary document ever given to the world."

J. E. LeRossignol

Since that time the Communist Manifesto has been published in all the languages of the civilized world and, like Marx's other great work, "Capital," has been called "The Bible of the Working Class."

In this extraordinary pamphlet may be found, expressed or implied, all but two of the characteristic doctrines of Marxism: the economic interpretation of history, the dialectics of the class struggle, the exploitation of the proletariat, the subsistence theory of wages, the "law" of increasing misery, the concentration of capital, the elimination of the middle class, the over-production-under-consumption theory of crises, the collapse of capitalism, the proletarian revolution, the dictatorship of the proletariat, and the coming of the classless commonwealth. Only the theories of value and surplus value seem to be lacking, but those weapons were presently found in the arsenal of bourgeois economists and used, like Samson's jawbone of an ass, to smite the Philistines. Indeed, all the Marxian theories are revolutionary weapons, for "truth," according to Marx, is not desirable for its own sake, merely, but chiefly to change and "improve" the world and, therefore, is "handmaid to revolution."

The Manifesto was, from first to last, a declaration of revolutionary expectation and intention. It begins with these words: "A spectre is haunting Europe—the spectre of Communism"; and it ends with this war-cry:

"The Communists disdain to conceal their views and aims. They openly declare that their ends can be attained only by the forcible overthrow of all existing social conditions. Let the ruling classes tremble at a Communist revolution. The proletarians have nothing to lose but their chains. They have a world to win. Working men of all countries unite!"

From these fiery utterances it is clear that the writers expected and desired an armed uprising of the proletariat whenever there was a good chance of success, accompanied by much violence, as in the Reign of Terror of the French Revolution of 1789 and after. True, Marx thought that the revolution might come peacefully in democratic countries like England and the United States; but, as Engels puts it, "He certainly never forgot to add that he hardly expected the English ruling-classes to submit without a 'pro-slavery rebellion.'"

In the year 1849 Marx wrote in the Neue Rheinische Zeitung "When our time comes, revolutionary terror will not be sugar-coated." And in 1850 he wrote: "Far from opposing so-called excesses, and making examples of hated individuals or public buildings, such deeds must not only be tolerated but their direction must be taken in hand." A gruesome forecast, that, as Marx salutes the uprising of the masses, with its lamp-post and its guillotine.

But the proletarian revolution did not come in 1848, as Marx and Engels had expected. True, both socialists and communists were very active in that year, especially in France, and in June, fearing the suppression of the national workshops, they rose against the provisional government, but only to be defeated in a battle in which more than 10,000 persons were killed and many of the rebels taken prisoners. Followed a short-lived republic and then the Second Empire under Louis Napoleon. In Germany, Italy, and other countries the revolutionary movement was less violent and soon petered out.

For all of that Marx and Engels continued to plan and hope and, during the crisis of the middle 'fifties, they were ready to take the lead again. In September, 1856, Marx wrote in a letter to Engels: "This time, moreover, the thing is on a European scale never reached before and I do not think we shall be able to sit here as spectators much longer . . . the mobilization of our persons is at hand." In a letter to Marx of November 15, 1857, Engels wrote: "In 1848 we said: 'Now our time is coming'—and in a sense it came—but now it is coming alto-

(Continued on page 33)

How Far Can World Bank Contribute to Marshall Plan?

By ERNEST H. WEINWURM

Mr. Weinwurm estimates World Bank must raise $4½ billions in next four years to meet most pressing needs under Plan and those of other member nations. Failure of Bank to provide funds, he argues, would throw an additional heavy load upon U. S. Treasury. Says present marketing policies of Bank tend to limit its bond sales and suggests that larger funds be raised by issuing "junior bonds" which may be initially purchased in part by Treasury-administered trust funds.

The International Bank, according to the report of the 16-nations Paris Conference, is expected to lend those countries some $3 billion for the purchase of capital equipment. This figure has also been adopted by the Harriman Committee and thus has been made part of the Administration policy. It has been endorsed recently by Dr. Randolph W. Burgess, Vice-Chairman of the National City Bank and a member of the Harriman Committee.[1] The President's message to Congress also stresses the importance of having "an increasing portion of the financial needs of Europe met by dollar loans from the International Bank." He estimates at $4,100 million dollars the total amount to be provided by the Bank as well as private loans, unspent credits and aid from other Western Hemisphere countries.

Ernest H. Weinwurm

The purpose of assigning such a big task to the young International Bank was obvious enough: it was an effort to reduce somewhat the already staggering burden of the U. S. Treasury and the American taxpayer by shifting a share of the burden to an institution expressly organized for the financing of long-term capital investments.

All the planners assumed, of course, that the Bank would be able to raise the necessary large amounts over the next few years. If this should turn out to be impossible, then the U. S. Treasury would have to come to the rescue once again. For there is no way of making the size of the capital equipment program contingent upon the Bank's ability to make available the required funds. That program is a vital and essential part of the European Recovery Program. Without it there would be no hope of making the European nations self-supporting and independent of American aid by 1951.

The funds to be provided by the U. S. Government for food, fuel and raw materials under the Marshall Plan are mainly designed to keep the European nations alive and their industries operating during the four-year transition period. But if they shall be able to buy the materials they cannot produce themselves, they will have to rehabilitate and expand their industrial capacity. This, in turn, will depend upon the capital equipment to be provided for under the Marshall Plan.

Mr. Joseph M. Dodge, now President of the American Bankers Association and until recently financial adviser to General Lucius Clay in Germany, aptly compared the immediate assistance to be furnished by the U. S. Government to the equity capital of a corporation which provides a basis for long-term borrowing from outsiders.[2] It is at this point that the activities of the International Bank will have to be tied into the overall plan of reconstruction.

Other Members Will Ask for Additional Funds

The Bank, in determining its capital requirements will, however, have to take account of the needs of many other members in addition to those participating in the 16-nations program. A number of countries in Latin America, in the Near East and elsewhere in Asia, expect the Bank's assistance in developing their domestic resources. Moreover, there are European projects outside the Marshall Plan which are highly important for the whole European economy. Outstanding in this group is the loan to Poland for reconstruction of the coal mines which are the most productive in Central Europe. These mines are as indispensable for rehabilitation of the Continent as are those of the Ruhr and Great Britain. The International Bank will have to give serious attention to that application, provided Poland guarantees that the coal production will be distributed in accordance with economic needs among those nations which have relied upon it for almost a century.[3]

Thus it becomes evident that the capital requirements of the Bank will go far beyond the $3 billion expected by the Paris conference planners. As a rough estimate, the assumption shall be made that the additional requirements will amount to $1,500 million. This adds up to a total of $4,500 million to be raised by the Bank during the period from 1948 to 1951.

Including the loans already granted by the Bank, its total portfolio would thus amount to some $5 billion by the end of 1951. This would certainly be not an excessive amount in the light of the original Bretton Woods Plan. At that time, it was assumed that the Bank might well exhaust its full $8 billion borrowing power within the first five years of its operations and then would be able to leave the field more or less to private initiative.

However, the time schedules as laid out in 1944 have all proved to be over optimistic and many observers now feel that the job assigned to the Bank by the Paris report may go beyond its fund raising capacity. Yet this should be no time for defeatism; a determined effort should be made to remove the obstructions which prevent full and effective activities of the Bank. This will, perhaps, involve the need to review and revise some of its policies if it should turn out that new methods may facilitate its assigned task.

There are two main sources of additional funds the Bank may draw from. It may increase its equity capital or it may try to sell more bonds either in this country or abroad.

An increase of the Bank's capital has been suggested in some quarters. This would require

1 In a speech before the New York Chapter of the American Statistical Association, Nov. 13, 1947, Dr. Burgess, however, did not indicate how the Bank, in his opinion, could raise the required large funds.

2 In an address delivered before the Economic Club of Detroit, Oct. 27, 1947.

3 See also "Poland's Economic Distress," by Julius Szygowski, former Polish Consul General in Chicago, "Commercial and Financial Chronicle," Nov. 20, 1947.

(Continued on page 40)

The Outlook for Municipal Bonds

By LOUIS S. LEBENTHAL

Senior Partner, Lebenthal & Co.

Mr. Lebenthal notes rise in average yield of municipals from 1.29% in April, 1946, to 2.25% at end of 1947. Foresees likelihood of removal of Federal tax exemption on new issues of municipals, and predicts around $7 billions of new municipal issues in next five years.

For a long series of years the average price of municipal bonds advanced steadily until a top of 1.29% in April of 1946. At that time the trend reversed itself until we find them selling at the close of 1947 on a 2.25% basis. This represents a 96 basis points increase in yield, half of which has taken place within the last few weeks. The reasons for this sharp decline are apparent in the unstable financial conditions in Europe, the inflationary trend in this country and the withdrawal of Government support for its bonds.

Louis S. Lebenthal

The Secretary of the Treasury has advocated the removal of tax exemption on future issues of municipal bonds. At the same time he recommends that those already issued will continue tax exemption. It is likely that such a program will be pushed through, since it is uncomplicated by existing contracts. In the event of such legislation those bonds already outstanding will enjoy a scarcity value as their ranks diminish at an estimated rate of a billion dollars a year. The inevitable result should be a steady enhancement in value.

Future issues of municipal bonds, on the other hand, will be sold on the basis of their inherent security rather than tax exemption. It is interesting to note that in 1913, prior to tax exemption, municipal bonds sold at higher prices than securities in the corporate field. Close to $7,000,000,000 worth of municipal bonds are scheduled to be issued within the next five years. Approximately 80% of the projected state issues and 75% of the municipal issues are concentrated as follows: New York $2,360,000,000, Pennsylvania $809,000,000, California $507,000,000, Ohio $504,000,000, Illinois $410,000,000 Texas $367,000,000.

Allied Stores Sells $25,000,000 Notes

Allied Stores Corp. has arranged a loan of $25,000,000 at 3⅛% with two insurance companies, the company announced Jan. 6. The sale of the 20-year sinking fund notes was arranged through Lehman Brothers. Metropolitan Life Insurance Co. bought $15,000,000 of the notes and the New York Life Insurance Co. $10,000,000. The funds will be used for working capital, to take care of large inventories and receivables.

Samuel Baker Opens

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Samuel F. Baker is engaging in a securities business from offices at 639 South Spring Street.

From Washington Ahead of the News

By CARLISLE BARGERON

Your correspondent is getting an awful kick out of the high blood pressure that Henry Wallace is giving to the Eastern intelligentsia these days. It seems they have just discovered the iniquity of this man. Oh, they have been becoming increasingly dubious about him for several months. But now they seem suddenly to have come upon the depth of his nefariousness.

Carlisle Bargeron

Myself, I can't resist pointing with pride. My confidence in my analytical ability has grown by leaps and bounds. You are likely to note something of a cocksureness in my articles from now on.

Because all during the years when Henry had these people fooled, when he was their darling, when he was a genuine "liberal," a clarion voice of the common man, I had his number. As long ago as 1934, it was my wont frequently to call attention to Henry's phoniness, and in each instance I would be pounced upon by his present loudest denouncers and characterized as a wicked soul.

I first got onto Henry when he was Secretary of Agriculture and always sighing and moaning because the people kept pressing so much power on him. Oh, he wished the people wouldn't do this, Henry would say, because he was getting more power than any one or group of men should have. Yet every time the people, as reflected by Congress, seemed to hesitate on increasing his power, they would get a pressure from Henry and his lobby that would leave them dizzy. The way Henry would go after this increasing power while professing not to want it was truly amazing.

Every time I would run into Henry in those days he would look at me and grin sheepishly and I liked to tell myself it was because he knew I was onto him. Be that as it may.

The newspapers generally portray the Republicans as in high glee over Henry's candidacy, and we hear the editors saying gravely that it is a great blow to Dewey and such a scintillating Presidential stature as Eisenhower, because the Republicans will now become so confident they will nominate a man like Taft. It seems that the Republicans, being a backward and reactionary group, who will throw away our "social gains" the first time our eyes are turned, have always wanted a man like Taft but in a tight race they would be afraid to nominate him.

This is one of the many forms of the damning propaganda against the Senator, yet I am not sure that it is displeasing to him because it does suggest that he will, under these new circumstances, get the nomination. Neither am I sure that the "Republicans," referred to, reading this propaganda about the way they think do not come eventually really to think it.

Frankly, however, in my long association with "Republicans," that is, Republican leaders, in Congress and among the national committeemen and state chairmen, I have never heard them express any such thoughts. I sometimes wonder at the wisdom of our editors.

The fact is that the party leaders have no such feeling as preferring Taft to Dewey on their respective philosophies and personalities but being reluctant to take the man of their choice because he wouldn't make as good a race as the New Yorker. This is utter nonsense.

Dewey is just as much a party man as Taft. None of the leaders, even those lined up with Taft, is afraid he might jump the traces if he became President. The fact is that Dewey has more strength among the party leaders than Taft and that is the reason he will go into the convention with more initial strength. His strength is among the regulars, just as is Taft's, not among the so-called advanced thinking elements of the party.

Wallace's candidacy will have not the slightest affect on Dewey's candidacy, nor upon Taft's.

As to Eisenhower, the frequently expressed contention that the Republicans would grab him to insure victory if the race promised to be close, reflects a woeful ignorance of party politics. The Republicans, and I assume when the term is used, they are referring to the national and state leaders, have no desire to win with a man whom they have reason to believe will scuttle them once he is elected. The job they did on Wendell Willkie should be convincing on this. He was shoved down their throat at Philadelphia and as the campaign wore on their worst suspicions about his party regularity were confirmed. He was thereupon scuttled all over the place.

The practical elements of a political party do not just want a party victory for the sake of a victory. They want a victory in which they will share. Something that the rank and file of people do not understand is that what is known as "minority" politics afford good livelihoods to many people in this country. A leader, State or National, would much rather go along, making what money he can out of his being a leader of the "minority" than to have a party victory and find himself out entirely.

Another thing that I must be utterly deaf or blind to is the high glee of the Republicans. Those with whom I talk have no such emotion. They are not as worried as the Democrats, of course, but they are wrinkling their brows, nevertheless.

This is because Wallace will also draw Republican votes. The nucleus, maybe the great bulk of his strength will come from the extreme radicals who otherwise would vote Democratic. But Wallace, it is believed, is also going to attract Republicans who are bewildered and embittered at the continued pouring of billions into Europe and the continued maintenance of a tremendous military establishment to combat such a backward "military menace" as Russia. The Republicans in Congress are about as disgusted as the Republican rank and file but they are up against the proposition of going along with the large financial interests of their party. Those voters who are denied expression in their party because of this setup will find an outlet in Wallace and the Republican leaders know this.

Underwood, Neuhaus Co. Formed in Houston

HOUSTON, TEX.—The investment banking firm of Underwood, Neuhaus & Co. has been formed by the merger of Milton R. Underwood & Co. and Neuhaus & Co., it has been announced by Milton R. Underwood, President of the new firm. The merger, retroactive to Jan. 1, brings together two firms long active in this field in Houston.

Offices will be maintained at 918 City National Bank Building. Officers, in addition to Mr. Underwood, are Joseph Rice Neuhaus, Philip Ross Neuhaus, and Dana T. Richardson, Vice-Presidents, and J. D. Dupree, Secretary-Treasurer.

The new firm will be active in financing local corporations, and the placing of long-term oil loans against established production. It will specialize in government, municipal, and unlisted corporate securities. Officials say that the merger will offer a broader and more complete investment banking service for a growing Houston.

Milton R. Underwood, President of the new firm, has been active in Houston civic affairs since 1928. A native of New Jersey and graduate of Vanderbilt University, he spent the 1928-1934 period with a local bank and insurance company before establishing his own firm. He served in the U. S. Army Air Corps procurement section from May, 1942 to August, 1945. This past year, he served as Chairman of the big-gifts division of the Red Cross and of the Community Chest fund-raising campaigns. He is a director of the Houston Chamber of Commerce, a trustee of the Public Library, and Chairman of the Board of Kinkaid School.

Joseph R. Neuhaus and Philip R. Neuhaus are native Houstonians, sons of the late Hugo V. Neuhaus, who founded the Neuhaus & Co. firm in 1907. It is the oldest investment banking firm in Texas. Joseph R. Neuhaus had investment banking experience in New York City following military service in the European theater. Philip R. Neuhaus was in the investment banking business in Cleveland after serving in the C. B. I. theater during the war. Both Neuhaus brothers are Yale graduates. Dana T. Richardson is a former partner in the investment banking firm of Kelly-Richardson, Chicago, and has 27 years' experience in the municipal bond field. He was stationed at Ellington Field during World War II, and decided to locate in Houston after completing his military service.

Public Utility Securities

Southern California Edison

Southern California Edison serves one of the best growth areas in the country. In the 12 months ended Sept. 30, 1947, gross revenues exceeded $81,000,000 compared with $42,000,000 a decade earlier. Nevertheless, only $1.70 per share was reported on the common stock compared with $2.18 in 1937. The profit margin for common stockholders dropped from 16.4% of each dollar of revenues in 1937 to 6.7% in the 12 months ended last September.

The principal reason for this poor showing was (1) high taxes, which tripled in the period 1939-44 (and are still running at nearly double the prewar rate) and (2) a change-over in customers' electric equipment. Prior to 1946, the company's system, other than a portion in the San Joaquin Valley area, was operated on a frequency of 50 cycles, whereas 60-cycle frequency had generally been adopted. This situation resulted in considerable inconvenience and expense to customers who moved into or out of the company's territory. Also, 50-cycle equipment is in general more expensive and difficult to obtain than equipment designed for 60-cycle operation. The company in June, 1945 filed an application with the Public Utilities Commission setting forth the facts with respect to the frequency situation, and the Commission issued an order directing the company to change its service to 60 cycles. The change-over is expected to be substantially completed by the close of 1948.

Pursuant to the Commission's orders, the company will bear initially the entire direct cost of adapting its own and its customers' electrical equipment to 60-cycle operation. The total cost is estimated at $35,000,000, of which sum $32,000,000 will be charged to operating expenses. $11,000,000 was charged in 1946 and an estimated $12 000 000 was probably charged for 1947, leaving about $9,000,000 to be charged in 1948 (for accounting reasons the amount may exceed this figure). The estimated 1947 charge (after crediting tax savings) was equivalent to about $2.15 a share so that earnings before this extra cost would have approximated $4.09. In 1947 earnings before the special charge are estimated at around $4 a share.

Next year the company will have outstanding $20,000,000 new 4.88% preferred stock, which was issued early in December, and dividend requirements on this stock will be equivalent to 31¢ a share on the common stock. It is estimated that expenditures for construction during the years 1947-9 will require some $90,000,000 additional financing, but the character of this financing has not yet been determined. To the extent there would be some temporary dilution of share earnings. issued there would be some temporary dilution of share earnings. Some similar dilution might occur in connection with future conversion of the 4.48% preference stock.

Obviously the company will not realize its full potential earning power until 1949. Is there any danger of a sharp rate cut at that time? This seems rather unlikely. Residential rates at 3.18¢ are about in line with the national average though relatively high for the Pacific Coast section. Current earnings are substantially below a 6% return on estimated rate base (plant account has been substantially written down to original cost). It is estimated that the company could earn up to $2.75 per share on its common stock before reaching a 6% return on the present rate base; and some $50,000,000 will probably be added to the rate base under the construction program.

Southern California Edison normally obtains most of its electric output from hydro-electric plants and also buys a substantial amount of power from the Hoover Dam. In recent years, however, it has had to draw considerable power from steam plants. In 1947, with rainfall almost negligible in California, it has taken over half its energy at times from steam, which has doubtless increased operating expenses.

Summarizing, the past two years have been abnormal ones and next year's earnings will also be affected by special charges. But even allowing for increased operating and capital costs, it appears likely that normal future earnings may approach the $3 level. The stock is currently selling around 24½ to yield over 6% based on the $1.50 dividend rate. Dividends have been paid since 1910, with the present rate in effect for five years.

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.

BUSINESS BUZZ

"By the way—when did YOU last take a bath?"

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 Companies—A review—Kalb Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Improved 1948 Background for Security Markets—Discussion in current issue of **"Geared to the News"**—Strauss Bros., Inc., 32 Broadway, New York 4, N. Y.

Looking Forward—Forecast for 1948 by Edward P. Rubin—Reprints of address at meeting of the partners and representatives of Clement, Curtis & Co., Inc., Board of Trade Building, Chicago 4, Ill.

New York City Bank Stocks—Preliminary comparison of 1947 earnings—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Railroad Equipment Certificates—Valuation and appraisal—Stroud & Co., Inc., 123 South Broad Street, Philadelphia 9, Pa.

Also available are a valuation and appraisal of **City of Philadelphia Bonds** and price-earnings ratios and yields on 123 **Public Utility Common Stocks.**

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.

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Alleghany Corporation—Memorandum—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

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

B. V. D. Corporation—Analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

Du Mont Laboratories, Inc.—Memorandum—Hayden, Stone & Co., 25 Broad Street, New York 4, N. Y.

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

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

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

Oil Exploration Co.—Detailed analysis—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

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

Also available is late information on **Du Mont Laboratories and Buffalo Bolt Co.**

Portsmouth Steel—Special Report—Ward & Co., 120 Broadway, New York 5, N. Y.

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

Reading Tube Corporation and the Copper Tube Industry—Detailed circular—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Robbins & Myers, Inc.—Analysis—Doyle, O'Connor & Co., 135 South La Salle Street, Chicago 3, Ill.

Trenton Chemical Co.—Memorandum—A. H. Vogel & Co., Penobscot Building, Detroit 26, Mich.

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

Britain's Bad Bargains

By PAUL EINZIG

LONDON, ENGLAND.—We on this side find it difficult to understand how British negotiators of international agreements have been able to acquire and maintain in the United States a reputation for Machiavellian skill in safeguarding the interests of their country.

Dr. Paul Einzig

Whether this reputation was deserved or not in the past, it has certainly been grossly undeserved in recent years, at any rate as far as financial and trade negotiations are concerned. Indeed it would be no exaggeration to say that in the economic sphere Britain has got the worst of the bargain on practically every occasion since 1944.

The long series of bad bargains, of which the Anglo-Russian Trade Agreement on Dec. 27, 1947, is the latest, began with the Bretton Woods Agreement. Lord Keynes, who was probably the greatest economist of our generation, was certainly the worst negotiator Britain has ever had the misfortune of being represented by at international economic discussions. He accepted many onerous conditions in return for the notorious "scarce currency clause" under which Britain was supposed to be entitled to apply discriminatory trade and exchange restrictions against the United States if dollars should become scarce. It was not until after his death, in September, 1947, on the occasion of the London meeting of the International Monetary Fund, that it has been disclosed that, for technical reasons arising from the terms of the Bretton Woods Final Act, dollars could never be declared to be scarce within the meaning of the clause.

In December, 1945, Lord Keynes agreed to the unilateral and isolated restoration of the convertibility of sterling, without stipulating that it should only be applied for the benefit of countries which provide similar convertibility facilities. Throughout the subsequent negotiations about the interpretation of the meaning of convertibility, the British negotiators have failed to insist on the most elementary safeguards against the abuse of convertibility.

This was how Mr. Dalton earned a reputation of being a Santa Claus who supplies every country with dollars without asking for anything in return.

The agreements funding Britain's war debts to India, Egypt and Iraq, concluded during the summer of 1947, were grossly disadvantageous to Britain both in principle and in detail. Mr. Dalton did not insist on a drastic scaling down of the debt incurred in the interests of the common cause. He released for the benefit of the three countries very large amounts available for immediate conversion or expenditure in Britain, far more than Britain could conceivably afford in existing conditions. And in return for these expensive concessions he only obtained provisional consent for the blocking of the large amounts of Indian and Egyptian sterling balances; within six months the Treasury had to embark on fresh negotiations to renew the agreements.

The incompetence of British negotiators became particularly evident as a result of the blunder committed at the Geneva Conference. There Britain agreed to reduce Imperial Preference in relation to the British Colonies, in return for an undertaking by the United States to reduce from 33 to 25% the proportion of synthetic rubber which American industries are compelled to buy. It was not until the publication of the text of the agreement that British rubber-producing interests pointed out to their complacent Government that in practice this arrangement will tend to reduce rather than increase American imports of natural rubber, for the simple reason that the American negotiators succeeded in stipulating that the 25% of synthetic rubber has henceforth to be calculated on the basis of a total that includes not only natural and synthetic rubber but also reclaimed rubber.

The Anglo-Russian trade pact is considered to be the latest in the series of bad bargains. In June, 1947, Mr. Harold Wilson, then Junior Minister in charge of foreign trade matters, broke off negotiations with the Soviet Government, as the latter's terms were considered unacceptable. Six months later, as President of the Board of Trade, he returned to Moscow to conclude an agreement on even less satisfactory terms. The reduction of interest and capital of the Russian war debt to Britain demanded by the Soviet Government was now conceded. While in June, the Soviet Union offered to export to Britain 1,000,000 tons of grain, the amount undertaken in December was 750,000 tons only; and the price was rather higher than it would have been six months earlier. In return, Britain has agreed to export to Russia equipments and other manufactures of a kind which could easily have been exported to many a hard currency country.

Responsibility for Britain's bad bargains lies largely with the British Constitution under which international agreements become valid the moment the British Government affixes its signature on them, without requiring ratification by Parliament. Even though the agreements may be debated, the outcome of the debates does not affect their validity, and in the most unlikely event of the government being defeated the new government remains bound by their terms. For this reason most supporters of the government would cast their vote in favor of the bad treaties, no matter how strongly they may disapprove of them.

Forecasts 1948 Firm Real Estate Prices

Myron L. Matthews, of Dow Service, Inc., predicts active market and firm prices in year ahead, with building costs leveling off. Similar view expressed by United Business Service, Inc.

According to Myron L. Matthews, of the Dow Service, Inc., "Now that many of the uncertainties have been swept away, the building industry looks to 1948 as the year offering the greatest possibilities since 1938. In this decade the industry has had its most violent ups and downs both from the natural and the unnatural operation of economic laws as successively dealt by (1) the post-1929 recovery (1937-38), (2) the war-fear era (1939-40-41); (3) the war building program zooming the industry to its most glorious accomplishments (1942-43); (4) the job-done-nothing-to-do period (1944-45); (5) the postwar awakening (August 1945-April 1946); (6) the control period (April 1946-July 1947); (7) the free market readjustment period (July 1947 to date).

Myron L. Matthews

Continuing, Mr. Matthews states:

"For the past 18 years the building industry, except for 1942-43 and the past six months, has offered but scant hope of prosperity to those pursuing it for a livelihood. Bounced around like a cork on the sea and alternately treated like Peck's bad boy and Little Lord Fauntleroy it is small wonder that squeaks and groans should come up from its innards in protest to those armchair economists on its distant periphery who expected it to show championship form from the word 'Go!' —without even an opportunity at the usual reorganization and training period.

"As always when challenged, the construction industry is going to make the grade. It did not in the opinion of outsiders, do so in the first two, three or four months after decontrol—but then new records began to be made. The growlers now growl with less enthusiasm and the forecasters and economists must concede (1) the greatest all-time anticipated expenditure for construction in 1948; (2) building costs, being almost totally the reflection of wages in one form or another, cannot be expected to come down in the foreseeable future. The period of great doubt, cost-wise, a thing of the past, the building boom is now genuinely underway and is believed to be of such strength as to be immune to whatever corrective recessionary measures may be experienced in other industries come the second half of 1948.

"The reason why construction as an industry, second in importance only to agriculture, should plod forward and upward without important or prolonged hesitation at any point lies in the fundamental necessity for plant and structure beyond anything this country has yet experienced. We emerged from the war with gear, so to speak, with plant, structure and facilities, capable, productionwise, of supporting a peacetime economy not importantly greater than at Pearl Harbor time. But we are trying to support a national income in 1948 which even when adjusted for higher prices far overtaxes the present productive capacity of all national physical facilities now ready to produce.

"Studies of unemployment, production capacity, wages and salaries, increased birth rate, housing and other equally basic considerations point with more firmness than ever before to the tremendous job which is ahead for construction in 1948 and far beyond to supply the absolutely essential physical structure these matters demand—a challenge of no less consequence than the war building program. It should be kept in mind, however, that the construction industry builds for others, not for itself, except for that part which is made up of community home builders and speculators. This is to say that the people controlling the purse strings will need to become as adventuresome as the contractors themselves.

"The most recent cloud to have been removed from the local scene is the uncertainty of the site labor component of building cost. A new 2½-year wage-freeze agreement between the members of the Building and Construction Trades Council of Greater New York and the Building Trades Employers Association of New York, effective Jan. 1, 1948, but still at this writing in incomplete form and unsigned, has for its purpose the stabilization of wages for 30 months at Jan. 1, 1948 levels—which levels are not substantially higher as to overall impact upon total building cost than they were on Dec. 31."

A release of the United Business Service of Boston, Mass. likewise predicts a firm real estate market in 1948 but warns of longer-term risks. According to this statement:

"Real estate prices in most areas should hold relatively firm during 1948. Continued general inflation has largely eliminated the weakness that began to appear early in 1947. With little prospect of lower costs in the near future, many people are going ahead with plans to buy or build." Warning of a change at a later period, United Business Service also states:

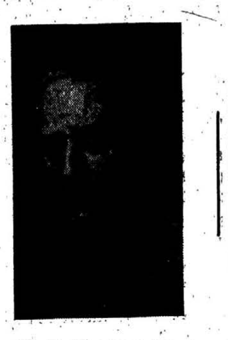
"The real estate situation is less vulnerable than in 1920 in the opinion of the Service. The housing shortage is much greater than during the earlier period. Nevertheless, the risks involved in buying or building at the present time are considerable, and should be taken only after careful consideration of longer-range as well as near-term factors. Older-type dwellings are already losing some of their scarcity value and will gradually depreciate further in price.

"Total building costs are expected to level out this year. While hourly wage rates and some materials will rise further, this will be offset by a smoother flow of materials, increasing labor efficiency, and a willingness of contractors to shade contingency allowances a bit as conditions become more stable. Market prices for new dewllings are thus unlikely to advance much further in 1948. Rising rents, even under controls, and high marriage and birth rates will continue to be a stimulus to home ownership. Rental space will remain scarce in 1948. But there is little question that current living costs and real estate prices are forcing many people to forego home ownership plans. Also, while mortgage rates will continue low, the trend is turning upward and banks are tightening up on appraisals.

"Chief factors however, pointing to a cyclical peak in real estate are (1) booming new construction, and (2) the increasing inability or unwillingness of many families to make the cash outlay and assume the heavy long-term obligation necessary under present conditions."

McDonnell & Co. Opens Branch in Detroit

McDonnell & Co., members of the New York Stock Exchange,



H. G. Montgomery

announce the opening of a Detroit office in the Buhl Building under the management of Harold G. Montgomery. Mr. Montgomery was formerly with Smith, Hague & Co.

Illinois Brevities

An underwriting syndicate headed by The First Boston Corporation, and including, among others, Harris Hall & Co. (Inc.), A. C. Allyn & Co. Inc., Central Republic Co. (Inc.), Bacon, Whipple & Co., William Blair & Co., Julien Collins & Co. and The Illinois Company, on Dec. 10 publicly offered an issue of 800,000 shares of Southern California Edison Co. 4.88% cumulative preferred stock (par $25) at $26.25 per share and accrued dividends. The net proceeds are to be used (1) to retire $16,000,000 of bank loans, and (2) the balance partially to reimburse the company for monies heretofore expended for expansion purposes.

* * *

Robert W. Jackson, President of Aldens, Inc. on Dec. 10 announced that a new $4,200,000 issue of 3% 15-year sinking fund debentures, due Nov. 1, 1962, had been sold to an insurance company, through Lehman Brothers, New York. The proceeds have been added to Aldens working capital to finance expanding operations in both the catalog and retail divisions. Including the $1,300,000 of 3% sinking fund debentures due Oct. 15, 1960 previously outstanding, the current financing results in a total of $5,500,000 of long-term indebtedness.

* * *

Dollar volume of trading on the Chicago Stock Exchange in the 11 months ended Nov. 30, 1947 was $164,528,114, as against $336,717,772 in the full year of 1946. At the close of 1947 a total of 321 issues of securities of 269 companies were available for trading on this Exchange. This compares with 318 issues of 266 companies as of Jan. 1, 1947.

* * *

A syndicate headed by Halsey, Stuart & Co. Inc., of Chicago, and including, among others, William Blair & Co., the Illinois Co. and Mullaney, Ross & Co., also of Chicago, on Dec. 18 publicly offered $6,000,000 of Central Power & Light Co. (of Texas) first mortgage 3¼% bonds, series B, due Oct. 1, 1977, at 101.93% and interest. The net proceeds will be used to pay for additions and betterments to property.

* * *

Halsey, Stuart & Co. Inc. also on Dec. 10 publicly offered $4,000,000 of Central Maine Power Co. 3¼% first and general mortgage bonds, series P, due Nov. 1, 1977 at 102.91 and accrued interest, the net proceeds to be used to reduce outstanding indebtedness to the First National Bank of Boston incurred since Sept. 1, 1947, the proceeds of which were used for the purchase or construction of property.

* * *

On the following day, Dec. 11, an underwriting syndicate headed by Halsey, Stuart & Co. Inc., and including, among others, Bacon, Whipple & Co., the Illinois Company, Julien Collins & Co., Mullaney, Ross & Co., F. S. Yantis & Co., Inc. and Patterson, Copeland & Kendall, Inc., all of Chicago, publicly offered $20,000,000 first mortgage bonds, 3% series due 1982 of the Cleveland Electric Illuminating Co. at 101.08 and interest. The net proceeds are intended to be used principally to finance current and proposed property additions.

* * *

Southeastern Telephone Co. Chicago, on Dec. 19 filed a letter of notification with the Securities and Exchange Commission covering 13,999 shares of its common stock to be offered at $12.75 per share, the net proceeds to be used to pay for property additions and improvements. No underwriting will be involved.

* * *

Director N. P. Parkinson, of the Illinois Department of Insurance, has approved a merger of the Bankers Life & Casualty Co., Chicago, with the General Life Insurance Co. This brings the Bankers' assets up to over $7,000,000, and premium income for 1947 will exceed $5,000,000. In May, 1947, a merger was completed with the Westminster Life Insurance Co. As a result of the most recent consolidation, the Bankers company becomes one of Chicago's larger insurance companies.

* * *

A group of investment bankers, headed by Loewi & Co., Milwaukee, Wis., and including, among others, Holley, Dayton & Gernon and Straus & Blosser, both of Chicago, on Dec. 18 publicly offered an issue of 125,000 shares of $1 par value common stock of Wisconsin Central Airlines, Inc. at $4 per share. The net proceeds are to be used to pay off short-term notes, to purchase and convert aircraft, for additional working capital, etc.

* * *

Among the investment bankers of this State participating on Dec. 17 in the public offering at $27 per share of 710,500 shares of $10 per value common stock of Northern Natural Gas Co., which had been owned by North American Light & Power Co., were the following: A. G. Becker & Co. Inc., the Illinois Co., Farwell, Chapman & Co., Mason, Moran & Co. and Julien Collins & Co. This issue was oversubscribed.

* * *

The Wacker-Wabash Corp., owner of the Pure Oil Building, Chicago, on Jan. 1, 1948 paid to the holders of its 5% mortgage income bonds interest amounting to 1¾% for the six months ended Oct. 31, 1947, which compares with payments of 1½% each on Jan. 1 and July 1, last year.

For the half year ended Oct. 31 net operating income totaled $422,758, while net income amounted to $129,042 before depreciation available for interest and sinking fund payments on the 5% mortgage income bonds.

* * *

Paul H. Davis & Co., Chicago, participated on Dec. 18 to the extent of 6,000 shares in the public offering of 50,000 shares of American Box Board Co. common stock (par $1) at $21 per share, the net proceeds of which are to be used to pay for improvements to plants and to make loans to its wholly-owned subsidiary American Pulp & Paper Co.

* * *

Swift & Co. sales for the 53 weeks ended Nov. 1, 1947 reached an all-time peak of $2,248,766,634, a 71% increase over the $1,308,364,155 sales reported for the 52 weeks ended Oct. 26, 1946. Net earnings from all operations were $22,334,977, after provision for high cost additions to fixed assets, or equal to $3.77 per share, which compares with a net of $16,394,739, or $2.77 per share, in the 1946 fiscal year.

The company continues in strong financial position, and its working capital during the year ended Nov. 1, 1947 increased $25,605,285.

* * *

Comstock & Co. of Chicago, Gearhart & Co., Inc. of New York and Herbert W. Schaefer & Co. of Baltimore are offering 100,000 shares of 6% cumulative convertible preferred stock (par $5) and 100,000 shares of common stock (par 10 cents) of Americana Furniture, Inc. (an Arkansas corporation). The stock is offered in units of one share of preferred and one share of common stock at $5.10 per unit. The net proceeds will be used to pay for Kernersville, N. C., plant, for improvements and for working capital.

* * *

The Cudahy Packing Co. reported for the fiscal year ended Nov. 1, 1947 total sales of $572,737,202, the largest in its history. This represents an increase of 63.7% over the $349,901,504 sales reported for the preceding fiscal year. Net income for the 1947 year totaled $7,121,707, after all charges and provision for Federal and State income taxes. This was equal to $4.32 per share on the present outstanding 1,542,714 common shares, after preferred dividend requirements. For the preceding fiscal year, net amounted to $6,720,585, or $4.06 per share on the same number of common shares. The common stock was split-up in 1947 on the basis of three shares of $10 par stock for each share of $30 par stock held.

Despite a substantial increase in the fixed assets of the company, the net working capital was increased during the year ended Nov. 1, 1947 by $1,904,708.

* * *

Breaking all records, Admiral Corp. had total sales of more than $47,000,000, according to official estimates. This was an increase of about $11,000,000 over 1946, the previous record year, when sales totaled $36,000,000, including nearly $10,000,000 in military equipment. Ross D. Siragusa, President of the corporation, stated that sales in 1948 are expected to exceed $75,000,000 as television is being added this week to the company's radio and appliance operations.

* * *

Consolidated net income of Standard Gas & Electric Co. and subsidiaries for the 12 months ended Sept. 30, 1947 amounted to $5,194,693, compared with $4,848,841 for the corresponding period ended Sept. 30, 1946. For the first nine months of the calendar year 1947, consolidated net income totaled $3,953,372, compared with $4,281,639 for the nine months ended Sept. 30, 1946.

Germany's Sorry Outlook

By J. VAN GALEN

Editor, "Algemeen Handelsblad" of Amsterdam

Dutch publicist asserts situation in Germany has become so bad recently, that chances of her genuine economic recovery are negligible. States both workers and industrialists are losing all confidence in the Military Government. Dr. Schacht in interview with author stated exports and general recovery must be based on private initiative, without any manifestation of collectivism.

AMSTERDAM, HOLLAND—The former German Reich, with its rich economic resources, is indispensable to European recovery; it is an indispensable link. Without an industrial production which—as before the war—was capable of supplying surrounding countries sufficiently with necessary goods in the form of capital goods, half-finished and finished products, the 16 countries that drew up at Paris a program of needs will never be able—even with the most powerful aid from the United States—to recover and build up a sound economy. The Marshall Plan will then be nothing more than an extension of the subsidy economy now being pursued in Germany, and which, if the United States wants to keep it up, will require increasingly larger amounts year by year. Even if one proceeds from the assumption that the U. S. could supplant Germany as a supplier of coal, half-finished and finished products, this would still not mean that a healthy economy could be built up in Western Europe, because this traffic would not be economic and because the small West European border territories cannot thrive with a hinterland partly sealed off by an iron curtain and partly an economic backwater.

American Subsidy Would Be Ineffective

Economic aid from the other side of the Atlantic, must therefore, if it is to have real effect and lead to economic recovery and not to a continual giving away of American production surplus without Europe's doing anything in return, find its complement in a regeneration of the European economic structure in which Germany occupies its natural place.

What is the situation like in Germany now? When the present writer visited Germany about a year ago he noticed a certain resentment among the Germans against the Allied administration, which, in their view; either could not or would not restore matters; people were convinced that they could do things better themselves. Since then, the Germans have been given a greater share in the administration, especially by the Americans. The "Laender" became autonomous; an economic council was installed capable of being elected by the parliaments of the "Laender," various other branches of administration were delegated to German authorities. All this, however, did not increase the confidence of the average German in allied government and thus his willingness to cooperate with it, especially economically. On the contrary, it has become clearly noticeable that this willingness has waned, that the tendency is rather to obstruct Allied measures. One does not get the impression from the elected representatives of the German people that they really have the confidence of the people; certainly not in economic matters.

Germans' Increasing Lack of Confidence

The reason for this increased lack of confidence is probably the worsening of the economic situation and the poor prospects of economic improvement. The writer was in Germany when the "New

(Continued on page 42)

Traces Effects of Lower Govt. Bond Prices

Monthly Review of Federal Reserve Bank of New York says Reserve System was prepared to make larger purchases than developed. Holds redemptions and sales of short-term issues more than offset Federal Reserve purchases.

The January issue of the "Monthly Review" of the Federal Reserve Bank of New York analyzes the impact on the money market of the abrupt action on Dec. 24 of the Federal Reserve Board in lowering the "support" prices of long-term government bond issues. According to the "Review":

"The abrupt reduction in support prices came as a surprise to the market and a period followed in which the selling of Treasury bonds by banks and other investors increased considerably, partly as a consequence of confusion as to the purpose of the action and its future implications. In the period from Dec. 26 to 30, inclusive, Reserve Bank holdings of Treasury bonds increased by $970 millions (reflecting deliveries of securities purchased on Dec. 24 through 29). These large purchases made it evident that the Reserve System was prepared to buy Treasury bonds freely at the new prices. At the same time the amount of securities offered to the System in this period was not so large as had been rumored in the market, and it was noted that the increase in Reserve Bank holdings was not directly comparable with the increases in preceding weeks as purchases for Treasury investment accounts were suspended during this latest week. In the last few days of the month the volume of Treasury bonds offered for sale in the market declined and more transactions were cleared by the market without recourse to the Federal Reserve Banks. In addition to selling induced by market uncertainty and anticipation of future needs for funds, there were also substantial sales by commercial banks—reflecting, at least in part, the taking of losses to offset profits taken earlier in the year, in order to reduce income tax liabilities. Sales by other large institutional investors appeared to be smaller in the closing days of December than before the lowering of support prices.

"It is important, under present circumstances, of course, that over a period these Reserve Bank purchases of Treasury bonds be offset by the sale or redemption of other Government securities so that reserve funds may not be put into the market unnecessarily. During the first five weeks of the System's market stabilizing operations in medium and long-term Treasury bonds, from Nov. 12 to Dec. 17, purchases of bonds were more than offset by sales and redemptions of short-term issues, so that the System's total holdings showed a net reduction of about $400 millions. In the week before Christmas, however, bond purchases by the Reserve Banks were only partly offset by sales of short-term securities, as there was a heavy drain on bank reserves, caused by corporation tax payments and the final heavy demands for currency for the holiday trade. Again in the last week of December, sales of Treasury bills and certificates were considerably short of the large purchases of bonds, and member banks accumulated substantial amounts of additional reserves. The increase in bank reserves may prove to be temporary, however, as the Treasury issued a call for the payment by depositary banks of about $500 millions from their War Loan accounts on Jan. 2, the greater part of which will

(Continued on page 44)

In Attendance at Floyd D. Cerf Christmas Party

Lucius Andrews, *Francis I. du Pont & Co.*, Chicago; Franklin B. Schmick, *Straus & Blosser*, Chicago; unidentified; and Floyd D. Cerf, President, *Floyd D. Cerf Company Inc.*, Chicago

William F. G. Ross, *Peat, Marwick & Mitchell*, Certified Public Accountants, Chicago; Floyd D. Cerf; Fred E. Busbey, *Congressman from Illinois*, and head of *Fred E. Busbey & Co.*, Chicago; Floyd D. Cerf, Jr., Vice-President and Syndicate Manager, *Floyd D. Cerf Company Inc.*

Floyd D. Cerf; Henry Lindsey, *Fred E. Busbey & Co.*, Chicago; Preston Tucker, President, *Tucker Corporation*, Chicago

Floyd D. Cerf, Jr., Vice-President and Syndicate Manager, *Floyd D. Cerf Company Inc.*, Chicago; Glen Pierce, *Western Union*, Chicago; Ralph Chapin, *Fahnestock & Co.*, Chicago

CHICAGO, ILL.—That traditional institution in La Salle and Wall Streets, the Christmas party, was not so much in evidence at the end of 1947 as it has been in some other years, but there were still plenty of these year-end get-togethers. One of the largest was that given by Floyd D. Cerf, President and Treasurer of Floyd D. Cerf Co., Inc. of Chicago, which during 1947 was one of the most active underwriters. More than seven hundred guests from La Salle Street houses attended the function Monday, Dec. 29, at the plush Red Lacquer room of the Palmer House and were greeted by Mr. Cerf; Bror G. Peterson, Secretary; Floyd D. Cerf, Jr., syndicate manager, and Clifford J. Baird, Chicago representative. Doing a strictly wholesale business, the Cerf organization works with one of the largest retail distributing groups in the country.

The invitations read "no speeches, no business—just good cheer." In addition to the La Salle Street fraternity, representatives from Milwaukee, St. Louis, Minneapolis and other Middle Western cities attended. Officials of leading Chicago banks and large corporations were also guests.

Floyd D. Cerf Co. is also running advertisements in tribute to the Nation's retail security dealers, who, the firm declares, have discharged the vital economic function of supplying millions of dollars of capital essential to the growth and stability of American industry through the sale of new securities to the investing public, thereby perpetuating the American system of corporate public financing which has made possible the world's largest production machine and most prosperous people.

With Merrill Lynch Firm

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Sydnor L. Shatz is with Merrill Lynch, Pierce, Fenner & Beane, Circle Tower.

Stark, Wetzel & Co. Opens

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Stark, Wetzel & Co. Inc. is engaging in a securities business from offices at 725 Gradner Lane.

Railroad Securities

Viewed as a single group, the market action of railroad stocks last year was, to say the least, inconclusive. At the end of 1946 the Dow-Jones index of railroad stocks stood at 51.13. During the year it fluctuated over a wide range, with a high, based on closing prices, of 53.42 and a low of 41.16. At the end of last year the index stood at 51.13. Thus, for the full period of 1947 there was a net gain in the averages of only 1.35 points or 2.6%. Looking at the market in terms of averages, however, presents a completely distorted picture. A portfolio is made up of individual issues, not of averages, and as usual individual securities displayed widely varying market patterns.

While there was only a modest net change in the averages during the year just ended, there were wide fluctuation in individual securities. Substantial profits were possible on both the long and the short side of the market. Out of a representative list of 44 railroad stocks listed on the New York Stock Exchange (including speculative preferred issues) 15 showed net price gains for the year and 29 showed declines. Only two of the stocks—Atlantic Coast Line and Northern Pacific which declined less than 2%—showed as narrow net changes during the year as did the averages.

Of the 15 stocks that advanced during 1947 nine were up more than 10%. Nickel Plate stocks made the best showing. The preferred was in first place on the list with a net gain of 48.9% while the common was in third place with a rise of 32.6% Illinois Central was also among the leaders on the up side. That road's preferred came second on the entire list, being 38% higher at the end of the year than at the close of 1946. The common ranked sixth with a rise of 23.9%. The two other leaders, and completing the group that advanced more than 20%, were Union Pacific common, up 26.4%, and Gulf, Mobile & Ohio preferred, up 24.1%. The Gulf, Mobile & Ohio common did not do so well as the senior equity despite the initiation of dividends. It was up only 6.4% for the year.

Of the 29 individual stocks that showed declines for the full year 1947, only six had net changes of less than 10%. Aside from Atlantic Coast Line and Northern Pacific, which changed only nominally, this group included such investment issues as Santa Fe, Reading, and Virginian common stocks. The sixth stock was Erie preferred which declined only 3.9%. There were 23 issues that declined more than 10%. Of these 14 were down more than 20%, and three suffered declines of more than 30%.

The poorest over-all performance was that of the Missouri-Kansas-Texas. Its common stock registered the widest decline of the issues covered, 35.7%, while its preferred was fourth from the bottom of the list with a loss of 29.7%. Falling between the two Katy stocks were Chicago, Milwaukee, St. Paul & Pacific common, down 33.3%, and Chicago & Eastern Illinois class A stock, down 30.6%. Other leaders in the decline were Pennsylvania which registered a loss of 28.9% and Western Pacific common which declined 27.8% during the year.

There were only two instances where the junior equity out-performed the senior equity of the same road. Chicago & Eastern Illinois common, with a drop of 24.4%, did somewhat better than the class A stock mentioned above. Also, Chicago Great Western common, with a dip of 15.8%, was not so badly hit as the preferred which declined 24.2% There were two instances, St. Louis-San Francisco and Seaboard Air Line, where the preferreds were up and the common stock declined. The divergence was particularly marked in the case of Frisco where the preferred was up 10.7% in contrast with a decline of 23.3% for the common.

The performance of the individual railroad stocks last year once again stresses the fact that there can be no successful investing or speculating based blindly on the opinion that "The rails are attractive." Selectivity based on an interpretation of the problems and prospects of the individual company is still the answer to a sound investment policy.

William M. Erb With Orvis Bros. & Co.

Orvis Brothers & Co., 14 Wall Street, New York City, members of the New York Stock Exchange, New York Curb Exchange and leading commodity exchanges, announce that William M. Erb has become associated with the firm as a registered representative. Mr. Erb has been in the financial community for more than 40 years during which time he has been identified with several leading Stock Exchange houses. He was recently a partner in Pell & Co.

J. D. Topping & Co. Opens Offices in N. Y.

James D. Topping, Roswell H Harriman and Stewart R. Terrill announce formation of the co-partnership of J. D. Topping & Co., to conduct a brokerage business in state, municipal and other tax exempt bonds. The new firm will maintain offices at One Wall Street, New York City.

Stephen Baker Finch on Staff of Finch, Wilson Co.

Finch, Wilson & Co., 120 Broadway, New York City, members of the New York Stock Exchange, announce that Stephen Baker Finch has joined the investment securities department of the firm. Mr. Finch is the son of Henry L. Finch, senior partner of the firm, and grandson of Stephen Baker, longtime president and chairman of the board of the Bank of the Manhattan Co. After graduating from Yale University in 1946, Mr. Finch was associated with Hemphill, Noyes & Co. During World War II, he served with the 76th and 30th Infantry Divisions overseas.

Georgeson & Co. Opens Branch Under E. Brosius

SAN FRANCISCO, CALIF.—Georgeson & Co. announce the opening of a new branch office at 9 Sutter Street under the management of Edward E. Brosius.

Practical, Not Punitive Regulation for Railroads

By THOMAS I. PARKINSON*

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

Insurance executive traces growth of business regulation in the light of constitutional guarantee against property confiscation. Cites theory of "fair return on fair value" in railroad and public utility rate regulation, and says present problem is permitting adequate rates which will enable earners to meet increasing costs and leave enough to finance improvements. Pleads for constructive legislation.

Even in their early days English and American Common Law controlled the charges of business affected by public interest, typical instances being inns and mills. The charges of a miller or an inn-keeper were subject to control by law centuries ago though other charges or prices could not be regulated.

T. I. Parkinson

Under our written constitutions, Federal and State, private property is protected from taking by the Government without due compensation, and these constitutional guarantees of private property and its use have always been interpreted to mean that prices and charges for services could not be fixed by law except in some emergency like war or in the case of property or business "affected by public interest." Of course, we have expanded the field of property and private initiative which is affected by public interest, and these now include clearly what are known as public utilities and the railroads.

Government can regulate the services and charges of the railroads provided that regulation does not amount to a "taking" of the property, and property is "taken" when the regulation does not permit the owner to realize a reasonable return on the value of his property. What is a fair return is, of course, a matter for the courts to decide and changes with changed conditions. But it has never been held by the courts that a return of less than 5½% would be a fair return.

Likewise, the value of the property which is subject to regulation is a question for the courts, and during the past 50 years there have been various theories for the determination of fair value for regulatory purposes. Sometimes it has been the original cost depreciated annually for wear and tear. Sometimes reproduction cost, that is, what it would presently cost to produce the property regulated. In the case of the railroads, the Interstate Commerce Commission under authority of Congress spent many years and millions of dollars valuing the railroads for rate making purposes. That valution, substantially completed a few years ago and from time to time brought down to date, presently values all of the Class I railroads in the country at about $21 billions.

The railroads themselves dispute this valuation and assert that their book valuations show that their property should be valued at a little more than $22 billions. But there is apparently no disputing the fact that the value of the property on which the railroads are entitled to earn a fair return is at least $21 billions. If a fair return is 5½%, that means that the Class I railroads should have a current net annual income of $1,150,000,000. They are not and have not been for years earning anything like that sum annually. The net income of all the Class I railroads in the year 1946 was $620,000,000, including $170,500,000 refund of excess income taxes paid in previous years.

Now, one may ask why, under our constitutions guaranteeing a fair return on property affected by a public interest, the railroads are not receiving that constitutional rate of return. Why cannot the railroads go into court and show that the rates fixed by the Interstate Commerce Commission do not permit them to earn the constitutionally guaranteed fair return? If they can show that, the rates enforced by the regulatory body should be invalid. If those rates are fixed by Act of Congress, the Act of Congress would seem to be invalid. If those rates are fixed by the Commission in its interpretation of an Act of Congress, then that interpretation should be invalid. If the constitution guarantees even property affected by a public interest against Government taking, which includes Government regulation not allowing a fair return, then why don't the railroads demand their constitutional rights and get higher rates?

That's what the public utilities and the telephone companies do, and generally the regulatory bodies in those fields create the rates without resort to the courts; and it is generally accepted that if the regulatory bodies did not create rates to give the telephone and public utility properties a fair return, the courts would upset such rates or regulations as were inadequate.

The difference between the railroads and the public utility and telephone companies is that the latter are almost always geographical monopolies. There is no competition in the same territory, as there most definitely is with the railroads. If one railroad in a given territory charged rates which gave it a fair return on its property, its rates might well be so much higher than another competing line that the business would go to the other road.

The result is that rates in the case of the railroads have to be established at an equal level for all competing roads and also with some consideration for the fact that other modes of transportation are in competition with the railroads. It must be remembered that busses, trucks, pipelines, waterways, and airplanes are all engaged in competitive transportation. The problem presented by *competitive* transportation rates is the reason for the difficulty in complying with the constitutional guarantee of adequate rates to give a fair return on the value of the railroad property.

In the early days of regulation of rates and services we emphasized lower charges in the interest of shippers; now we must consider adequate rates which will enable carriers to meet increasing costs of wages and operation and leave enough to pay for or finance improvements and betterments required to provide safety and efficient service. Modern equipment, heavier rails, signal systems and the elimination of curves and grade crossings cost money. Either those who use the railroads must pay for all of this, or it must be paid for in some way by all of us whether we use the railroads or not.

Fortunately the ICC now has power to fix rates of practically all carriers competing with the railroads. Therefore it is now possible, though difficult, to fix fair and adequate rates which will enable the roads to live and develop without driving their business to other and competing transportation. That is the present duty of the rate making bodies.

The railroads under private management subject to public control have done a superb job to the great benefit of the country. Why treat them now as if they were still running rampant, doing the things that brought on the restrictive legislation of another era? Their regulation, now effective, should be constructive, not repressive.

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

Hayden, Miller & Co. Admits Four Partners

CLEVELAND, OHIO—Hayden, Miller & Co., Union Commerce Building, members of Cleveland Stock Exchange, is announcing admission as general partners of Dana F. Baxter, Harrison C. Frost, Jr., Morgan C. Penn and Elbridge S. Warner.

Dana F. Baxter has been associated with Hayden, Miller since graduation from Miami University in 1930. During World War II he attained the rank of Lt. Commander, USNR, serving in Atlantic and Pacific areas. He is a member of the Cleveland Chamber of Commerce, Bond Club of Cleveland, and Army-Navy Post No. 54, American Legion.

Harrison C. Frost, Jr. graduated from East High School and from Harvard College and became associated with Hayden, Miller in 1928. During World War II he was a major with the Ninth Air Force in Germany, acting as liaison officer for French, Belgian and British forces. He was decorated three times with the French Croix de Guerre, once with the Luxembourg Croix de Guerre, and once with the United States Bronze Star. He is President of the Harvard Club of Cleveland, Secretary of the Troop A Veterans' Association, a trustee of the Phyllis Wheatley Association, and was captain of the investment bankers team of the Cleveland Community Fund.

Morgan C. Penn, whose home is in Columbus, graduated from Ohio State University in 1926, later being associated with Fifth-Third Securities Co. and with Vercoe & Co. of Columbus. He joined Hayden, Miller & Co. in 1944. He was for seven years outdoor editor for the Columbus Dispatch. Mr. Penn is a member of the Young Businessmen's Club of Columbus, and a trustee of the Bexley Conservation Club.

Elbridge S. Warner received a degree from Cornell University in 1917, and served as an ensign in World War I. He has been with Hayden, Miller since 1920. He is President of the Bond Club of Cleveland, a member of Troop A, 1st Cleveland Cavalry, and of Army-Navy Post No. 54, American Legion. He is Secretary-Treasurer and a director of the Commodore Hotel, and a director of the Alcazar Hotel. Mr. Warner is also a member of the Cleveland Chamber of Commerce.

Other partners of Hayden, Miller & Co. are Otto Miller, Daniel W. Myers, John S. Fleek, Arthur M. Newton, Galen Miller and Theodore Thoburn.

Wages Lag Behind Prices: Schwellenbach

Labor Secretary in New Year's statement says prices and excessive profits must come down. Holds free collective bargaining must be strengthened and improved.

Secretary of Labor Lewis B. Schwellenbach released on Jan. 1, a New Year's statement in which he expressed the view that despite wage increases, workers have lost ground so far as their standard of living is concerned, and that the best solution to the problem of inflationary prices is to give the President authority to control prices. The text of the statement follows:

L. B. Schwellenbach

"The most important domestic task facing the United States in 1948, as far as can be foreseen at this time, is to take the steps necessary to stabilize our economy at high levels of employment and production, and, thus insure a continued and more widespread prosperity.

"The wage earners of our country and the labor movement of which more than 15 million workers are now a part have contributed greatly to the conditions which in June, 1947 made possible the achievement of the 'impossible'—60 million jobs.

"Both the productive labors and the constructive programs of the nation's workers helped bridge the gap from war to peace so rapidly and smoothly that by the beginning of last year most of the problems of physical reconversion were safely out of the way.

"Labor's 'second round' wage demands were moderate, equitable and based on the need to offset the loss in real wages which the workers suffered following the lifting of price controls starting in June, 1947. New contracts were negotiated with a substantial drop in lost time from strikes as compared with the year before.

"Employment, civilian production, profits and weekly earnings were the highest in history during 1947. Nevertheless, the inflationary rise in the cost of living cancelled out wage increases to the extent that there was little, if any gain, in real wages or living standards for millions of workers. On the contrary, those in the lowest income brackets and on relatively fixed incomes actually lost ground so far as their standard of living was concerned.

"In order to check this erosive process, which endangers not only the welfare of individual workers, but also the security of our whole economy, we must bring about a more equitable balance between wages and prices.

"Workers, organized and unorganized, I am sure, would rather have their real wages increased by means of lowered living costs rather than have a money increase that soon will be wiped out by higher prices. The best solution to the problem of inflationary prices is, in my opinion, legislation giving the President authority on an emergency basis to exert control where prices continue to rise and goods remain scarce and in short supply despite every effort to increase their production.

"It is evident that we can have no real price competition under these conditions, and that until there is real price competition the prices of items in short supply—or of items whose prices are fixed by monopolistic practices — will not become less by themselves.

"While we must continue to think in terms of an economy of plenty as opposed to an economy of scarcity, that alone is not enough. Prices and excessive profits must come down. real price competition be restored and real wages increased for many if we are to have permanent prosperity and economic security for all.

"I am confident that we can keep our economy in this country strong and, at the same time, free. We are not endangering the freedom of our economy, but rather strengthening it, when we make emergency or other necessary rules for economic conduct that will protect the general welfare through the democratic processes of responsible, representative Government.

"Labor can be expected during 1948 to continue its constructive and progressive influence on our way of life. Free unions have been and will continue to be one of the symbols and living expressions of democracy. Free collective bargaining must be strengthened and improved if we are to have a truly free, competitive economy in this country."

Inflation Main Problem: Murray

Philip Murray, President of the CIO, issued on New Year's Day the following brief statement:

"The United States and its people during 1948 must make decisions which will greatly affect the future welfare of the entire world.

"We must make a genuine effort to rehabilitate the war-torn nations abroad so they can become self-supporting — and this we must do without meddling in the internal affairs of the countries to which we give aid.

Philip Murray

"We must do everything we can to protect our own economy—an economy badly strained by the forces of inflation and burdened by our own needs and the needs of those overseas who face hunger and privation.

"In our efforts to further the cause of democracy throughout the world we should attempt to make our own democratic form of government function more efficiently than it has ever functioned in the past.

"Inflation is the most pressing problem confronting the United States. It is sapping the purchasing power of our people and leading us toward the brink of a depression. It is a problem we must tackle—realistically and wholeheartedly — before many more weeks have passed.

"Our success in dealing with domestic economic problems will greatly determine the world-wide role we can play.

"The Congress of Industrial Organizations during the coming year will do everything it can to put into operation the legislative and economic machinery needed to speed our own country and other nations along the road to lasting peace and prosperity."

Green Says Labor's 1948 Objective Is Repeal of Taft-Hartley Act

AFL President announces organization of Labor's Education and Political League for this purpose. Also asks for liberalized social security system

William Green, President of the American Federation of Labor, in his New Year's Day statement, launched a new attack on the Taft-Hartley Act and asserted the chief task in 1948 "will be to oust the present stand-pat Congress and elect a new one more responsive to the needs of the American people." The complete text of the statement follows:

William Green

"Labor hopes in 1948 to lay the groundwork for the establishment of real prosperity, lasting peace, and continuing progress in our time.

"Our chief task in 1948 will be to oust the present stand-pat Congress and elect a new one which will be more responsive to the needs of the American people.

"It appears likely, from present conditions, that employment will continue at a high level next year This will be the best insurance against any possible recession setting in. With a peak demand for the products of farm and factory certain, and with shortages of many commodities unslaked, labor, industry, and the farmers will be faced with responsibility for reaching new production records. The needs of the American people and our commitments for foreign relief, make increased production an inescapable duty.

"Inflation constitutes the chief threat to the progress of the American people in 1948. The price situation is rapidly getting out of hand. Wages, as usual, are losing ground in the race against runaway inflation.

"It seems inevitable that some form of Government regulation of the price of items which enter into the cost of living—especially food clothing, and rent—will have to be instituted in 1948 to keep inflation within bounds. The American Federation of Labor does not relish the return of price controls selective or otherwise. We would prefer a free economy in which competition would keep prices down to reasonable levels. But unless the present economic crisis takes an immediate turn for the better it will be necessary for the protection of the consuming public and for the preservation of the free enterprise system itself, to clamp Government brakes on the uncontrolled price spiral.

"Labor is ready to undertake its responsibility toward increasing production. To attain this goal we are more than willing to meet management half-way. But we fear that any attempt to bring about intelligent, constructive, and decent labor-management cooperation will be handicapped by the Taft-Hartley Act.

"That infamous law serves to encourage only those who wish to fight labor instead of cooperating with it. It serves to promote industrial warfare rather than labor peace. Already its provisions have contributed to a breakdown of long-standing peaceful labor-management relations in important industries. I fear even worse consequences in 1948.

"I know that many casual observers are beginning to think that maybe the Taft-Hartley Act has been a success because there are fewer strikes in progress at this time than at similar periods in past years. However they do not realize that a large number of unions signed new contracts just before the Taft-Hartley Act went into effect and these contracts are exempt from the law's provisions. The blow-off will come at the expiration of these contracts in 1948.

"At that time many unions and employers who have been getting long well together will discover that they cannot continue their long-standing contractual relationships on the same basis because of the Taft-Hartley law. The results may be chaotic unless industry as a whole resolves not to take advantage of the special benefits conferred upon it by the Taft-Hartley Act and proceeds to accord fair treatment to the nation's workers and the unions which represent them.

"Organized labor does not relish the prospect of having to depend upon the largesse of big business to protect economic and working standards which were won after hard years of struggle. We cannot tolerate the oppressive conditions imposed upon us by the Taft-Hartley Act indefinitely.

"That is why we are now organizing to get out the vote for the national elections of 1948. The American Federation of Labor has formed Labor's Educational and Political League for this purpose.

"It is our hope and determination that the members of organized labor and their families and friends will respond to our pleas and go to the polls next November in full force. If we can succeed in this endeavor we are certain of electing a new Congress which will repeal the Taft-Hartley Act and which will enact a program of progressive economic and social legislation necessary for the nation's welfare.

"In this category the American Federation of Labor includes an effective housing law, improvement and expansion of the Social Security system, lifting of the minimum wage standard to at least 75¢ an hour, and the inauguration of Federal insurance against the costs of medical care.

"In our opinion the people of the United States have not yet begun to realize the full advantages that modern production miracles and the free American way of life can confer upon them. They will never enjoy these advantages under a repressive government which looks only to the past. We can achieve the promise of the future only through leadership which looks to the future and sees that promise as a boon not only for those who possess great wealth but for all people of our country."

E. B. Vinson With DeHaven & Townsend

Egerton B. Vinson has become associated with the investment firm of DeHaven & Townsend, Crouter & Bodine, 30 Broad Street, New York City, as manager of the institutional bond department. Mr. Vinson has handled institutional bond business for Hallgarten & Co. for the past eleven years and prior thereto was a member of the staff of "The Wall Street Journal."

Beer & Co. to Admit Dick

ATLANTA, GA.—Jackson P. Dick, Jr. will become a partner in the New York Stock Exchange firm of Beer & Co. and will make his headquarters at the firm's Atlanta office in the Trust Company of Georgia Building.

New Anti-Inflation Law Is Preliminary Step

By EARL BUNTING

NAM retiring President says priorities and inventory control should not be permitted to jeopardize anti-trust laws. Wants congressional study of fundamentals of price situation.

Earl Bunting, President of the National Association of Manufacturers, issued the following statement on Dec. 30, 1947, after President Truman signed the Republican-sponsored anti-inflation bill:

"The anti-inflation bill signed by the President today is a preliminary step in the fight against inflation enacted in response to public demand for definite action. It is to be hoped that when Congress re-convenes the question of the basic causes leading to inflation will be examined more thoroughly, and that a national policy will be evolved which will attack these basic causes more effectively.

Earl Bunting

"The section of the act which deals with priority allocation and inventory control of scarce commodities which basically affect the cost of living or industrial production should not be permitted to jeopardize or work toward relaxation of any proper enforcement of the anti-trust laws.

"We believe that competition is the mainspring of the free, competitive enterprise system, and always have opposed monopolistic practices, whether in the hands of business, labor or government. Monopolistic practices are not in accord with the principles of a free economy, with or without the sanction of any government agency.

"We hope that Congress will conduct a realistic investigation of the whole price and income structure. When the facts are on the table, we believe that the public and our public servants will support efforts to resolve the facts into an effective program for constructive solutions—and we believe that such a program will parallel the one recommended by industry after careful study of the fundamentals of the price situation.

"A sound program for attacking the basic causes of inflation is charted in industry's 12-point program, which places emphasis on bringing production up into a better balance with our tremendous money supply, through the productivity of a free economy.

"This program calls for reduction of government spending and taxes, and for systematic retirement of the public debt. It urges management to redouble its efforts to bring down prices through increased production and lower unit costs and that business be encouraged to plow back earnings into expanded production, by elimination of Treasury Department pressure to distribute 70% of profits as dividends.

"The program recommends the setting aside of unnecessary restrictions of individual productivity and of all featherbedding rules, and cessation of demands for further wage increases without corresponding increases in productivity.

"Also it urges retirement of government bonds held by banks, with the proceeds of a new long-term government bond issue attractive to individual investors, and discouragement of inflationary bank credit expansion by letting interest rates seek their own levels, free of government domination. In foreign aid, the NAM recommends that emergency relief be in goods, purchased in the most economical markets, and that aided foreign nations be required to modify or eliminate price and other controls."

With Zuckerman, Smith Co.

Harry Spitzer is now associated with Zuckerman, Smith & Co., members of the New York Stock Exchange, as Associate Manager of the firm's midtown office at 1441 Broadway. He was formerly with J. H. Brooks & Co. Louis L. Maltz is the other associate manager at this office.

A. C. Daniels Joins Staff of J. A. White

CINCINNATI, OHIO—J. A. White & Co., Union Central Building, dealers in high-grade Ohio municipal bonds, announce that A. C. Daniels is now associated with them as Southeastern Ohio Representative, with headquarters in Marietta, Ohio. Mr. Daniels is widely known amongst the bankers in Ohio. He was associated with the Peoples Banking & Trust Co. of Marietta, from 1922 to 1932. Subsequently, for a period of nine years, he was associated with the State Banking Department of Ohio, as a bank examiner. More recently, he has been Cashier and Director of the Farmers and Merchants Bank, Caldwell, Ohio, for a period of five years.

A. C. Daniels

During the past year, J. A. White & Co. have placed representatives in Toledo, Cleveland and Columbus. The addition of Mr. Daniels in Marietta is a furtherance of the program of the firm to make its coverage of Ohio more complete. The firm is active in underwriting bonds of Ohio cities, counties and school districts. Last year the firm celebrated its tenth anniversary and during most of its ten years it has been active in underwriting high-grade bonds of Ohio municipal subdivisions.

J. Austin White, who is head of the firm of J. A. White & Co., has published a book entitled "An Analysis of Municipal Bonds," in which he has given considerable data as a guide to investors of bonds in the cities and counties throughout the United States. Each year the firm publishes its own ratings for the bonds of Ohio cities, counties and school districts.

Canadian Securities

By WILLIAM J. McKAY

Realization south of the border of the tremendous potentialities of Canada's enormous wealth of natural resources has come somewhat in the nature of a pleasant shock, especially to the farsighted few who were beginning to view with growing unease the rapid dissipation of the readily available natural riches of this country.

A new frontier now challenges the initiative of the world's most energetic and resourceful minds, which happily can operate from a country where, unlike elsewhere, private enterprise is still alive. This new vast field for profitable endeavor, moreover, is not situated in the wilds of darkest Africa or the South American jungle. In effect it is almost miraculously to be found on this country's 4,000-mile northern border—a border in name only. Also the land beyond this uniquely accessible frontier is peopled by a friendly nation whose way of life and ideals are amazingly similar to those prevailing south of the international line.

Until recently Canada had been considered here as a colonial dependency of Great Britain and not a sovereign nation in her own right. Although U. S. capital had constituted a great factor in the economic development of the country, there had been a natural diffidence on both sides, apart from the more or less enforced cooperation during the war, in the approach towards the adoption of a common economic policy. Now, however, the breakdown of the time-honored and convenient U. S.-British-Canadian economic triangle impels the Dominion to find a more permanent foundation on which to shape her economic destinies. Likewise on this side geographic and economic considerations lead to the conclusion that a policy of dynamic development of Canada's unrivaled wealth of virgin natural resources is urgently necessary for the future economic welfare of this country.

Thus the stage is now set for the commencement of Canada's greatest era. It has long been considered by close observers of the Canadian scene, that Canada's economic destiny would not be fully attained until the source of her greatest wealth—the fabulous Pre-Cambrian Shield—would be fully exploited. This two million square-mile geological freak of nature, the edges of which have so far only been scratched, constitutes the greatest remaining reserve of economic resources in the world.

However, before the riches of this gigantic treasure-house can flow into industrial channels, both this country and Canada have a formidable preliminary task to accomplish. In order to stimulate an adequate stream of private capital from this country the existing investment channel which now serves only to discourage the entry of foreign capital into Canada, must be broadened and stabilized. This is an urgent requirement in the interests of both countries. Canada, embarrassed at the present time by pressing exchange difficulties, is not in a position to undertake alone a financial task of this magnitude. The collaboration of this country is therefore essential for the establishment of a jointly administered exchange fund which would ensure the protection of the existing U. S. investor and also encourage the entry of fresh capital. Unlike the Bretton Woods currency schemes which so far have served only to throw good money to the support of bad, the institution of a U. S.-Canadian currency pool could prove to be the starting point of a constructive approach to the solution of the world's monetary and economic ills.

During the week the action of the Bank of Canada, paralleling that of the Federal Reserve authorities in discontinuing support of the government bond market at high premiums, led to a decline in the internal section of the market: at the current high yields the internal Dominions appear increasingly attractive. The externals were relatively unaffected by this development but the turnover was negligible. Stocks commenced the New Year on a strong note with Western Oils again to the fore. Base metal issues were also firm but the golds with minor exceptions were dull and reactionary.

Holds Business Borrowing Not Yet Excessive

In report to stockholders, Gordon S. Rentschler, Chairman of National City Bank, says business debts in relation to stockholders' equity have not advanced too far, but rising tendency "will need careful watching." Ascribes stagnation in stock market to wartime taxation.

In the 1947 Annual Report to Stockholders of the National City Bank, Gordon S. Rentschler, Chairman of the Board, together with W. Randolph Burgess, Vice-Chairman, and W. Gage Brady, Jr., the President, discussed the rising trend of business borrowing, but noted that despite the increase in loans over the past year, the use of bank credit by business concerns in relation to their equity capital is not yet excessive, but "it is a tendency that needs careful watching." A large part of current business borrowing from banks is ascribed by the National City Bank officials to the stagnation in the securities markets, which have not been able to absorb needed new capital financing.

Gordon S. Rentschler

According to the report:

"Since recent discussions in Washington have focused attention on bank loans, some comment on their character seems in order. The present high volume of business activity at high and rising price and wage levels has forced our business customers to seek new funds. A number of companies are borrowing for the first time in many years. At the conclusion of the war most companies were in a strong cash position, but they have had to reconvert and rehabilitate plants, carry high-priced inventory and receivables, pay high wages, and buy new machinery to meet unprecedented demands from home and foreign markets.

"Normally a substantial part of these requirements might have been met from the sale of equity securities, but in spite of inflationary tendencies the open market for such securities has been stagnant and unable to absorb anything like the required amount of new issues. Hence the large recourse to insurance companies and banks. The stagnation in the security markets reflects, in part, the continuation of nearly war-time taxation of individuals together with liquidation by foreign holders.

"The increase of business debt relative to equity money has not yet, in our observation, been carried to the point of endangering the position of many business firms, but is a tendency which will need careful watching. There is question whether projected programs for capital expenditure by business are not now in excess of the supply of the kind of funds which should be used for these purposes. We are reviewing this problem continuously with our customers.

"The large increases in our loans are directly related to the production and distribution of goods, including notably petroleum and its product; department stores; drugs, chemicals, and glass; food stuffs; machinery, and public utilities. There is some increase in personal loans and in loans to finance companies, which in turn are making instalment loans; but the amounts involved are not large in relation to the aggregate.

"In the last quarter of the year, as a result of a change in Federal Reserve and Treasury policies as well as the increasing demand for funds for business uses, interest rates rose — a wholesome change which was overdue. Over a period higher rates will improve bank earnings, but the immediate effect is a decline in the market value of securities held."

Director of Canadian Bank

A. E. Arscott, C.B.E., President of The Canadian Bank of Commerce, announces that the Hon. John Hart of Victoria, B. C., has been elected a director of the bank. Mr. Hart, who recently retired as Premier of British Columbia, has had a long and distinguished career in financial and public life. He is President of Gillespie, Hart & Co., Ltd., Victoria, one of the oldest investment concerns in Canada. He was Minister of Finance of British Columbia from 1917 to 1924 and again from 1933 to 1947, the latter period including 15 years also as Premier of the Province.

Marx Wire to Newburger

Marx & Co., members New York Stock Exchange, announce the installation of a direct telephone connection with Newburger & Co. in Philadelphia. The firm also has direct wire connections with its office in Birmingham, Alabama, and to correspondents in Chicago and Detroit.

Let's Close the Import Gap

By W. C. HADDON

Representative, Westinghouse Electric International Co., Pittsburgh

Mr. Haddon, contending our unprecedented outflow of exports will mean nothing, unless balanced by imports, urges measures to relieve dollar shortages and eliminate exchange restrictions by encouraging greater imports. Points out tariffs were cause of economic collapse of the 30's and attacks present tariff laws. Says idea of free and unrestricted trade is not a myth and holds greatest hope of Marshall Plan is our willingness to accept goods in payment of credits. Reveals work of Westinghouse Import Department.

All of us could use some basic facts about supply and demand, especially as it applies to international commerce. If we intend to avert another world war we must learn to balance our trade, and the people of the United States must learn that a balanced trade is the surest way to achieve peace in our time and in the future.

W. C. Haddon

People must be told that our unprecedented flow of exports means nothing, unless it is balanced with imports. Our mad pursuit this year of a $16 billion export figure is mixed up with all kinds of danger to our economy, to the people who today are earning more money than ever before and who may be let down harder than ever before when the bubble bursts.

Does it mean anything to you that the country of Colombia has now made it more difficult to secure foreign exchange licenses? Does it sound unusual that country A is making private arrangements with country B for an exchange of each other's surplus—outsiders not wanted? What inference do you draw from the action of France in requisitioning U. S. securities owned by her nationals? Why is China discouraging imports with new exchange policies? You don't need to be an expert to piece such items together. By anybody's hand they mean more tariffs, quotas, restrictions, embargoes, every other kind of restriction having the single purpose of throttling world trade before it has taken a good post-war breath.

The world is running out of dollars and it is losing economic stability. When this happens the world has a habit of following the lines of least resistance. It leans toward depression, even as people lean toward a rabble rouser who knows how to secure "living space" or a "share of the world's goods for everybody."

Dollars are given power by our production facilities, by the amount of goods we are able to produce and by the amount of goods we are able to sell. Every businessman knows how important it is that his customers are prosperous, for when a customer puts up a sign reading "Out of Business," the key is turned in his own door.

Customers can be prosperous in only two ways: They must have an opportunity to earn dollars by selling their services or their products. If they cannot do either they cannot buy. Unfortunately, this simple analogy is seldom applied in foreign trading. Too little attention is given to the reasons for our imports being in ratio to our exports. Everybody is more or less convinced that high export levels means more jobs but they fail to realize that such high levels must be maintained in all countries if true prosperity is to exist in any country.

We must realize that this country has come to a time of decision. And this is what it must decide: (1) to chase this $16 billion export figure as far as it goes and forget that it, in turn, is being chased by the law of supply and demand, or (2) to take a lesson from a past that is rich with lessons.

In and Out of Foreign Trade

For years our foreign trade operations cut blindly across the path of world commerce. We were in and we were out of foreign trade. Few of us ever sat down with a history book to get an idea as to where we were headed. During those days we were quite impressed with our myth of self-sufficiency. Everybody needed us, but we needed nobody. The nearest we ever came to famine was in the headlines of our newspapers.

We were a busy people, occupied in making this country the most highly industrialized in the world—we didn't have time to learn about foreign trade. Wasn't it just a convenient way to dump our overproduction?

Ever since 1900 when we began booming our production, the value of the goods we sold to other countries has always been greater than the value of the goods we imported. Between 1914, when we first emerged as a creditor nation, and 1933, when we were on the verge of becoming a bankrupt nation, we exported some $90 billion in goods and imported some $66 billion.

Would anyone not agree that it was a bit foolish for us, during the 20's to export something like $10 billion in our goods for which we insisted on being paid in dollars rather than in goods? Wasn't it just as foolish when we continued exporting billions of dollars in useful goods during the 30's in exchange for gold laboriously dug up in South Africa, solemnly transported to Kentucky, and then reburied in the ground?

All of us remember the Smoot-Hawley tariffs but perhaps we don't recall that a year after these tariffs went into effect France inaugurated a quota system; that in 1931 Britain went off the gold standard and later adopted tariff protection. The world was running out of dollars then, too. Debtor nations were frozen out of the market. Short-term credits were suddenly withdrawn from Germany and the Nazi movement got an unintentional but nevertheless effective boost.

Tariffs and Collapse of '30s

Today it is obvious that two of the causes contributing to world collapse in the 30's were: (1) the incredible tariff policies of the United States and other nations; and (2) the complete failure of the world to create an international machinery by which to stimulate financial and economic cooperation.

For many years we have been one of the "have" nations—one of the powerful elements in world trade. Naturally, any mistakes we made were greatly magnified. Now, especially with regard to many raw materials, we are rapidly becoming a "have not" nation, but our production potential is greater than ever before, so we can less afford to make many mistakes today because our stature in the world is greater

(Continued on page 44)

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

NATIONAL CITY BANK OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$5,203,284,028	$4,957,416,117
Deposits	4,874,418,234	4,622,164,738
Cash and due from banks	1,443,283,803	1,208,876,854
U. S. Govt. security hldgs.	2,131,035,234	2,183,146,029
Loans and bills discounted	1,215,660,245	1,144,278,147
Undiv. profits	30,115,614	38,260,503

City Bank Farmers Trust Co.—

	Dec. 31, '47	Sept. 30, '47
Total resources	$150,847,466	$151,286,871
Deposits	118,155,374	118,579,746
Cash and due from banks	26,526,044	27,856,823
U. S. Govt. security holdings	109,009,851	107,752,302
Loans & bills discounted	1,209,888	1,227,878
Undivided profits	8,615,927	8,500,994

* * *

GUARANTY TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$2,848,543,557	$2,869,596,711
Deposits	2,451,659,287	2,475,101,407
Cash and due from banks	611,948,578	528,013,047
U. S. Govt. security hldgs.	1,255,329,289	1,407,618,356
Loans and bills discounted	851,404,579	789,353,139
Undiv. profits	60,666,666	59,046,425

* * *

CHASE NATIONAL BANK OF NEW YORK

	Dec. 31, '47	Oct. 6, '47
Tot. resources	$4,856,452,421	$4,618,192,500
Deposits	4,477,562,450	4,117,720,400
Cash and due from banks	1,225,791,684	1,038,445,800
U. S. Govt. security hldgs.	1,997,223,842	2,105,781,600
Loans and bills discounted	1,324,264,034	1,196,651,000
Surpl. & undiv. profits	211,024,776	208,289,200

* * *

BANKERS TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$1,666,993,442	$1,573,355,231
Deposits	1,483,951,180	1,393,338,536
Cash and due from banks	474,988,192	330,943,128
U. S. Govt. security hldgs.	484,535,416	558,311,249
Loans and bills discounted	623,056,031	592,512,863
Undiv. profits	40,749,244	38,913,064

* * *

THE CHEMICAL BANK & TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$1,413,980,108	$1,321,804,300
Deposits	1,284,087,036	1,195,134,163
Cash and due from banks	394,152,052	310,334,308
U. S. Govt. security hldgs.	420,748,658	463,008,401
Loans and bills discounted	449,400,552	398,194,912
Undiv. profits	8,149,917	7,811,083

* * *

Manufacturers Trust Co. of New York on Jan. 5 opened a new branch office at 322 Eighth Avenue, corner of 26th Street, New York, the premises formerly occupied by the Pennsylvania Exchange Bank. With the addition of this new office, Manufacturers Trust Co. has 76 complete banking offices throughout Greater New York. In charge of this new office is Edward J. Colbert with William J. Cubberly as his assistant.

* * *

MANUFACTURERS TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$2,468,436,353	$2,299,713,391
Deposits	2,320,056,667	2,153,427,086
Cash and due from banks	716,527,698	582,126,444
U. S. Govt. security hldgs.	1,173,607,277	1,139,511,194
Loans and bills discounted	484,035,604	478,137,330
Undiv. profits	22,565,101	21,075,452

* * *

CENTRAL HANOVER BANK AND TRUST COMPANY OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$1,630,727,884	$1,560,143,422
Deposits	1,492,339,863	1,422,676,350
Cash and due from banks	407,107,962	393,202,598
U. S. Govt. security hldgs.	718,666,657	653,113,546
Loans and bills discounted	411,395,076	416,046,058
Undiv. profits	26,528,256	24,681,079

* * *

BANK OF THE MANHATTAN COMPANY OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$1,216,579,777	$1,142,110,049
Deposits	1,140,003,114	1,068,100,769
Cash and due from banks	365,643,523	281,258,833
U. S. Govt. security hldgs.	360,915,918	371,785,555
Loans and bills discounted	426,782,104	429,810,380
Undiv. profits	14,487,235	14,123,292

IRVING TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Tot. resources	$1,208,350,157	$1,159,267,873
Deposits	1,072,859,755	1,030,192,659
Cash and due from banks	320,749,465	260,982,619
U. S. Govt. security hldgs.	475,482,936	537,804,370
Loans and bills discounted	377,810,121	320,671,403
Surpl. & undiv. profits	64,481,000	64,681,957

* * *

CORN EXCHANGE BANK TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Total resources	$828,082,587	$827,819,087
Deposits	782,204,170	782,641,524
Cash and due from banks	214,445,596	213,323,403
U. S. Govt. security holdings	508,552,309	524,438,509
Loans & bills discounted	79,963,291	63,892,753
Undivided profits	3,592,843	8,271,140

* * *

FIRST NATIONAL BANK OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Total resources	$764,161,719	$793,575,213
Deposits	591,578,153	626,627,093
Cash and due from banks	136,079,998	148,348,719
U. S. Govt. security holdings	433,578,760	468,130,704
Loans & bills discounted	90,509,727	76,654,837
Undivided profits	26,745,731	25,798,494

* * *

J. P. MORGAN & CO. INC., NEW YORK

	Dec. 31, '47	Sept. 30, '47
Total resources	$665,619,430	$706,320,349
Deposits	591,244,511	633,671,778
Cash and due from banks	173,553,561	167,944,220
U. S. Govt. security holdings	325,136,334	345,235,996
Loans & bills discounted	121,739,920	146,169,971
Undivided profits	18,881,529	18,811,023

* * *

THE PUBLIC NATIONAL BANK AND TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Total resources	$581,799,399	$550,757,489
Deposits	544,924,963	514,263,481
Cash and due from banks	127,685,625	109,901,883
U. S. Govt. security holdings	310,972,476	278,950,382
Loans & bills discounted	124,180,874	142,562,973
Undivided profits	7,838,860	7,503,280

* * *

MARINE MIDLAND TRUST CO. OF NEW YORK

	Dec. 31, '47	Oct. 6, '47
Total resources	$342,231,569	$305,620,900
Deposits	317,852,064	267,520,300
Cash and due from banks	114,029,628	71,850,900
U. S. Govt. security holdings	84,712,200	84,712,000
Loans & bills discounted	127,246,789	140,081,100
Surplus & undiv. profits	16,452,671	16,564,800

* * *

BROWN BROTHERS HARRIMAN & CO.

	Dec. 31, '47	Sept. 30, '47
Total resources	$252,601,393	$262,480,901
Deposits	222,668,177	231,602,633
Cash and due from banks	55,645,258	53,513,485
U. S. Govt. security holdings	66,417,238	72,200,107
Loans & bills discounted	58,423,412	61,404,302
Capital & surplus	13,845,284	13,825,284

* * *

UNITED STATES TRUST COMPANY OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Total resources	$157,809,988	$152,902,599
Deposits	126,635,618	120,030,271
Cash and due from banks	29,645,812	36,650,650
U. S. Govt. security holdings	77,146,629	62,199,987
Loans & bills discounted	32,143,694	34,441,370
Undivided profits	1,272,879	2,817,802

* * *

The **Title Guarantee and Trust Co. of New York** has revised its regular checking account charges and put in operation a new schedule effective Jan. 2. The bank's new rates are based on actual unit costs and the earnings of accounts, patterned after the modern service charge policies outlined by the New York State Bankers Association. In an announcement to customers, Title Guarantee pointed out that it had not adjusted checking account charges since 1943. "Current greatly increased, operating and servicing costs can no longer be absorbed by the bank," the statement said. The announcement added that the new plan does not affect Title Guarantee's low-cost "personalized" checking account charges.

* * *

COMMERCIAL NATIONAL BANK AND TRUST CO. OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Total resources	$239,988,260	$217,985,458
Deposits	213,755,621	191,680,466
Cash and due from banks	73,655,172	47,436,008
U. S. Govt. security holdings	109,110,619	117,885,474
Loans & bills discounted	52,361,694	46,436,922
Undivided profits	2,584,995	2,380,631

* * *

GRACE NATIONAL BANK OF NEW YORK

	Dec. 31, '47	Sept. 30, '47
Total resources	$100,632,488	$90,709,331
Deposits	86,488,752	78,138,181
Cash and due from banks	27,201,431	19,561,669
U. S. Govt. security holdings	47,429,708	43,948,557
Loans & bills discounted	22,169,941	22,991,305
Undivided profits	898,737	1,043,692

FULTON TRUST CO. OF NEW YORK

	Dec. 31, '47	Oct. 6, '47
Total resources	$40,243,734	$35,680,300
Deposits	34,546,274	30,005,700
Cash and due from banks	9,494,374	7,822,400
U. S. Govt. security holdings	24,498,463	21,997,400
Loans & bills discounted	572,033	1,645,600
Surplus and undiv. profits	3,357,471	3,340,900

* * *

UNDERWRITERS TRUST CO. OF NEW YORK

	Dec. 31, '47	Oct. 6, '47
Total resources	$36,630,195	$38,265,100
Deposits	32,937,964	35,502,900
Cash and due from banks	7,544,018	7,473,000
U. S. Govt. security holdings	9,059,162	9,565,400
Loans & bills discounted	13,435,060	15,643,600
Surplus and undiv. profits	1,643,775	1,631,800

THE BROOKLYN TRUST CO. OF BROOKLYN, N. Y.

	Dec. 31, '47	Sept. 30, '47
Total resources	$245,257,317	$244,115,886
Deposits	227,800,030	226,649,871
Cash and due from banks	62,282,868	55,187,277
U. S. Govt. security holdings	135,187,151	140,505,378
Loans & bills discounted	36,149,329	34,967,653
Undivided profits	1,678,940	1,859,070

* * *

KINGS COUNTY TRUST CO. OF BROOKLYN, N. Y.

	Dec. 31, '47	Oct. 6, '47
Total resources	$56,287,091	$54,942,700
Deposits	46,869,616	45,622,100
Cash and due from banks	14,362,907	13,459,400
U. S. Govt. security holdings	25,537,092	25,547,400
Loans & bills discounted	1,241,557	2,212,300
Surplus and undiv. profits	8,141,079	8,076,700

(Continued on page 38)

Business Man's Bookshelf

High Prices—F. A. Harper—Study of the causes of inflation—Foundation for Economic Education, Inc., Irvington-on-Hudson, N. Y.—Paper—50c (reduced rates for quantity orders).

Scottsburg Development

(Special to THE FINANCIAL CHRONICLE)

SCOTTSBURG, IND.—The Scottsburg Development Corp. is engaging in a securities business from offices at Wardell & Main Street.

Mutual Funds

By HENRY HUNT

"They Cover the Waterfront"

With the exception of government, municipal, and AAA bonds, the mutual fund investor can today obtain a diversified interest in virtually every other class of securities through a single investment. In addition to "balanced," diversified common stock and "fully administered" funds, the industry's waterfront coverage now includes the following:

Bonds

Medium to High Grade
Medium to Low Grade
Railroad

Preferred Stocks

Medium to Good Grade
Medium to Low-Grade
Speculative, including non-dividend payers

Common Stocks

Investment Grade
Medium Grade
Speculative
Low-Priced for Market Velocity

Industry Groups

Agricultural
Automobile
Aviation
Bank Stock
Building
Chemical
Electrical Equipment
Food
Insurance Stocks
Leverage Investing Cos.
Machinery
Metals
Merchandising
Oil
Public Utility
Railroad
Railroad Equipment
Steel
Tobacco

As an added starter, we suggest the formation of a fund with a portfolio consisting solely of the stocks comprising the Dow-Jones Industrials—with no management fee, of course.

National Securities & Research Corporation has the most widely diversified offerings of any sponsor, its current list of funds including three balanced funds, 10 industry groups, one fully administered, two bond funds, one preferred stock, three common stock funds designed for appreciation opportunities and two for above average income. The **Keystone Co. of Boston, Distributors Group,** and **Hugh W. Long** also offer investors a wide range of choice.

Definition of a Happily Married Couple

A male and female who after wedlock have never struck each other with intent to kill.

The above is reminiscent of George Bernard Shaw's sound advice, "Never strike a child except in anger."

A Harvard Professor Predicts

"These Things Seemed Important," published by **Selected Investments Company of Chicago,** quotes Professor Slichter of Harvard as follows: "The following seem to me to be the principal elements which will determine the course of business during the first half of 1948: (1) Supplies of foodstuffs will be scarce—definitely scarcer than in '47; (2) Wages will continue to rise as the 3rd round of wage increases spreads throughout the economy. This means that the shortage of foodstuffs will be accompanied by rising incomes; (3) Corporations will continue to disburse a larger proportion of their incomes in the form of dividends, thereby reducing corporate savings, raising individual incomes and adding to inflationary pressures; (4) The rising prices which will naturally result from the above conditions will stimulate the further expansion of business and consumer credit which, in turn, will bring about further price increases; (5) There is a good prospect that Congress will reduce taxes, increasing the amount of money available to buy goods and accentuating the rise in prices. The rise in prices will, of course, increase the demand for a 3rd round of wage increases. Thus, the more that Congress reduces taxes, the greater will be the demand for wage increases."

Ugh!

Once upon a time, an American Indian met a mermaid. His only remark was, "How?"

Forecast for '48

National Securities & Research Corporation has published a 16-page pamphlet called "The 1948 Forecast," copies of which are available on request. Printed in four parts, it discusses:

(1) General economic outlook
(2) Outlook for railroad securities
(3) Outlook for utility securities
(4) Outlook for industrial securities.

In addition to discussing probable earnings trends among different industries, the pamphlet estimates per share earnings for 1947 and 1948 on a long list of leading common stocks.

Sees Vast Reservoir of Private Investment Capital for European Recovery

National Foreign Trade Council holds investment of American private funds in capital facilities would furnish the energizing managerial and technical skills needed by European countries. Wants aid program administered by government corporation supervised by government officials, but with participation of American private funds.

The National Foreign Trade Council in a statement issued by its board of directors, dated Dec. 19, 1947, and released on Jan. 2, 1948, called attention to an existing "vast reservoir" of private investment capital "that can be tapped for industrial development and expansion in European countries and elsewhere if conditions are created which will encourage the investment of such capital."

In stating its position on the European Recovery Program, the Council said that with the investment of American private funds in capital facilities in European countries "would go the energizing managerial and technical skills of which these countries are so greatly in need if they are to achieve anything like the economic progress and high standards of living which have been attained in this country."

The Council recommended that administration of the aid program be carried on by a Government corporation created especially for the purpose, but stated that policy-forming functions and over-all direction of the program must be exercised by Government officials responsible for the conduct of our international relations, as prescribed by the Constitution and laws of Congress.

"The executive direction of such a corporation should be placed in a Board of Directors, a majority of whom are selected with Senate confirmation from representatives of American business who possess the experience, judgment, managerial ability and technical know-how necessary for attainment of the maximum benefits of the foreign aid program. This administrative corporation should have full representation in policy-forming procedure and should coordinate, under Presidential directive, the operations of other Government departments and agencies specifically related to the aid program."

The Government, it was suggested, might consider the provision of some form of guarantee to American firms taking part in the program, "perhaps on the basis of joint participation in such guarantee," if this action becomes necessary to secure the participation of American private investment funds in the industrial development or rehabilitation of nations under the aid program.

Long-range capital equipment, raw materials including fibers and mineral products, and special types of equipment such as mining and agricultural machinery, the Council recommended, should be financed mainly through private channels.

"Where conditions are such that financing of purchases of such products cannot be obtained through private channels, the Export-Import Bank should participate jointly with private capital. In cases where financing of such purchases is desirable but cannot be provided either through private channels or jointly by private capital and the Export-Import Bank, the Bank should furnish the necessary funds."

Foodstuffs, fuels, fertilizers and other products necessary to sustain life and improve productive efficiency of the people of aid-receiving countries, the Council noted, will have to be provided by governmental funds.

"However, the Government should, if at all possible, endeavor to obtain compensation in some form for all such products supplied by this country.

"If necessary to do so, the United States should accept the currencies of aid-receiving countries. Such currency should, under conditions approved by the country whose currency is involved, be invested or otherwise utilized for the production in the territory of such country of products needed by such country or which it can use in exchange for needed products of other countries or for balancing its international accounts.

"In so far as possible, currencies so held by the United States should be utilized for the creation or expansion of facilities for the production of strategic or critical materials needed by this country. Many of the products acquired in this way by the United States should be stockpiled in this country under conditions which will prevent disruption of domestic marketing channels or prices."

Bruns, Nordeman Co. Adds Three to Staff

Bruns, Nordeman & Co., 60 Beaver Street, New York City, stock, commodity and textile brokerage firm which recently marked its 25th year of service to the trade, announces that Dominick Catacchio and Morton Globus have become associated with the company as registered representatives in its Worth Street office and Frank B. A'Hearn as registered representative in its Beaver Street office. Serving the textile business since 1923, the firm offers executives in that field the facilities of a complete securities department as well as cloth, yarn and raw cotton divisions.

Bruns, Nordeman has issued from time to time charts on textile prices which have been widely used. Marking the firm's 25th birthday, a chart of "100 Years of Cotton Prices" is being distributed to the trade and public.

ABA Announces Anti-Inflation Program

Its President, Joseph M. Dodge, releases outline of program to curb loans for speculation in commodities and essential goods; to postpone mortgage loans for non-essential building; and to intensify drive to sell Treasury Savings bonds. Denies bank credit is cause of present inflation. Program endorsed by Pres. Truman and Secy. Snyder.

The nation's banks have an anti-inflation program of their own which is about to be put into effect, it was announced on Jan. 5 by Joseph M. Dodge, President of the American Bankers Association. It is a plan for voluntary action on the part of the 15,000 banks to avoid excessive or inflationary increases in the use of bank credit. The program, which will be carried out through a nationwide campaign, will stress the importance of the wise use of credit in times like these.

Joseph M. Dodge

Under the program, the banks will assume the leadership in their communities in arousing a consciousness of the growing inflation problem and a realization on the part of lenders of credit and the users of credit that loans should be sought and made only for the production and acquisition of food and such goods and services as will add to the supply side of the supply and demand equation.

In making the announcement, Mr. Dodge, who is President of the Detroit, Bank, Detroit, Mich., pointed out that bank credit has not been the cause of the present inflation. "While the amount of bank credit outstanding has increased steadily in the recent months, it is not out of line with the deposit and capital structure of the banking system, nor is it out of line with the increase in the volume of production or the high levels of wages, prices and costs now prevailing," he said.

"Nevertheless, we have an important and fundamental obligation to see that it does not get out of line," Mr. Dodge declared. "In recognition of that obligation, the American Bankers Association and its members will engage in a nationwide program this winter to impress upon bankers, business people, and others the importance of the wise and proper use of credit under the inflationary conditions that now exist."

Outline of Program

The program announced by Mr. Dodge will emphasize generally:

That in the months immediately ahead, commodity and inventory loans which are designed to withhold essential goods from the normal market channels in anticipation of price rises should not be made.

That mortgage loans for non-essential building or for construction which can be postponed until building supplies and labor are in greater abundance should be discouraged.

That banks should give priority to loans to those borrowers who can turn out the supplies and services needed at home and abroad now, in order that the machinery for the production of essential goods may be kept functioning at maximum levels.

That there should be a greatly intensified drive to sell Treasury Savings Bonds to the public and to promote other forms of savings, such as savings accounts in banks, as a means of absorbing some of the surplus money in the spending stream which would otherwise continue to compete for the goods and services in short supply.

The program will be carried out through printed educational material, and activated through meetings of bankers and business men throughout the country.

"In a nation as large as the United States and with an economy as diversified as ours, it would not be practical to attempt to lay down a single principle for credit extension which would be a useful yardstick for determining whether a certain type of loan made in a given section of the country is inflationary," Mr. Dodge explained. "For that reason," he said, "the Association will carry its program of information to its 15,000 member institutions and their communities not only through printed material but also through meetings for the discussion of economic conditions both national and local, and of the kinds of restraints on the use of bank credit that present-day conditions require.

"The banks will be depended upon to formulate their lending policies in the light of these present-day conditions and to spread the gospel of the sound and restricted use of credit to the merchants, manufacturers, and the public generally in their communities, all of whom have a common stake in the fight against inflation."

Mobilizing to Put Plan Into Effect

Organized banking, consisting of the state, county and other local bankers associations, will be mobilized to put the program into effect. Beginning on Jan. 23, there will be a cross-country tour of ABA officials to the principal centers of the nation for the purpose of presenting the program to officers of the state bankers associations and other representative banking leaders; also the bank supervisory authorities. These will be all-day conferences designed to thoroughly familiarize those in attendance with the program and its application. These leaders will then organize similar meetings in their own states. Not only will meetings be held at the state level, but also at the local levels through the county bankers associations and other local groups, in order to reach all the banks, including those in the rural areas.

The first of the cross-country sectional conferences will be in Columbus, Ohio, on Jan. 23, and the last in New York on Feb. 20. Other cities on the itinerary include: Chicago; Kansas City; Denver; San Francisco; Los Angeles; Dallas; New Orleans; Atlanta; Washington, D. C., and Boston in the order named.

To implement the program, the ABA will arrange for speakers and will supply to banks advertising and other information which they may use to impress upon the business men and other people in their communities the idea that credit should be used right now only for such purposes as will aid the production of essential goods and not for purposes which will contribute to inflation.

The program is in line with other anti-inflation programs which the American Bankers Association has been conducting in special fields of credit for some time. It has been a leader in the movement to protect the country from the dangers of a farm land price inflation such as followed World War I. For several years, it has been issuing regular bulletins to banks to keep them informed about the trend in farm land prices and as a means of urging them to discourage farmers from borrowing excessively and from mortgaging presently owned farms in order to buy additional farm land at high prices.

For more than a year, it has been calling the attention of banks to the unwisdom of easy credit policies in the urban real estate field.

Five months ago, it urged all banks to get ready for the expiration of Regulation W control over consumer credit on Nov. 1, and sent to them a schedule of suggested terms of down-payments and maturities which would keep this type of credit on a sound basis. Since Nov. 1, the banks, almost without exception, have been following these or similar terms.

At its convention in Atlantic City on Oct. 1, 1947, the ABA adopted a resolution on bank lending policies which said in part:

There is need for caution regarding loans that might be used for excessive and speculative inventory accumulation, for overspending by individuals, or for overexpansion of business. Such loans stimulate inflation and involve abnormal risks for both banks and borrowers.

The anti-inflationary program now being initiated is another step in the anti-inflationary activities of the Association. In its technique, it will follow methods used successfully in programs during and after the war to help the banks to act as a system in meeting national needs. Early in the war, it carried out a similar nationwide program to help banks meet the problems involved in making loans for the raising of food and for war goods production. Likewise, it set up a nationwide machinery among the banks to promote the sale of War Bonds. As the war approached the end, it carried out a similar program to stimulate the interest of banks in making loans for reconversion. The experience thus gained in the war is now being turned to serve another national need by preventing, through voluntary action, inflationary increases in bank credit.

Endorsed by Truman and Snyder

Following the announcement of the ABA anti-inflationary program, and a visit of ABA President, Joseph M. Dodge to the White House, President Truman released a letter written to Mr. Dodge in which he endorsed the plan in the following language:

"I am glad to know of the program which you have undertaken in the American Bankers' Association to combat any tendency on the part of bankers or borrowers to use bank credit unwisely, under present conditions.

"The proper use of bank credit is an important factor in restraining inflation and also in maintaining our present high volume of production. Bank credit must be available for sound productive purposes. But bankers and borrowers alike must be kept aware of the dangers arising from bank credit which is used merely to increase the demand for goods and not the supply, or for any form of speculation in new materials, in goods, in food or in properties. The effect of this can easily become disastrous.

"I appreciate the cooperation which the bankers have given the Treasury in pushing the sale of savings bonds and in their other efforts to stimulate savings during recent years. I urge them to continue and expand this effort. These programs have assisted in giving our people substantial resources which will be helpful to them in the years ahead.

"I wish you and your fellow members every success in this present undertaking. It is vitally important to the country."

John W. Snyder, Secretary of the Treasury, on Jan. 5 also issued a statement in which he described the program "as an aggressive voluntary step in the direction of controlling inflationary and speculative loans" and asserted "that with the cooperation of the bankers of the country, the program will succeed in obtaining positive beneficial results."

World Bank Sends Survey Mission to Philippines

Institution sends staff members to study economic and financial conditions.

At the invitation of the Philippine Government, the International Bank for Reconstruction and Development is sending a small fact-finding mission to study economic and financial conditions in the Republic of the Philippines. The mission consists of Eric A. Beecroft, of the Bank's Loan Department and J. Thomsen Lund of its Research Department. It left Washington Jan. 1, 1948, and will arrive in the Philippines approximately Jan. 9, for a general survey of Philippine agriculture, industry, transport facilities, and financial structure.

The Philippine Government has not applied to the International Bank for a loan. The sending of a fact-finding mission is in accord with the Bank's policy of keeping itself informed at first hand of economic and financial developments in member countries and of establishing close contact with officials of member countries concerned with economic and financial affairs.

Mr. Beecroft, a naturalized American citizen born in Toronto, Canada, was formerly a Special Assistant to the United States Secretary of the Interior. During the war he was a special representative in India of the United States Foreign Economic Administration. Mr. Lund, author of several books on agricultural economics, came to the International Bank from the United States Department of Agriculture where he was a Marketing Specialist. He spent several years in the Far East, and during the war he served as a commodity expert for both the Foreign Economic Administration and the Board of Economic Warfare.

Arthur Sacco V.-P. of Detmer & Co., Chicago

CHICAGO, ILL.—Detmer & Co., members Chicago Stock Exchange, announce the election as vice-president of Arthur C. Sacco, in charge of their new unlisted trading department. Mr. Sacco has been identified with trading activity on La Salle Street for many years. He was formerly connected with First Securities Company of Chicago as a member of the board of directors.

Arthur C. Sacco

It is also announced that John P. Noonan has joined Sacco in the operation of the new department.

In addition, Lee Miller Jones and William A. Simmons, Jr. are now included in Detmer & Co.'s sales personnel.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Bank Stocks

A moderate year-end rally of bank stocks moved the daily index of the American Banker from 36.4 on Dec. 26 to 37.9 on Dec. 31. This year-end close compares with 44.3 on Dec. 31, 1946; thus, over the year, bank stocks declined 14.4%. Industrial stocks, on the other hand, as measured by the Dow Jones Averages, moved from 177.20 to 181.16, a gain of 2.2%.

Individually, there was wide variation among the bank stocks, Corn Exchange declining only 2.6% while Guaranty Trust declined 23.0% and First National, 22.7%. The movements of 17 leading New York City stocks, from Dec. 31, 1946 to Dec. 31, 1947, are shown in the accompanying table.

	—Asked Prices— 12-31-46	12-31-47	% Change
Bank of Manhattan	30	25¾	—14.2%
Bank of New York	380	355	— 6.6
Bankers Trust	45¼	39	—13.8
Central Hanover	106½	91¾	—13.8
Chase National	40½	36¼	—10.5
Chemical Bank & Trust	47¼	41¾	—11.6
Commercial	45¾	41	—10.4
Continental	20⅛	16⅛	—19.9
Corn Exchange	56¾	55¼	— 2.6
First National	1,675	1,295	—22.7
Guaranty Trust	343	264	—23.0
Irving Trust	19⅛	16⅛	—15.7
Manufacturers Trust	60	49⅜	—17.7
National City	46⅝	41	—12.1
New York Trust	101½	87¼	—14.0
Public National	45½	39¾	—12.6
U. S. Trust	755	630	—16.4
AVERAGE OF 17			—14.0%

Earning assets of New York City banks underwent considerable change during the year, as the following reported figures for Federal Reserve Member banks indicate:

U. S. GOVERNMENTS ($000,000)

Date—	Bills, Ctfs. & Notes	Bonds	Total
Dec. 31, 1947	3,021	9,993	13.014
Dec. 31, 1946	2,128	9,574	11,702

LOANS ($000,000)

Date—	Brokers & Dealers	Securities	Misc.	Commercial & Agric.	Total	Total Loans & Investments
12-31-47	1,096	388	753	4,043	6,280	20,440
12-31-46	544	262	934	5,336	7,076	20,002

It will be observed that although total holdings of government obligations are 10% lower than a year ago, the major decline has been in the short term, low interest categories, which are down 29.6%, while holdings of bonds are down only 4.2%.

Total loans are up substantially from a year ago, but the gain has been principally in commercial borrowings which have increased 32%, while loans to brokers and dealers, and for the purchase or carrying of securities are lower.

With the general firming of interest rates that developed throughout 1947, government bonds and other bonds concurrently went off. The Dow Jones bond indices over the 12-month period show the following changes:

Date—	High Grade Rails	2nd Grade Rails	Public Utilities	Industrials	40 Bonds	U. S. Govts.
12-31-46	110.78	92.47	107.73	104.04	103.76	107.32
12-31-47	100.61	85.62	101.06	99.67	96.74	103.71

Governments, as measured by the Dow Jones Index, reached their extreme high on Jan. 26, 1946 at 110.22, thereafter they slowly sagged, with an occasional rally, to 107.35 in early April, 1947; this was followed by a relatively rapid drop to 106.35 by the end of June, just prior to the Treasury's "unfreezing" of its ⅜% rate on 90-day bills. Since then their course has been as follows:

1947—	
July 2	106.60
Aug. 1	106.72
Sept. 2	106.73
Oct. 1	106.50
Nov. 1	105.98
Dec. 1	105.17
Dec. 10	105.1[illegible]
Dec. 20	105.0[illegible]
Dec. 23	105.05
Dec. 24	104.09
Dec. 31	103.71

The sharp break from Dec. 23 to Dec. 24 marks the decision of the Federal Reserve & Treasury authorities to lower the level at which governments will be supported. However, it is understood that the money authorities will not permit "in the near or foreseeable future" government bonds to drop further in view of their intention to maintain a 2½% interest rate on long-term government securities. In other words the Government presumably will not permit its bonds to drop below par. This is of importance to New York City and other banks which are large holders, for they are thereby protected. It is understood that these banks, in general, carry their governments at par and, in many cases, have additional reserves set up against them.

Yields on Treasury bills, since the unpegging of the fixed ⅜% rate have moved rapidly upwards, and at the last reported sale in 1947, on Dec. 26, averaged 0.951%.

In chronological order, some of the more important interest changes announced by the banks last year, were as follows:

Aug. 7—National City Bank: increased rate on brokers' and dealers' loans between ⅛% and ¼%.

Aug. 8—Bankers Trust Co. and Chemical Bank & Trust: increased dealers' loans secured by short-term governments from ⅞% to 1%.

Aug. 26—Chase National, Manufacturers Trust, and National City: increased rates on bankers' acceptances by ⅛% and ¼%.

Oct. 9—Chase National: loans to brokers and dealers against securities other than government issues raised from 1% to 1¼%.

Nov. 26—Guaranty Trust: loans to brokers and dealers secured by government bonds increased from 1% to 1¼%.

Nov. 27—Bankers Trust: loans to brokers and dealers secured by government bonds increased from 1% to 1¼%.

Dec. 3—Bankers Trust: prime commercial rate increased from 1½% to 1¾%.

This list is by no means complete, and merely represents a scattering of items that have been publicized in the daily press. However, the trend is clear. Of particular significance is the last item referring to prime risks, for it is believed by some that this rate may be as high as 2% by mid-summer.

The down-trend in deposits, which started about two years ago, appears to be reversing as indicated by 1947 year-end condition statements now being released, as well as by the weekly figures reported by the New York Clearing House, as follows:

Date—	Total Demand Deposits ($000)
Dec. 13, 1945	*27,408,892
Dec. 27, 1945	26,843,180
Dec. 26, 1946	21,983,639
June 12, 1947	†20,934 580
Dec. 31, 1947	21,818,593

*Peak. †Low.

Thus the year 1947 ended with the price of bank stocks lower, though rallying in the last few days; operating earnings moderately below those of 1946, mainly due to higher operating costs; deposits expanding from the low point of mid-year; holdings of total government securities 10% lower; loans to business substantially larger; total loans and investments 2.2% lower; and interest rates moving up on a broad front.

Commerce Department Reorganization

WASHINGTON—In connection with the Commerce Department's extended and amended export-control powers, a reorganization of the Department is under way. Applications for export licenses will be handled in the Department's commodity divisions, which for this purpose will be expanded by the transfer of personnel from the Office of International Trade. The OIT will put the final stamp of approval on licenses processed by the commodity divisions, but will no longer do the actual processing, once the reorganization is completed and announced.

With Merrill Lynch Co.

DETROIT, MICH.—Paul Richmond and Edward C. Roney, Jr. have become associated with Merrill Lynch, Pierce, Fenner & Beane, Buhl Building, following graduation from the firm's investment training school, according to announcement by Cyrus H. King, resident partner.

Calls General Tax Reduction Inflationary

The recent issue of the monthly publication of the First National Bank of Boston, "New England Letter," in a discussion on the curbs on inflation, takes a stand against general tax reduction at this time as enhancing inflationary trends. According to the "New England Letter":

"Tax relief would no doubt meet with popular favor, and under most conditions would be highly desirable. But a general tax reduction during a rampant inflationary period would be most untimely as it would not only curtail or prevent Federal debt retirement but also would release funds that would be used to bid up prices of goods in insufficient supply, with the resultant acceleration of inflationary forces. Instead of cutting taxes now, immediate preparations should be made for the overhauling of the entire tax structure by placing it on a more equitable basis and providing real incentives for work and for risk taking. A new tax measure should be in readiness to be put into operation in the event of a business let-down, at which time a tax reduction would be a stimulating and constructive influence.

"In conjunction with the postponement of a tax reduction, the Government should be called upon to curtail sharply Federal expenditures which are running nearly five times the rate of the prewar period. Any economies effected in this connection should be used for debt retirement. The reduction in Federal expenditures would also lessen the pressure in the market place where the Government competes with private enterprise for materials and labor. The Administration should champion the cause of Governmental economy and thus stand ready to match the sacrifices it asks the people to make in foregoing tax relief at this time."

Commenting on the expansion of bank loans as an inflationary factor, the "New England Letter" states:

"During this year, according to estimates made by the Industrial Securities Committee of the Investment Bankers Association, the banks will have provided to business enterprise around $3.4 billion of funds for capital requirements, or about the same amount as was obtained for this purpose from the capital markets. While some of these loans were made on a term basis, many were of a temporary nature in anticipation of future profits or pending more favorable developments for the flotation of new securities.

"There is a growing scarcity of capital funds to meet the heavy needs of business enterprise for replacement and expansion. These funds for the most part should not be furnished by the banks whose primary function is to provide short-term credit to business, but should come from the established sources for this purpose—from company earnings and from savings of individuals. Toward this end, Section 102 of the Internal Revenue Code should be repealed. The substance of this section is that a corporation is subject to a penalty tax if it retains an 'unreasonable' accumulation of earnings in the business. The burden of proof is on the corporation and any distribution of dividends aggregating less than 70% of net earnings is viewed with suspicion by the Treasury. This provision was adopted during the 1930's under the theory that increased spending by consumers would help bring about a revival in business. Whatever may have been the benefits of this measure in a period of depression, they certainly do not apply in a period of inflation.

"Furthermore, the Treasury's allowance for depreciation should be substantially liberalized. At present, these allowances are based upon original costs which in most instances are only about one half as much as current replacement costs. In consequence, many corporations today are in reality paying a portion of their wages, taxes, and dividends out of capital instead of out of earnings. The tax should be revised in keeping with the times, and provisions should be made for industry to plough back into business more of its earnings which in the past have constituted what is known as the 'seed money.'

"Another important source of capital funds in the past was the savings of those in the higher income groups. This source has largely dried up because of virtually confiscatory taxation, running as high as 90% of net income. Tax laws should be revised to provide for a maximum tax on individual income of not more than 50%. The double tax on dividends should be repealed in order to provide more incentives for risk-taking. In other words, steps should be immediately taken to make possible the building up of a reservoir of capital savings that would reduce the inflationary pressure from borrowings and help place business enterprise in a strong position to meet the trying tasks that lie ahead."

Reviews Problem of Credit Control

January "Monthly Bank Letter" of National City Bank of New York summarizes results of Congressional hearings on proposals regarding present credit situation. Sees Eccles' "special reserve" proposal shelved.

The January issue of the "Monthly Bank Letter" of the National City Bank of New York contains a review and analysis of the testimony of high government officials and bankers as to what should be done about the present credit position. According to the Bank, the discussion centered mainly on three questions:

(1) To what extent is the current expansion of bank credit responsible for inflation and rising prices.

(2) To what extent are existing monetary and credit powers adequate for controlling further expansion of bank credit.

(3) The merits and demerits of the request by the Board of Governors of the Federal Reserve System for additional powers to require commercial banks to carry, over and above present lawful reserves, supplementary reserves in cash and/or short-term government securities up to a maximum of 25% against demand deposits and 10% against time or savings deposits.

After outlining the various proposals as contained in the testimony of Chairman Eccles of the Federal Reserve Board, together with the views and testimony of Secretary of the Treasury Snyder, President Allen Sproul of the New York Federal Reserve Bank, and Edward E. Brown, President of the Federal Advisory Council and of the First National Bank of Chicago, the National City Bank concludes:

"From all this batting back and forth of ideas the broad pattern of a monetary and fiscal program may be seen emerging along the following lines:

"1. The special reserve proposal is shelved.

"2. Inflation is to be fought in the financial field mainly by driving to increase sales of savings bonds, by continuing the retirement of inflationary bank-held government debt out of Treasury surpluses and proceeds of savings bond sales, and by permitting moderate advances in short-term interest rates.

"3. The long-term rate for government credit is to be held at 2½%.

"4. Regulation W might be restored empowering the Federal Reserve Board to resume control of instalment credit.

"Much of this program is now under way. Plans are being made for initiating a savings bond drive early this year. The Treasury is continuing its policy of using surplus revenues and funds from the sale of savings bonds to retire bank-held debt, with consequent extinguishment of bank deposits. During the past two months the Treasury has retired $600 million net of its 90-day Treasury bill maturities, most of which are held by bank investors, while the Federal Reserve Banks have tendered $340 million of maturing certificates for cash redemption.

"This program of retiring bank-held debt is expected to be greatly accelerated during the first three months of 1948, when the tax revenues are expected to attain record-breaking proportions. From these revenues it has been estimated that the public debt may be cut down as much as $7 billion. This will be a deflationary factor, to the extent that bank holdings of government securities and bank deposits are reduced thereby.

"Short-term interest rates have been allowed to rise gradually, as indicated by an advance in the 90-day Treasury bill rate from ⅜ of 1% last Summer to 0.95% today, and in the one-year certificate rate from ⅞ of 1% in July to 1⅛% on the latest issue dated Jan. 1.

"Accompanying this firming in open-market rates, Chairman Eccles in the course of his testimony stated that the Federal Reserve discount rate would be advanced from 1 to 1¼% in the 'not too distant future.' This would have the effect of discouraging member banks from borrowing from the Federal Reserve Banks against short-term governments."

As to how effective the foreign overall program will be, the Bank states:

Viewed in the light of these recent developments, how effective is the program outlined by the authorities for restraining credit expansion likely to be?

The answer is, of course, that no one can tell as yet. There is, however, reason to believe that the steps already taken, together with the repercussions in the bond market, are having an effect much greater than people generally realize. The drop in bond prices and the related rise in interest rates have served corrective purposes. The cost of borrowing has been increased and, correspondingly, the returns available from the investment of new savings. The rise in short-term interest rates at the same time has eased the pressure on banks to shift out of shorter-term government securities in order to obtain more adequate rates of return on their resources.

The bond price drop has wiped out hundreds of million of dollars of paper profits on the books of financial institutions. However, since bank holdings of bonds are mostly governments and other high-grade issues, largely short-term, the decline itself does not seriously affect the capital position of the average bank despite the loss of paper profits unless or until the depreciated securities have to be sold. The government securities will be paid when they mature or are called, and any price above par at which they are carried on the books will by the call date be fully amortized. In accordance with the accounting practices prescribed by the Comptroller of the Currency and the Federal Reserve System, market appreciation is not considered a profit or market depreciation a loss. If the bank's position requires the sale of any of these bonds to raise funds to meet withdrawals or to take care of legitimate demands of customers, the market depreciation becomes a real loss to that bank in making the sale. Many banks, of course, hold adequate amounts of short-term securities to meet probable demands without selling their longer-term issues.

Nevertheless, these developments, plus the fact that the authorities have vast power to apply further braking on credit expansion as the need arises, have made banks very much more cautious in making intermediate-term capital loans. Many banks feel that they have all the term loans they want. Insurance companies are being more "choosy." Except in the area of real estate loans covered by government guarantees loans to marginal borrowers are likely to be pushed back. Ratios of debt to equity are being scrutinized more closely. Borrowers are being asked more often to pare down their requirements, and some programs for capital outlays have been held in abeyance. At the same time government credit-granting agencies have been instructed to hold their operations to a minimum.

All this shows that the present powers are effective, and that what is needed is not additional powers but willingness to use those already at hand.

New York Stock Exchange Weekly Firm Changes

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

Rollin M. McConnell retired from partnership in Baker, Weeks & Harden on Dec. 31.

Louis P. Kaplan, partner in Fagan & Co., died on Dec. 30, on which date the firm was dissolved.

Margaret J. Goodbody, limited partner in Goodbody & Co., died on Dec. 28.

Walter G. de Berg, limited partner in Halladay & Co., died on Dec. 30, his interest in the firm ceasing as of Dec. 31.

Interest of the late George W. Carpenter and of the Estate of John A. Hance in Jesup & Lamont ceased as of Dec. 31.

David Craven retired from partnership in Laird & Co. on Dec. 31.

Interest of the late Clarence I. Jones, limited partner, in the firm of Merrill Lynch, Pierce, Fenner & Beane, cased on Dec. 31.

Vose & Co. retired as an exchange member firm on Dec. 30.

Michael J. Meehan Dies

Michael J. Meehan, former Wall Street broker, died at the age of fifty-six after being stricken with pneumonia. Until his retirement in 1937, he was a principal of M. J. Meehan & Co.

Frenkel Dept. Mgr. For Steiner, Rouse Co.

Steiner, Rouse & Co., 25 Broad Street, New York City, members of New York Stock and Cotton Exchanges, announce that Philipp Frenkel, formerly with Josephthal & Co., is now associated with their firm as manager of the foreign department.

Watkin Kneath Dead

Watkin William Kneath, an investment banker at his retirement in 1930 and a former secretary-treasurer of the Investment Bankers Association of America, died of a heart attack at the age of 72.

Monsanto Chemical Appoints Two

ST. LOUIS, MO.—The appointment of Howard A. Marple as director of the newly created advertising department of Monsanto Chemical Company was announced here on Jan. 1 by William M. Rand, President. Marple, who has been with the company since 1937, served as editor of Monsanto Magazine for many years. He has been active in industrial publication circles and, since 1944, was manager of Monsanto's trade advertising.

R. Allan Gardner of St. Louis was appointed assistant director. Gardner, who attended Princeton University, has been with Monsanto since 1943. Formerly he was employed by the Federal Advertising Company, the Keeler Morris Printing Company and Gardner Advertising Company, all of St. Louis.

Charles Baxter Now With Ball, Burge & Kraus

CLEVELAND, OHIO — Charles M. Baxter, who has just completed a comprehensive training course in investments, has become associated with Ball, Burge & Kraus, Union Commerce Building, members of the New York and Cleveland Stock Exchanges, as an account executive. Mr. Baxter is a member of the Cleveland and Ohio Bar Associations, having been graduated from the law school at Yale, following service in the Air Forces.

N. Y. Commerce & Industry Association Leaders Stress Greater Efficiency and Full Production

Col. Allan M. Pope says more production is keystone for continuing prosperity. Gerald LeVino sees threat to foreign traders in proposed administration of European Recovery Program, while Thomas S. Holden of F. W. Dodge Corp. predicts more construction materials in 1948.

Full production and greater efficiency in production, permitting reduction in costs, will insure continuing prosperity in 1948, in the opinion of leaders of American business and foreign trade contributing to the annual symposium on the outlook for the New Year made public by the Commerce and Industry Association of New York, Inc.

Allan M. Pope

Speaking for commerce and industry generally, Colonel Allan M. Pope, President of the Association, who is a director of the First Boston Corporation and Chairman of the Finance Committee of New York University, declared:

"Full production is the only keystone on which optimism and continuing prosperity in 1948 can be based.

"If the American nation is to see Europe through its current crisis and implant the seeds of democracy to overcome the weeds of totalitarian ideologies that seek to crush liberty in the Continental countries, then the American people must resolve now to exert every effort to bring about greater production.

"The United States is pledged to a program for European recovery and rehabilitation. To make that program effective requires the shipment abroad of vast quantities not only of foodstuffs, but of raw materials and machinery to enable the countries of Europe to rebuild their economic structures.

"As a result, stabilization of our own economy here at home is in the balance. It is imperative, therefore, that the American people adopt a program of their own to provide the necessities to keep the wheels of home industry turning in addition to getting Europe back on its feet.

"Shortages create inflationary spirals. Full production and greater efficiency in production to lessen costs are the only means of combating shortages. Toward that end, the effort calls for complete cooperation not alone of management and labor but of all the people of America.

"Our banking and business structures are sound. Our system of free private enterprise and our American way of life are sound. The chances for continuing American prosperity in the New Year and fulfilling the hopes for the future of the people in war-torn countries abroad rest entirely on the determination of the American people to put forth their utmost to do the job ahead."

Top executives in the fields of foreign trade, manufacturing, construction, banking, foreign travel, railroads, textiles, foods and hotels participated in the forecast roundup. All but one are directors of the Association. Their views:

Foreign Trade — "Exports through trade channels during the coming year will be governed by the availability of dollar exchange overseas with practically every country having exchange control. Dollar balances will be used almost entirely for essential imports.

"One of the chief threats to foreign traders in this country is the manner in which it has been proposed to administer the European Recovery Program. If the ideas in certain government circles are carried out aid goods will be handled through government procurement and distribution, thereby eliminating not only the normal foreign trade distribution channels but for the most part the smaller producers and suppliers as well.

"Congress has apparently reversed its thinking in connection with export controls. Export licensing was difficult enough during wartime but the increased difficulties of obtaining adequate and competent personnel to administer the controls, which by Congressional action must now include the use of prices as one of the criteria, will further impede and complicate the normal flow of trade."—Mr. Gerald LeVino, President of Guiterman Company, Inc.

Manufacturing — "In manufacturing, the present-day volume of business is generally substantial and the profits satisfactory. But hanging over the situation like a dark cloud is the fact that manufacturing costs have become so high that the break-even point has been elevated to a level where a relatively small recession in volume of sales would put many a manufacturer in the red. Another round of wage increases followed by the inevitable round of price rises might bring about a consumer resistance (or consumer inability to buy) that would invite disaster."—Mr. Neal Dow Becker, President of Intertype Corporation.

Construction — "Most construction materials should be plentiful in 1948. For many of them competitive selling and competitive pricing will be in order. However, many key materials will continue to be in tight supply. This condition is particularly likely to prevail with respect to many fabricated metal products.

"Since every upward step in prices and costs tends to price some construction projects out of the market, the possibility of further construction cost increases must be counted as a factor which may tend to retard large construction volume increases in 1948. The prospect of tight supply of many components of building and engineering structures also warns that conservative volume estimates are in order.

"In our opinion, these factors will be the determining ones with reference to 1948 volume rather than the still enormous volume of accumulated needs. The present situation combines the characteristics of expanded activity to meet expanded needs with the characteristics of an inflationary boom."—Mr. Thomas S. Holden, President of F. W. Dodge Corporation.

Banking — "The business of banking in 1948 is going to be influenced by developments having to do with controls that may be placed upon banking operations through the Federal Reserve System and through legislation, if any.

"While certain controls that have been under discussion that could be made effective would interfere with profits, which would make it difficult for the banks, yet it is the effect upon the economy of the country that would be most unfortunate, if bankers were not left in position to use their own judgment in things having to do with banking practice and operation.

"It is to be hoped, therefore, for the benefit of business and industry and government itself, that political forces can be controlled so as to leave bankers in the United States free to meet the needs for production credits."—Dr. Fred I. Kent, Director, Bankers Trust Company.

Foreign Travel—"Foreign travel from the United States should continue in heavy volume in 1948. Additional passenger services by sea and by air have been made available during the past year, and as a result, offerings of special cruises and planned tours will be considerably increased in 1948. Although continuing world-wide inflation and rising costs may be a dampening influence on demand for pleasure travel, backlogs are still large and the increased services available will permit better selection of trips within budget requirements where necessary. On the other hand, recreational travel to the United States for some time to come will be limited by recently tightened restrictions on dollar spending by most foreign countries.

"Commercial travel, both to and from the United States, should continue to increase under the stimulus of extensive programs of industrialization, hydro-electrification and highway and building construction now under way in Latin American countries and of the rehabilitation work made possible by emergency loans and possibly the additional distribution of Marshall Plan funds for European recovery."—Joseph P. Grace, Jr., President of W. R. Grace & Company.

Railroads—"Over a long period of years the trend of gross earnings of the railroads of the country has been closely related to the level of national income. While national income since the close of the war has been maintained at a high level which promises to continue through 1948, net earnings of the railroads have been in a diminishing ratio which must be viewed with serious concern.

"The railroads are indispensable as the backbone of the nation's transportation system. Following the severe strain imposed upon them during the war years, it is imperative that they be completely modernized. This calls for a vast outlay of capital which will be available only if investors can be attracted by the prospect of a fair return upon their investment.

"Given an adequate return on the capital invested in the industry — a return comparable with that prevailing in other industries —the railroads are prepared to carry out a vast program of modernization, embracing technological developments in many directions, that will give the country transportation never before equalled and prepare it for the eventualities of the future."—Mr. G. Metzman, President, New York Central System.

Textiles—"Our operations in the cotton textile industry during 1947 have been noteworthy for a continuously high rate of employment at wage rates exceeding any heretofore paid by the mills, for remarkably harmonious relations between employees and managements, for absence of serious labor difficulties, for high operating and production rates ever striving to overtake a seemingly insatiable demand for our products, for widespread overhauling and renovation of our plant equipment, and for continued high prosperity being shared not only with our employees but also with the cotton farmers in the form of the highest cotton prices in a quarter century.

"The mills are entering the New Year at the same peak levels of production and employment with reasonable indication of being able to maintain them for some months to come if comparisons of sales, production, unfilled orders and inventories are trustworthy guides.

"While looking forward to the near future as a period of continued high prosperity in the industry, rehabilitation programs ploughing profits back into plant will continue widespread, not only to remedy war exhaustion but also to prepare the industry's plant for the highly competitive conditions which are foreseen for the future." —Mr. John K. Whitaker, President, Neuss, Hesslein & Co., Inc.

Foods—"Business prospects in the food business are bright for 1948; whether a business will profit from it will depend upon its ability to do the right thing at the right time. 1948 will be a year of decisions.

"Mounting labor costs, less results per man-hour, higher inventory values, higher expenses, bigger costs in transportation, warehouse and office, are just a few subjects which business must study in order that it can reorganize and readjust itself to meet changing conditions. 1948 should be a period of cautious yet aggressive action and good hard work." —Mr. Francis L. Whitmarsh, President, Francis H. Leggett & Co.

Hotels—"The metropolitan hotel field anticipates another banner business year with all present indications pointing to continued capacity patronage.

"At the same time, our feeling is that the pressure of the last few years will ease off so far as both hotel management and the public is concerned. Difficulties in obtaining rooms, exhibition and convention space will be considerably lessened, although bookings will remain at capacity.

"Employment shortages have been overcome in most cases, and certain materials necessary for efficient service are once more available. These conditions warrant the opportunity for hotels to operate with prewar effectiveness." — Mr. Frank L. Andrews, President, Hotel New Yorker.

Halsey, Stuart & Co. Year End Bond Review

Estimates new-money financing in 1947 at $6.7 billion, representing largely State and municipal and telephone offerings. Sees future interest rates determined largely by government security prices, and looks forward to large volume of new financing, especially by utilities, when money conditions are more stabilized.

New-money financing in the nation's markets rose from $4.6 billion in 1946 to $6.7 billion in 1947, largely through an increased volume of State and municipal issues and telephone offerings, Halsey, Stuart & Co., Inc., has revealed in its Year-End Survey for 1947.

The Halsey, Stuart Survey, compiled annually to set forth the company's views on the past year's bond markets and project its opinions for the coming year, noted that total bond and stock offerings in 1947 about equalled the preceding year's volume of $8.6 billion. The 1947 total included the largest State issues ever offered, the Illinois and Michigan veterans' bonds.

"This demand for new money had surprisingly little influence on the capital market or on interest rate structures until the Treasury Department's changed policy on short-term interest rates began to take effect. Thereafter, prices declined substantially and at the year end still lacked stability," the Survey said.

Close to $2.5 billion of State and municipal bonds were offered in the 12-month period—more than double the 1946 volume and by far the largest amount ever marketed in any year, the Survey pointed out. "If the bonus issues and the larger revenue issues were deducted, the remainder—issues for school and municipal improvements and the like—alone would constitute a sizable year's volume," Haley, Stuart continued.

Noting that production of electricity and gas in 1947 reached the highest levels of all time, the Survey asserted that "new generating capacity is urgently required and the privately owned power companies have projected a 1947-'51 program estimated to increase by more than 25% the present plant account, at an estimated cost of $5 billion. The gas utilities also need new plant, and their program may require $1 billion. The telephone companies still are striving to meet unparalleled demands for service. Going into 1948 there is an estimated unsatisfied demand for over 2,000,000 telephones.

"There is evidence of a slackening in the movement toward public ownership of utilities in the United States," it continued. "While private operation still has its antagonists, some of them powerful, it is hoped that pressure for ill-conceived social schemes will encounter more than passive public opposition."

Rail bonds were down in 1947 despite the improved physical and financial condition of the railroads, said Halsey, Stuart. Aside from equipment trust offerings aggregating close to $240 million, there was no new-money financing and little refunding.

In the industrial field, publicly offered financing for new money aggregated about $1.7 billion as compared with about $2 billion in 1946. The 1947 offerings were about 55% bonds and 45% stocks. Refunding, said the Survey, was but a fraction of what it had been in the preceding year, amounting to about $220 million as compared with over a billion in 1946.

"Peak operations in many industrial lines created a necessity for sizable borrowings from banks," the Survey noted. "A large volume of financing also was arranged privately, as well as under an arrangement whereby insurance companies built or acquired plants and leased them to industry."

Summing up its views on future markets, Halsey, Stuart & Co. said that "it appears there will be no dearth of high-grade investment offerings in the coming year. The prospect for offerings of secondary classifications and stocks, however, is uncertain; for these are directly dependent on the fortunes of industry and the outlook for business profits.

"In the government field, refunding will continue. However, assuming a pay-as-you-go program is set up to meet the Marshall Plan requirements, little new-money financing seems likely with the possible exception of further offerings of World Bank bonds.

"The electricity, gas and telephone utilities will require large amounts of capital, and their record of earnings stability should make it easy for them to fill their requirements. Soldier bonus needs and continuing enlargement of municipal facilities will create a necessity for State and municipal financing that would well exceed even the 1947 volume of $2.5 billion. The upward trend in real estate mortgage financing probably will persist.

"In the railroad field, the only consequential financing in sight is that required for the purchase of new equipment.

"Other industrial enterprises probably will remain largely dependent on temporary financing or private placement, pending such time as market conditions warrant equity financing."

Interest rates will be determined largely by government security prices, Halsey, Stuart declared. "After being pegged during the war, short-term government interest rates were allowed to rise in 1947 and, after a period of gradual price reduction, support levels for medium and long-term government bonds were lowered substantially on Dec. 24," the Survey pointed out. "The resultant break was evidence of the continuing reliance of market prices of bonds upon government interest rate policy. With a national debt of $257 billion still outstanding, of which over $50 billion is in United States savings bonds, government policy will remain a dominating factor in the determination of interest rates."

Andrew S. Messick Company in Chicago

CHICAGO, ILL.—Andrew Stewart Messick & Co. is being formed with offices at 141 West Jackson Boulevard to engage in the securities business. Partners are Andrew S. Messick, H. L. Messick, A. C. Fischer, R. E. Pollock, and W. J. Britton. In the past Mr. Messick was in business for himself in Chicago. Mr. Fischer was a partner in Lamson Bros. & Co.

Evenson in Denver

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Warner M. Evenson is engaging in a securities business from offices at 522 Eighteenth Street.

Willis Robert Joins Wheelock & Cummins

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Willis L. Roberts has become associated with Wheelock & Cummins, Inc., 135 South La Salle Street. He was formerly manager of the municipal department for the Chicago office of Kidder, Peabody & Co. Prior to serving in the U. S. Navy he was with Halsey, Stuart & Co. Inc. in Chicago.

Wigley Opens

MARTHA'S VINEYARD, MASS. —William R. Wigley is engaging in a securities business from Vineyard Haven. In the past he was connected with J. S. Barr & Co.

Sees High Taxes Causing Capital Shortage

The January issue of "Business Comment," the monthly bulletin of the Northern Trust Company of Chicago, calls attention to the abnormal impact of enlarged Federal Government activities on the present economic situation, particularly in the field of heavy taxation and large buying of agricultural commodities for export. According to the bulletin:

"In wartime the activities of the Federal Government must of necessity play a major role in the economic affairs of the country. During the depression years of the 1930's, the government played an increasing peacetime role. Now for the first time in modern economic history, government activities are a major influence during a period of boom prosperity. This influence shows itself in two primary directions.

"In maintaining a heavy burden of income taxes on corporations and individuals, particularly in the higher brackets, the government is siphoning off a large volume of funds that would otherwise be saved and hence be available for the financing of capital expenditures. These heavy taxes are a direct cause of what appears to be a developing shortage of funds to finance continued capital expenditures on the present scale, referred to above. If corporate income taxes were lower, corporations would be able to finance a larger part of their needs out of retained earnings. If individual income taxes were lower, individuals would have large funds available for investment, and they would be more inclined to put money into equity securities. Both of these factors would reduce the need for business to borrow.

"The other way in which Federal Government activity is playing a major role in the present boom is in the purchase and financing of agricultural commodities for export. The basic necessity of agricultural exports to supply desperate needs in foreign countries is not here questioned. Yet the agricultural export program as sponsored by the government has had wide repercussions. Large agricultural exports have been an important factor in current prices for farm commodities, hence in food prices, hence in the cost of living and in the demands of labor for higher wages, and finally in the rise of prices of non-agricultural goods.

Economic Balance

"The record of the past year indicates that although we have achieved a high level of employment and production, we have not achieved economic balance at those levels. The inflation of costs and prices, the need for greatly expanded bank credit and the consequent rise in money incomes relative to physical output are symptoms of imbalance and maladjustment and give cause for concern for the future.

"Broadly speaking, three basic conditions are essential to achieve such a balance in a free enterprise economy. The first is a stable government with minimum political interference in economic affairs and with provision for a sound currency. This condition is realizable in this country even though it appears far from present in many foreign lands. The second condition is a vigorous expanding private enterprise, with both the incentives and the "know-how" constantly to improve old products and to develop new ones that engage the wants and desires of the public. The third condition is such a division of income between spending and saving that the capital needs of an expanding economy will be fully financed from, and will in turn fully utilize, the national savings.

"In the 1930's it was probably true that capital expenditures were so repressed through lack of confidence or incentives that savings tended to exceed new investment. On the other hand, at the present time it is quite evident that capital expenditures are tending to exceed savings, which are now diminished by heavy taxes and by large dissavings. The tipping of the scales in either direction leads to deflation, on the one hand, or inflation on the other. In the old economics, changes in the interest rate were supposed to equalize the demand for and the supply of savings. Now the interest rate is artificially controlled and cannot fully perform this function. New theories are entertained concerning the effect of the rate of interest, both on the incentive to save and on borrowers.

"The new year opens with the attention of the business and financial world focused on the ability of the Treasury and monetary authorities to ride two horses pulling in opposite directions—price inflation on the one hand and a low interest rate structure on the other. It is quite possible that before many months have passed the question will be resolved, not by any conscious action of the authorities, but by other uncertainties. One of these is the ability of business to finance further large-scale fixed and working capital needs, bearing in mind considerations of sound financial prudence. The other uncertainty is the ability of a large section of the public to continue to buy, at constantly higher prices, a volume of goods large enough to utilize fully our greatly expanded capacity."

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The money markets are now entering a period during which, for about the next three months, the monetary authorities are in an excellent position to curtail the credit base. . . . The extent and the vigorousness of this operation will have an important influence upon what takes place in the government securities markets. . . . Return flow of currency should be sizable while the inflow of gold will no doubt continue to be large enough to have an effect upon the credit base, unless offset as in the past. . . . Also the banks have substantial cash balances that most likely will be seeking a home and it may not all go into loans. . . .

TREASURY RESOURCES

On the other hand, income tax payments will be heavy on Jan. 15, with others due on March 15. . . . Cash resources of the Treasury will be large and if used to retire issues held by the Federal Reserve Banks—which are very sizable in February certificates, but more moderate in the March issue—there could be a noticeable effect upon excess reserves of the system. . . . Redemption of Central Bank holdings of Treasury bills might be large enough to not only offset the currency return and gold inflow but also to contract the credit base. . . .

Redemptions of bonds on March 15 will reduce the outstanding high coupon debt, but will not have too great an effect upon the credit picture because only small amounts of the 2s and 2¾s are held by the Central Banks. . . . Reserve requirements in New York City and Chicago might also be increased. . . .

The action of the commercial banks in meeting a credit squeeze will be important in what is accomplished by the money managers. . . . If the member banks continue to sell Treasuries in order to build up reserve balances, that could be used to carry on the inflationary loan trend, then a large part of the deflationary action of the money managers might be offset. . . .

The ability to create reserve balances still rests with the member banks and this is a thorn in the side of the powers that be. . . . What difference does it make whether the long- or short-term rate is protected as long as one of them is being "pegged" by the authorities? . . . This means that member institutions can continue to exercise control over the initiation of reserve balances, until the money managers devise ways and means to take this power away from the commercial banks. . . .

DANGEROUS

With a debt as large as ours, can we afford to have fluctuating and dropping government security prices as a method of credit control in order to curtail the power of the member banks to create excess reserves? . . . Refunding of due or callable issues with short-term obligations will be successful only as long as holders of redeemable securities believe the rate of the governments they will get in exchange for the ones they own will be stable. . . .

If they thought that a higher rate would be available in the not distant future, the maturing securities would be turned in for cash. . . . As for long-term securities the Treasury is in no position to use these obligations for refunding operations. . . .

Therefore it seems that one can conclude that short-term rates are also pretty much "on the hook. . ."

MORE CONTROLS?

With both short- and long-term rates apparently "repegged," but on a higher yield basis than formerly, will not the monetary authorities press for greater control over reserves in order to limit the power of the member banks to create reserve balances? . . .

It is believed in some quarters that there is likely to be a much more concerted drive to put over "Special Reserves" as proposed by Mr. Eccles, in the near future. . . .

There are, however, two provisos to this opinion. . . . One is, will the authorities and Congress be willing to go along with measures that could be deflationary in an election year? . . . The other is that some economic authorities believe that a fairly sizable reaction could take place in business in the not distant future. . . . If this should be the case there will be no immediate need for power to limit the creation of excess reserves in order to halt the inflationary loan trend. . . .

BANKS READY

In the event the uptrend in loans should continue and political considerations are not paramount, it is being pointed out that the powers that be probably have a much better chance to put "Special Reserves" over than in the past. . . . It is being noted that the convulsive shock in the government securities markets of "Special Reserves," that is, the shift from longs into shorts in order to meet the proposed new reserve requirements, is now largely a thing of the past. . . .

Banks have gone from longs into shorts, and there would not have to be too much additional liquidation of the more distant maturities in order for them to be in a position to meet larger reserve requirements in the form of short-term Treasuries. . . .

THE PRICE LEVEL

Prices of long eligible governments are now down to levels that the monetary authorities are in a position to support, while the somewhat enlarged demand for shorts for reserve purposes would not only keep that rate stable without official help, but it would also assure the refunding of maturing obligations with near-term maturities. . . . The ability of the member banks to create reserve balances would be curtailed by higher reserve requirements. . . . This would in turn affect the trend of loans.

Gold in the News

(Continued from page 2)

dence in various currency parities—that is, in the official rates of exchange the Fund is intended to maintain—but also because such prices tend to make gold-mining interests dissatisfied with the present official price of gold. If those interests should succeed in bringing about increases in the official price of gold in various countries, it will only result in the United States ultimately having to buy increased amounts of gold, which in this time of inflation are not needed or wanted by the Treasury. Official Washington thinks—and very logically—that the world as a whole would be better off if foreign manpower and materials were devoted to producing something more immediately needed by the people than more gold.

With this background it is of interest to review some recent news on gold.

Reaction Abroad to Fund's Request

The initial reactions in foreign gold black markets to the Fund's June letter to its members evidenced the belief that the Fund would meet with considerable success in its gold program. Black-market quotations for gold rose in various markets and new gold regulations were promulgated in Mexico, the Philippines, the United States, United Kingdom and elsewhere. On the other hand, monetary conditions about the world were generally deteriorating, so it is not possible without more information than the writer possesses to state with any certitude that the apparent tendency of gold supplies on the black market to dry up is attributable primarily to the Fund's activities and pressure.

The "Neue Zuricher Zeitung" (Sept. 29) attributed the rise in black-market gold prices since mid-1947 only partly to the Fund's efforts. The Swiss paper mentioned with at least equal emphasis the new scarcity of the dollar and the suspension of the convertibility of sterling in August, which strengthened the gold hoarding tendency. Also, it mentioned the growing fear of currency depreciation. The article cited the following increases in black-market gold prices between mid-July and the second half of September: gold sovereigns in Paris rose from 3,250 francs to 4,300; in Rome, from 8,800 lire to 9,900; in Brussels, from 700 francs to 800; in Lisbon, from 340 escudos to 400; in Alexandria, from 463 piasters to 517.

Another article in the same newspaper (Sept. 27) reported the blasting of hopes that a really free market could be established, citing the deterioration of the foreign exchange position of Sweden and Argentina and saying: "In fettering gold deals, the International Monetary Fund admits existing parities can be maintained only artificially." The article was pessimistic about the Marshall Plan's ability to outweigh the inflation forces loose abroad.

That it will take more than a letter from the Fund to stamp out the illegal markets in gold, the examples cited below indicate.

Apparent Ambiguity in Fund Articles

The Fund's articles of agreement (IV, Sec. 2) clearly provide that "no member shall buy gold at a price above par value plus the prescribed margin, or sell gold at a price below par value minus the prescribed margin." The articles do not specifically state that a member may not sell gold at above par. Because of this lack of clarity, Peru, one of the Latin American countries which has supplied the world's black markets with gold at premium prices, made inquiry of the Fund as to the permissibility of such gold sales and, reportedly, received a non-commital interim reply, which might have been interpreted as giving Fund members a green light in the matter. This occurred after the Fund's gold pronouncement of last June. What Peru wants to do is to issue gold coins with a content less than face value; in effect, to sell gold domestically at a premium. At this writing the Fund is still pondering the matter.

The example of Latin American mining countries freely selling gold destined for the black markets naturally has caused mining interests in Canada, South Africa and elsewhere to demand equivalent benefits. Moreover, since gold transactions at more than par value were being financed increasingly in pounds sterling, with the result that the pound in effect became available at a discount in plain contravention of the proclaimed purposes of the Fund, the June statement of the Fund asking cooperation of all members became unavoidable. Thereby the Fund was expected to eliminate the "illicit" traffic in gold and to scotch rumors that a general devaluation of member currencies impended. The Fund's statement prompted the "Statist," London (June 28), to remark that the Fund must take a vigorous line against breaches of discipline, lest its authority be damaged irreparably. But as of this writing, the Fund's wishes are being quite openly flouted by Syria and Lebanon, and so far as is known the Fund is unable to enforce its policy there. Nor is that the only area of weakness.

Have Executive Directors Overruled Bretton Woods Conference?

One authority on the Fund points out that the reason Syria and Lebanon ignore the Fund's June request is that the Fund has in the articles of agreement no power to enforce that request if a member chooses to disregard it. In the case of the French bonus for colonial gold production (referred to elsewhere herein), France chose to obey the Fund. Now Canada chooses to give the Fund only a face-saving change in Canada's gold program.

One of the Bretton Woods delegates tells me that it was the intention of that 1944 Conference to permit and even encourage members of the Fund to sell gold at premium prices and that, therefore, the above cited language of Article IV was purposely so worded, on the theory that official sales of gold were a good instrument for combating a gold black market. It is recalled, moreover, that the U. S. Treasury, for one, during the war sold gold at premium prices in India, Iran, Iraq, and Egypt, keeping at least part of the profit for itself. Also, the United States supplied gold to China for public sale. Chinese official corruption subsequently made that a scandalous chapter in the financial history of the war.

Is not then the Fund's letter to its members last June and its evident displeasure with Canada's decision to go ahead with a gold mining subsidy at variance with the language of the Fund's articles of agreement? And has not the U. S. Government reversed itself since 1944, when it was selling gold at premium prices abroad? Today, it is said, no one can state for sure what the Bretton Woods Conference intended as to gold sales, not even by examing the minutes of the Committee which handled that clause. The first report of that Committee's rapporteur, Prof. Robert Mosse of France, was reportedly thrown out as incorrect. But, in view of the fact that the United States and other governments represented at Bretton Woods were then engaged in selling gold at premium prices it seems very likely that the final language of Article IV was intended to permit gold sales at premia.

Additional Evidence

In my files of Bretton Woods Conference material I find a mimeographed Conference sheet containing alternative proposals which were before the delegates on this point. The sheet reads in part as follows:

"IX. **Obligations of Member Countries.**

"1. Not to buy gold at a price which exceed [sic] the agreed parity of its currency by more than a prescribed margin and **not to sell** gold at a price which falls below the agreed parity by more than a prescribed margin.

"Alternative A . . .

"Section 2. **Gold Purchases Based on Parity Prices.**

"No member country shall buy **or sell** gold from or to the monetary authorities of another member at prices which vary from the agreed parity of its currency by more than a prescribed margin."

A Mexican Viewpoint

Consider Mexico. The government has taken the requested steps. But gold still is leaking abroad.

It will be recalled that, when the Mexican authorities were selling gold to the public at more than its peso parity, the United States made representations. It was felt in Washington that—since the United States is supporting Mexico through loans and otherwise, and since, under U. S. Treasury policy, Mexico can at any time convert its dollar balances into American gold at $35 an ounce—it was too much of a good thing for the Mexican authorities to be making a profit by indirectly feeding the world's gold black markets. The following comments on the Fund's efforts as translated from an article published in August in "La Nacion," Mexico City, are therefore of interest. The article, discussing the Fund's efforts to eliminate the trade in gold at premium prices, continues:

"All this sounds very pretty, but what about us? . . . Has by any chance the Monetary Fund concerned itself with our distorted balance of payments? Has it taken any steps to back up silver, which the last few months has dropped 30% of its value? . . .

"After lecturing on charity — without practicing it — the Fund goes further when it comes to gold sales at prices above monetary parity . . . The Fund's thesis is sustained by only one single government in the whole world, while the others are more in favor of the reestablishment of a free market throughout the world. . . . It is certainly incongruous that the Fund, which claims to be working for the monetary stability of poor countries, adopts a policy which im-

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Gold in the News

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poverishes the poorest and enriches the richest. . . . The gold so eagerly desired by central banks flows freely in the countries which were excluded from Bretton Woods."

In the light of such views it is not surprising to learn that Mexican gold statuettes have developed a strange export market in the Far East.

Let us take a look for a moment at the other side of the Pacific.

Philippine Coastline Favors Smuggling

While the Phillipine Government in its July 19 gold export prohibition[1] of the Fund's June 18 request to suppress the illegal trade in gold, it claims that it is unable to patrol its thousands of miles of coastline. There is more than a suspicion in Washington that Manila did not welcome the Fund's pressure. At any rate, gold continues to be sold in Manila by auction, at premium prices, to Philippine and Chinese buyers primarily. A Philippine gold-mining official is quoted (New York "Herald-Tribune," Oct. 26, 1947) as saying that practically the whole August output of his mine, 5,800 ozs., was sold to local Chinese at $47 an oz. "for jewelry and other domestic purposes." Most of this is presumed to have found its way to China. The article from Manila then reported:

"It may be suspected that the Philippine Government is by no means anxious to force the gold mines to accept the statutory price for their product if it can still comply with the letter of request of the Monetary Fund to discourage exports."

The premium price is regarded in the Philippines as an incentive to rehabilitation of the mines, which before the war constituted the second largest element in the country's economy, the Philippines being moreover the world's sixth largest prewar gold producer.

To operate profitably, Philippine mines need a price of $50 to $55 an oz., according to the "Far Eastern Economic Review" of May 7, 1947.

Smuggling From South Africa

A little picture of the world gold smuggling trade as seen in South Africa is contained in an article in the Johannesburg Sunday "Times" of Aug. 3, 1947. The paper reports that a gold anti-smuggling squad is now working full time in Durban, in which port gold smuggling had reached "alarming proportions." Rand gold is constantly being smuggled out, according to the newspaper, the smuggling rings operating right at the mines. Gold is manufactured into cigarette cases, ornaments, jewelry and the like. With a large colony of Indians in South Africa there is considerable travel between the two countries. Reportedly one Indian recently was caught smuggling out gold in jam tins. In the shipment every other can of jam contained gold.

The Sunday "Times" quotes seamen as saying that smuggling gold out of South Africa is "dead easy," but getting the metal into the UK is difficult. In the case of the United States the sailors report there is no advantage to them in smuggling gold into the country, evidently because it is too hard to find a market for it at a premium. The Johannesburg paper reports South African gold smuggling has as its main destinations India, Egypt, Greece, Yugoslavia and Italy. In the latter country, where most of the smuggled gold is taken — according to the article — customs officials actually bid against each other for the illegal gold and offer as much as £25 an ounce.

Switzerland and the Gold Market

For a long time Switzerland had more gold and cash dollars than it wanted. Gold, therefore, was freely obtainable by Swiss citizens, for in this way the Government encouraged the sterilization of the inflow without cost to itself and minimized the inflation of the currency. In June, 1947, Switzerland also sterilized gold by selling Treasury certificates and putting aside the proceeds. United States paper currency, being refused at the central bank, sells legally at a discount when compared with checks and drafts on the United States. Cash dollars in Switzerland are called "finance dollars." Because of these and other circumstances Switzerland for a long time was an important source of supply for the world gold black markets. "Finance dollars," sold at a discount for Swiss francs, could thus be indirectly converted into gold coins by the delivery of the Swiss francs to the commercial banks of the country. The cost of gold so obtained for finance dollars was in the neighborhood of $42 an ounce in March.

Since Switzerland is not a member of the World Fund, it was under no obligation to comply with the Fund's June 18 letter to members referred to elsewhere in this article; but in August, Switzerland stopped selling gold coins, after Britain's suspension of convertibility of sterling had started a run on Swiss gold. This tended to dry up the Swiss source of black-market gold.[2]

That Switzerland stayed out of the World Fund is attributed to the fact that membership would have obliged the country to sell Swiss francs for gold as often as it became necessary to help Fund members. At the time the Fund was organized, this would have resulted in an unwelcome increase in Switzerland's gold stock and so created an inflation problem.

Tangier a Haven for Capital

Tangier appears to be a haven for European-owned gold and hard currencies. The New York "Herald-Tribune" reported on Nov. 3, that much of the bar gold sold in Tangier comes from Portugal. American gold jewelry sells in Tangier at the equivalent of $45 per ounce of gold, which doesn't sound too expensive if it is really jewelry. Mexican 50-peso gold coins change hands in that African city at the equivalent of $55 an ounce. This compares with the Mexican Government's selling price equal to $39.76 for these coins.[3]

France Offered Premium

Last May France offered a premium for gold produced in its colonies, although France was a member of the Fund at the time. According to "La Vie Francaise" of Aug. 1, 1947, the premium was insufficient to keep colonial gold out of the world black markets. In any case, the French premium is reported at the Fund to have been dropped. Apparently "La Vie Francaise" took a jaundiced view of the Fund's desires, for it commented: "American and British authorities themselves seem to want to ignore realities and to try to curb them."

Situation Described By Gold Arbitrageur

For an inside view of the recent private world traffic in gold the writer sought the opinion of an excellently informed trader, who, from his vantage point, traced the developments of the past two years as follows.

"The postwar gold market developed into an international arbitrage market during the first half of 1946. At first the greatest activity was in the China market, primarily in Hongkong. Some business also took place in Manila, presumably also for ultimate transfer to China. The Hong Kong market was conducted in Hong Kong dollars per Hong Kong tael. Foreign gold was remelted into tael bars. The Hong Kong dollars, the indirect equivalent of sterling, were traded at a fluctuating discount against the official U. S. dollar/sterling crossrate. There was also an active U. S. dollar/sterling market in Shanghai.

The Hong Kong Government eventually prohibited the importation of gold into the Crown Colony, but for a while authorized trans-shipment via Hong Kong to Macao. In effect nothing was changed except for a somewhat greater expense and increased hazard. In the end the Hong Kong Government prohibited even trans-shipment to Macao. The activities of the Macao market were then transferred—as far as the physical movement of the gold was concerned—to Manila, later to Bangkok, and most recently to Saigon. No direct plane connections exist to Macao, hence reshipment from these ports. Hong Kong, however, remained the trading center. So much for the China trade."

How Gold Traffic Is Currency Traffic

How the traffic in gold at premium prices was at the same time a channel for obtaining certain currencies at discounts was made clearer by the above authority in describing the trade in India. Thus:

"Beginning with about August or September, 1946, Bombay emerged as a major market for imported gold. Here again conversion of £ was the basis of the business. The French and Belgian deals are well known. Gold became a vehicle for various countries that possessed some cash dollars and desired to acquire cash sterling at substantial discounts. At the same time England in effect repaid part of her indebtedness to India through the acquisition of rupees at a discount. In India the sale of bullion to the public had an anti-inflationary effect.

"Whether the activation of dormant sterling balances was a wise move from England's point of view remains to be seen. Another question is whether, but for the opportunity of obtaining sterling at a large discount, Belgium, France, etc., would have repaid their indebtedness to England in hard currency or gold.

"In March, 1947, the Indian Government prohibited the further importation of gold. Since that time Hong Kong has again become the major gold market. There are other markets in the Near East (Beirut, Cairo, etc.). Undoubtedly some of the gold shipped there was resold in that area, but part was reshipped to Far Eastern markets—at first India, and more recently China."

Where Gold Black Market Gets Supply

Commenting on the sources of supply of the gold black markets, the effects of the Treasury's amended export regulations in particular and of the gold traffic in general, my informant stated:

"The trade in gold at premium prices has been fed by newly-mined gold of foreign origin refined in the United States; for a period, Mexican 'centenario' coins and bullion; and gold stored in the UK and Canada by non-residents. Presumably members of the World Fund have stopped the exportation of gold at premium prices, but latterly gold buddhas originating in Mexico have reached Far Eastern markets, while substantial quantities of 22-karat gold are being shipped from England, which permits the export presumably because it involves semi-fabricated gold.

"Foreign-mined gold refined in the U. S. A. remains exportable under the recently promulgated U. S. Treasury regulations. The new regulations will undoubtedly reduce somewhat the re-export of foreign gold from this country, but, unless the governments of the producing countries prohibit premium sales, the major portion will continue to be shipped to premium markets. The new regulations will regulate only the conduct of Americans, not however the flow of the major part of the gold. Profits hitherto earned by Americans will be transferred to foreign account.

Advantages Seen in Gold Traffic

"The premium gold market is merely a symptom of instability of currencies and lack of confidence in the general economic and political situation. The many restrictions will not end the market. They may drive the price higher if supplies fall off, but by attacking the symptom they will not cure the disease.

"The most serious feature is the diversion to the purchase of gold of dollars needed for the purchase of food, clothing and raw materials. But would the dollars be available for this purpose even if no gold were shipped? In China gold and U. S. dollar bills are

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[1] Not all gold exports were banned by the July order. Washington Post and N. Y. Herald-Tribune, Aug. 3, 1947. The latter paper on July 17 reported that most Philippine gold was being sold on the London free market. That market was stopped by the British Government on July 24, 1947.

[2] Already in March the Swiss National Bank had stopped licensing gold bar exports, except where in the national interest. Illegal exports, of course, were not eliminated by the decision.

For articles on Switzerland and gold, see "The Statist" (London) of Macrh 22 and Sept. 9, 1947; "Financial Times," Sept. 3; "Economist," Sept. 13; N. Y. "Times," March 10, Sept. 1, Sept. 14.

[3] Price reported in N. Y. Herald-Tribune, May 12, 1947.

being hoarded. U. S. dollars from emigrant remittances and illegal exports clear through Hong Kong. Undoubtedly a substantial portion of the Chinese funds which now find their way into gold would remain in the next best thing—the dollar. Should currency stability return to China, a large portion of these funds (a recent estimate is that approximately U. S. $2,000,000 clear through Hong Kong daily) would become available to the Chinese economy and supplement American funds placed at China's disposal.

"To the extent that hoarded dollars are transferred to hoarded gold the transaction is definitely advantageous, because the premium over $35 represents additional purchasing power by the gold-producing countries (largely Latin American); moreover, the gold if sold to the U. S. Treasury would have created new money here."

Gold Sterilization Necessary Here

Since this country is struggling with an inflationary condition, any addition to the gold stock is an embarrassment. Hence the Treasury has been studying ways and means of directly sterilizing the inflow, because it is not the nation's policy to cease buying gold. According to Chairman Marriner Eccles of the Federal Reserve Board, the budget surplus in effect is sterlizing the gold inflow, dollar for dollar. Obviously some more direct policy is called for.

Incidentally, the embarrassment of gold riches was used by the Treasury in obtaining informal Congressional leaders' agreement to the release early this month of the $400,000,000 of the British loan impounded by Secretary Snyder in August. The argument given the legislators, Representative Wolcott has disclosed, was that the continued withholding of the $400,000,000 from Britain would mean that the British would have to send us that much gold to the detriment of their position and the aggravation of our problem of unwanted gold. "By releasing the $400,000,000," Wolcott explains, "we are relieved of the obligation to accept that much gold." If the reasoning seems strained, it is a corollary of our gold policy. It would hardly appear that the convertibility clause of the loan agreement, abandoned in August, is being reimplemented by Britain.

Republican Proposal to Raise Reserve Ratio

As part of the Republican answer to the inflation challenge Congressional leaders decided to restore the reserve ratio of the Federal Reserve Banks—presently 25% in gold certificates against note and deposit liabilities—to 40% in gold certificates against outstanding notes and 35% against deposits. Reserve Board officials do not regard this proposal as deflationary in any way. For the system as a whole the new ratios will not absorb all the "free gold" certificates now held, but more important—it is claimed at the Board—the commercial banks will not be restricted in their lending.

On December 3 the 12 Reserve Banks held $21,418,000,000 of gold certificate reserves. Total Federal Reserve notes in circulation were $24,706,000 000 and deposits, $19,280,000,000. Thus, gold certificates in excess of reserve requirement were $10,422,000,000. With the 25% reserve replaced by the 40% and 35% requirements, the excess would still have been $4,787,000,000 on December 3. Some of the 12 Reserve Banks may be pinched by the new requirements. They would face the alternatives of refusing to meet demands for additional Federal Reserve notes, which is hardly conceivable, or selling some of their government securities, which would raise new problems.

The lowering of the reserve ratio to 25% in 1945 followed a request by the Federal Reserve Board. The arguments for the lowering were given at length in the 1944 annual report of the Board (pp. 58-60). During the war, when exports were mostly on lend-lease and imports on a cash basis, the country was losing gold while liabilities of the Reserve Banks were increasing. The reserve ratio had declined from 91% at the end of 1941 to 49% at the end of 1944. Latterly there has been a heavy gold inflow, so that the reserve ratio early in December again stood at 48.7%. Since deposits and notes are interchangeable, there is no good reason to again differentiate in the reserve ratio for each.

NAC Expresses Displeasure

The statement issued on December 12 by Secretary of the Treasury Snyder on behalf of the National Advisory Council evidences the American Government's displeasure over Canada's proposed gold subsidy. It is clear that the United States is using the World Fund to bring pressure on other countries to minimize resort to gold subsidies. The NAC adds that the United States "would view with displeasure any tendency for countries to become dependent on subsidized gold production as a solution to the problem of arriving at and maintaining equilibrium in their balances of international payments." In an effort to stave off subsidy demands from American gold mining interest, the NAC says "there are no grounds which would justify instituting a subsidy to encourage the production of gold in this country."

Persons unfamiliar with the subject might interpret the NAC's statement as a threat to cease buying gold from countries subsidizing the metal, as Canada is about to do. Such persons are unfamiliar with the firm place which gold holds in the thinking of those who make this country's policy on such matters. Incidentally, for the United States to cease buying gold from any member of the Fund might open questions of interpretation of the articles of agreement of the Fund bearing on exchange control. A question the writer has heard asked is: Would the United States in such event be required to impose exchange controls? At present dealings in the Canadian dollar in New York at a discount are permitted under the Fund agreement, because the United States is buying gold from Canada.

Gold Subsidies at the Bretton Woods Conference

During a press conference at Bretton Woods in 1944 the writer asked Secretary Morgenthau whether domestic subsidies of gold mining were permissible under the Fund agreement. The answer, supplied by Mr. Morgenthau's assistant, E. M. Bernstein (now on the Fund's staff), was that domestic subsidies do not affect the exchanges and therefore are permitted by the articles of agreement. Later in the course of the House Banking and Currency Committee's hearings on the Bretton Woods program Mr. Harry White, then with the Treasury, testified that domestic gold-mining subsidies were permissible under the Fund agreement. The following is from the hearings:

Mr. Monroney: . . . if we found in some marginal mining of gold to increase our stock that we should subsidize mining of gold, would that interfere with our accumulation of gold stock?

Mr. White: No; that has only to do with the buying and selling of gold on the international market.

Mr. Monroney: In other words we would do what was necessary to increase our gold production here by subsidy *or even price to our own nationals?* [Italics supplied.—HMB]

Mr. White: That is correct.

Miss Sumner: On that point, is that only 5 years?

Mr. White: No; that would be permanent.

Gold-Mining Subsidies Take Varied Forms

In the matter of gold-mining subsidies, as Canada has just demonstrated, there are various ways of skinning a cat. Direct payments per ounce are the most obvious method. Less directly related to the price of gold is a payment per ton of ore mined. Gold mining is sometimes assisted by exemption from restrictions applying to other businesses. Governments have helped in many cases by expediting imports of mining machinery as South Africa, to name just one example, did even during the war. There is probably no gold-mining country which does not assist its mining industry in one way or another.

South Africa employs various devices. The richer mines bear heavier taxes, so as to make possible operation by marginal producers. The government has arranged for labor imports, dealing directly with the Government of Portuguese East Africa. Also, the South African Government has helped the industry by removing restrictions on workers brought in from tropical Africa, contingent upon air-conditioning of the mines.

Mention might be made of the South African Government's monopoly of dynamite.

Gold mining is also subsidized through government financing of technical research and on-the-job training. Another help given in some countries is the construction of railroad spurs to mining areas. Members of the Congress from the Rocky Mountain states can give other mining countries a few pointers on public roads as an aid to mining. Tax relief is used in several countries, including Australia, Belgian Congo, Canada, Colombia and Southern Rhodesia. Colombia has provision for publicly-financed housing for gold-mine workers.

In general Latin America does not go in for direct gold subsidies. Preferential rail rates are frequently found in this hemisphere, however. During the war Latin American embassies in Washington were especially active in securing gold-mining machinery and supplies for their nationals. In some Lation American countries gold mines are allowed to sell their product at premium prices in terms of local currency. Nicaragua has given its gold industry considerable aid, since gold is an important factor in the country's balance of payments.

In times of depression the biggest subsidy to gold mining, of course, is the maintenance of an unlimited fixed-price market for the yellow metal at the American and other Treasuries.[4]

Gold-Coin Minting Proposed

Representative Howard Buffett (R., Neb.) recently announced that legislation will be introduced providing for the resumption of a gold-coin standard in the United States. Mr. Buffett feels that the country has a gold stock large enough to permit the citizens the luxury of putting some of their savings into idle gold, if they wish to do so. Since the government has to sterilize inflowing gold as an anti-inflationary measure, one way or another, there is no doubt that at this time the flow of some of our gold into private hoards would be beneficial from the immediate national standpoint, just as during the depression the calling in of privately-owned gold enabled the government to add to the credit base with the opposite effect.

One possible disadvantage of resuming the issuance of gold coins might be the encouragement some time in the future of an organized campaign for the nationalization of gold at a premium. We have seen in the 1930's how much a campaign by silver hoarders succeeded, and the Committee for the Nation demonstrated the power of organized propaganda seeking a higher price for gold.

Metal Circles Advance Similar Idea

From metal circles comes the novel proposal that citizens be allowed to buy gold bullion from the government without necessarily having coinage resumed. A correspondent writes me as follows:

"The predicament in which we shall find ourselves is to some extent the result of the extreme monetization of gold whereby by law only the U. S. government may own monetary gold bullion. The *raison d'etre* for gold is its value as a storage of wealth. Today we own gold only by proxy in Fort Knox. We hold warehouse certificates (banknotes), but these warehouse certificates do not entitle us to demand delivery of the goods. There is the danger of gold ultimately losing its attraction to the Western public if the individual loses his contact with gold. I should not be surprised if at the present time the American public would appear as a buyer of gold if permitted by law. Instead of a flight from the dollar

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[4] At the International Conference of Economic Services held at Pontigny, France, September, 1938, a paper by F. W. Paish, Causes of Changes in Gold Supply, discussed the main classes of Government aid to gold mining. Cf. "Economica," November 1938.

Gold in the News

(Continued from page 27)

through the purchase of stocks or commodities or durable and consumer goods, excess funds might find their way into gold. The deflationary effect need not be emphasized. I am not necessarily advocating convertibility of currency, but merely suggesting that the private holding of gold bullion be permitted. If the government would reserve the right to sell gold to the public (permissive legislation) it could easily control the price.

"Under the Gold Reserve Act of 1934, gold in its natural state may be freely held by the public. I understand that sales of such gold at substantial premiums over the $35 price are being made. This may be an indication of the popular attitude.

"The United States has a large stake in gold. For our gold stock $22 billion worth of goods and services have been sold, mainly to foreign countries, and according to present indications this amount will increase by further billions of dollars. Extension to the rest of the world of the American system of monopolizing ownership of gold in the State could have serious long-range repercussions. The value of gold depends only in part upon American legislation. The desire of the individual, especially the Oriental, to store his wealth in gold is also a major factor.

"The approach frequently found in official circles that it is more important to buy food and clothing than to sterlize money in gold cannot be reconciled with the desire of the American government to limit its own gold purchases because of the inflationary dangers. The argument occasionally heard that 'labor could be more usefully employed than in the mining of gold, which adds to inflation,' cannot be reconciled with the selfish interests of dollar-poor nations. Here again it seems that the purchase of gold by nationals of hard-currency countries instead of by their governments would help to solve the problem.

"One of the interesting phases of the problem of gold is the reluctance of Switzerland to accept it in settlement of her American balances. Switzerland is afraid of the inflationary force of the influx of so much capital into the small country. Is it the first signal in the breakdown of gold as international currency when the two countries with the strongest currencies substitute an artificial exchange relationship for gold?"

Representative Stevenson's Plan

The stock of gold at Fort Knox should be turned into supplies for needy Americans, Representative Stevenson (R., Wis.) advocates. He holds that the United States has paid heavily for the "useless gold" and proposes that it be taken out of "the hole" where it is stored and turned into wheat and fuel for the American poor, the Washington "Evening Star" reports. The speech, perhaps not inappropriately, was delivered by Mr. Stevenson in the National Museum.

When he speaks of "useless gold," the Wisconsin Republican is not far out of step with the Administration for, according to reports from Ottawa, the American Treasury used the same expression in its efforts to dissuade Canada from subsidizing gold production.

World Fund's Report on Audit

In the Fund's Report on Audit for the year ended June 30 there are several references to gold. Of the 44 members on the date mentioned, 17 had paid their subscriptions in full, and in doing so each had paid gold of a dollar value equivalent to at least 25% of its respective quota. Ten other members had paid their subscriptions in full while making in gold a provisional payment equal to 10% of their gold and dollar holdings as reported to the Fund. "In each case," reads the report, "this provisional gold payment . . . is subject to possible adjustment." The 10 members which have made such provisional gold payments are:

Chile	Ethiopia
Costa Rica	France
Czechoslovakia	India
Denmark	Luxembourg
Egypt	United Kingdom

In Peru's case, the auditors doubtfully noted that payment of subscription was made in full, the gold portion being equivalent to 10% of Peru's gold and dollar holdings as reported to the Fund. Subsequent letters from Mr. Gutt to Chancellor Hugh Dalton make clear that this payment by Peru has been accepted by the Fund as definitive.

Apparently Iraq paid no part of its subscription in gold, the auditors reporting: "The subscription of another member, Iraq, was paid in full but exclusively in national currency and securities. On the basis of information supplied by the Fund, it is understood that the executive directors have approved the payment of Iraq as final." Managing Director Gutt, however, states that final acceptance of Iraq's subscription has not yet been approved, in a letter of Aug. 15 to Hugh Dalton, then Chairman of the Board of Governors.

In calculating the members' gold payments the Fund counts as such payments of U. S. dollars.

At the time of the audit, June 30, there were unpaid balances on the subscriptions of 15 members. In the cases of five members the balances were due and payable, the other 10 being not due until a par value is established. "Explanations" given in the auditors' report about the five delinquents follows: Bolivia was awaiting approval by its Congress of "the international instrument concerned." With Honduras, with which the Fund has had very troublesome correspondence, the matter "is currently under review." For Panama the report offers no satisfactory explanation. Turkey "completed payment of its subscription in July, 1947, by delivery of a non-negotiable, non-interest bearing demand note for the amount of 78,250,000 lira." Venezuela, which delivered a similar demand note, was prepared to complete payment as soon as the Congress of that country should approve.

The 10 members whose subscriptions were not yet due at the time of the audit were:

Brazil	Yugoslavia
China	Poland
Dominican Rep.	Italy
Greece	Syria
Uruguay	Lebanon

The Fund has set certain requirements to be met by members in delivering gold to its depositories. Such gold must be in bars at least 0.995 fine and weighing approximately 400 ounces. If members deliver gold deviating from these requirements, they must pay in gold an amount, determined by the Fund, equivalent to the cost of converting such gold into bars of the required weight and fineness. Secondly, the assay must be recognized by the depository in question. Thirdly, members must bear all charges of the depository for taking the gold into custody.

During the year ended June 30, the only movements of Fund gold were two transfers aggregating 4,857,242 ounces from the New York depository to the London depository. In these cases, it is learned, there was no physical shipment, since prevailing gold movements are toward the United States. The two transfers were occasioned by the provision in the Articles of Agreement that at least 40% of the Fund's gold should be held initially in the depositories designated by the members having the 2nd, 3rd, 4th and 5th largest quotas. As the Articles read, the requirement holds only as of the start of the Fund's operations, and is no longer binding. The exact language reads: "Initially, at least one-half of the holdings of the Fund . . ." must be held in the country with the largest quota. In the Committee which drafted the language at Bretton Woods there was considerable discussion over whether to put a comma after "at least." It was finally decided to leave the language a bit ambiguous.

On June 30 the Fund's gold was held as follows:

Depository—	Thousands of fine ounces	Percent of total
Banque de France	2,283	5.94
Reserve Bank of India	785	2.04
Bank of England	13,558	35.30
Federal Reserve Bank of New York	21,782	56.72
Total	*38,409	100.00

*Discrepancy in summation due to abbreviation of items.

Among various amendments and additions to the Fund's Rules and Regulations adopted by the Executive Directors between Feb. 7 and Aug. 14 are several relating to gold. One is a technical amendment (D-2) relating to gold payment when a member's quota is increased. The Executive Board may reduce the proportion of the increase to be paid in gold. A new section (F-4) authorizes transactions of members in gold within ¼ of 1% of parity, exclusive of certain charges specified in the section. Under another new section (I-8), "When any member offers gold to the Fund pursuant to Article V, Section 6 (a), the Fund shall levy a charge (unless in particular cases it decides otherwise) to cover the estimated costs that would be incurred by the Fund if it used the gold so acquired to purchase the currency it has sold."

Greece Resumes Gold Sales

Early in December the Greek Government, with the approval of the United States aid mission, arranged to resume the sale of gold sovereigns as an anti-inflationary measure. According to the New York "Times" correspondent, "the rocketing price of gold was beginning to threaten the fiscal basis of the United States aid program." During the previous four months, the price of the gold sovereign had risen from 150,000 drachmas to 198,000 with commodity prices following along. An interesting detail of the new policy is that the Federal Reserve Bank of New York is to supply Greece gold sovereigns in exchange for French and Italian gold coins, since the Greek public will pay more for sovereigns. This "swapping" of gold by the two central banks will involve no loss of gold to the United States. It is reported that earlier efforts of Greece to arrange similar swaps with the United Kingdom, Egypt and India were fruitless.

The Greek public's taste for sovereigns, reflected in its willingness to pay for them more than twice what the Bank of England will pay, was stimulated during the war by the British Government's action in supporting the Greek resistance movement with about 2,000,000 gold sovereigns. The Germans also, it is reported, brought in an equal amount of the coins. It is estimated that there are now held by the Greek public about 7,500,000 sovereigns.

Argentina Asks Gold Redistribution

At the Havana ITO Conference Argentina through its representative Diego Luis Molinari, is reported as blaming the concentration of most of the world's gold at Ft. Knox for present world trade troubles and as proposing an international monetary conference to correct the situation. Argentina seems to share the recently-expressed ideas of Britain's Foreign Secretary Bevin. The latter's proposal that the United States divide up the gold chips it has accumulated seems to have had in mind a feature of the Paris Report on the Marshall Plan calling for the United States to strengthen European currency reserves with a few billions of American gold.

Conclusion

Gold continues to play its traditional role as a settler of international trade balances. Thanks largely to American official policy, as expressed through the Congress, the yellow metal still is generally used in governmental monetary bookkeeping everywhere. The deterioration and destruction of currency values attendant upon the necessities of war and the ineffectiveness of many governments in times of peace have caused people in troubled areas to flee more and more from inflated paper to the tangible, valuable, portable, durable and concealable store of wealth which is called gold. To those who can get it gold offers a reassuring, if often illicit, refuge from unpleasant realities. Such persons are willing to pay a premium for escape, and so long as there are others who have gold to sell and who see no harm in meeting that demand, the World Fund will have a problem on its hands.

Robson Greer Joins Blair in Philadelphia

PHILADELPHIA, PA.—Blair & Co., Inc., 123 South Broad Street, announces that Robson L. Greer has become associated with them. Mr. Greer formerly was with the Philadelphia office of F. S. Moseley & Co.

As We See It

(Continued from first page)

these individuals depends upon the ability of the political authorities to continue indefinitely to "rig" a market now well-recognized as resting upon uncertain foundations, or else upon the willingness of these authorities to take whatever drastic steps are necessary to "unrig" it without almost prohibitive destruction in the economic system in general.

Facts to Be Faced

These are not pleasant facts to contemplate, but they are facts and it is never well to turn away from facts merely because they are not pleasant. It may or may not prove possible to evade the issue for a considerable period of time. It may be that the insurance companies, savings banks and others holding large blocks of long-term Government obligations will presently accept as a fact the alleged ability of the Treasury and the Federal Reserve to determine and give effect to any level of prices they decide upon. They may presently become quite convinced that these authorities really intend indefinitely to fix the yield on these issues at the current official level. In such an event they presumably would not be inclined to flood the market with their present holdings and would be willing to take more of them as time passes — except of course so far as suitable corporate issues and other available investments offer themselves at satisfactorily higher yields.

Such may be, we repeat, the course of events during the months immediately ahead—and then again, of course, it may not be. Investors throughout the length and breadth of the land have been joltingly reminded during recent weeks that they reside in the palms of the hands of officialdom. They have been given an excellent object lesson in the undependability of the authorities, which suddenly and without the slightest warning appear to be able to change their mind and modify their market policy overnight. It may be some time before the confidence of investors in Government obligations will fully recover from the shock it has suffered from, first, the "open mouth" policy of some weeks ago, and then later from the sudden "pulling of the plug" in the bond market on the day before Christmas.

Only a Postponement

But even full recovery will and, in the circumstances, could mean only a postponement of the day when a reckoning has to be made. The market remains the most "rigged" affair ever known in this country at all events, and as time passes, if business continues to develop as we all hope it will, and particularly if it continues to suffer from the present handicaps in financing itself with its own earnings, the Treasury must face increasing competition from other borrowers ready to pay much more for the funds entrusted to them. It likewise remains to be seen whether the authorities can devise a technique which will sustain the present highly artificial market for Government bonds without at the same time enlarging the money supply and thus further encouraging inflation — which, of course, in its turn greatly enlarges the burden of those who would keep interest rates artificially low. The whole matter is further complicated by the need to contract the existing supply of money.

Recent events should at least have revealed, if revelation of the sort was necessary, just how muddleheaded officialdom can be. With the Federal Reserve authorities and the Treasury at loggerheads, a campaign was launched which seemed to have something to do with halting bank purchases of long-term obligations, and persuading these institutions to return to short-term issues, meanwhile avoiding the making of further loans to business. Precisely what it has accomplished is far from clear, or, for that matter, what the authorities thought it could or ought to accomplish. At any rate, the affair can scarcely serve to strengthen confidence in the competency of those who undertake to manage the financial affairs of the country, including, of course, the monetary and banking system.

Lessons of Experience

Recent events will have been wholly without profit if they do not suggest that we can not by any stretch of the imagination afford to delay longer in eradicating this situation from the economic system. This excission would, of course, be a difficult, possibly painful and certainly delicate operation. Skill of the first order would be required. Determination and understanding of the fundamentals of good government and sound economics would be essential. The commercial banks of the country have large funds invested in Government obligations — a moderate portion of them, long term. Savings banks, insurance companies, building and loan associations and many other institutions close to the heart of our economic system are heavily involved in Government bonds.

Most of these institutions—upon which, of course, the livelihood of many individuals depends—acquired these deficits of the national Government at prices far above any that would have prevailed had matters been left to take their natural course. It is more than a case where the markets were rigged in the sense that institutions under the control of Government "supported" the market whenever it was thought necessary. The deficit financing of the past decade and a half, by its very nature, created a superfluity of funds which could not well fail to bid up available investment media to levels not warranted by the basic economics of the situation then existing. What is more, attacks upon business were for so long so severe—and still are, for that matter—that the normal demand for funds characteristic of a growing and healthy economy failed to appear. It would obviously be neither fair nor wise to oblige investors in Government bonds to take all the losses incident to a correction of this underlying situation.

But means of avoiding such results have been suggested from time to time, and doubtless there are others. Out of them a way could without doubt be fashioned for a feasible reinstatement of sensible practices in these matters — provided they were accompanied by a return to soundness in general policies to offset whatever deflationary effects arose from reform of credit and money policies. Recent events should hasten their formulation and adoption.

R. C. Schmertz & Co. Formed in Pittsburgh

PITTSBURGH, PA.—R. C. Schmertz & Co., Inc. has been formed as successor to the investment business formerly conducted in the Union Trust Building by Phillips, Schmertz & Co., a partnership formed in 1935 by Mr. Schmertz and the late William H. Phillips.

Officers of the new firm are R. C. Schmertz, president; D. W. Yealy, Vice-President and Treasurer; Arthur Batty, Vice-President and Assistant Secretary; L. R. Schmertz, Jr., and S. J. Titus, Vice-Presidents; and S. J. Landser, Secretary and Assistant Treasurer.

C. B. Ruch Asst. Treas. For Wm. E. Pollock Co.

Clarence B. Ruch is now assistant treasurer of Wm. E. Pollock & Co., Inc., 20 Pine Street, New York City. He has been with the firm as cashier.

The State of Business

(Continued from page 3)
or unless taxes are reduced, the cash surplus will be about $6.5 billion to $7 billion. It will be running an even higher annual rate during the first quarter of 1948. Such a large surplus can be a very depressing influence.

(4) Inventory accumulation, which has been going on at a moderate rate (perhaps $2.0 billion a year), may cease. Substantial additions to inventories will not be needed, even though there is some further rise in production before a recession starts. Some astute businessmen believe that the accumulation of inventories has already gone farther than producers are willing to admit.

(5) The net volume of exports, which will be about $9 billion in 1947, will probably drop. The decrease may be as high as $3 billion. This will occur even though substantial aid is given under the Marshall Plan. Such aid will in large part merely replace the exhausted foreign exchange of some countries. Imports have been abnormally low relative to American production but are running above the corresponding months of 1946 and, as productive capacity throughout the world is restored, sales of goods to the United States will continue to increase.

(6) Not much further expansion of expenditures by business concerns on plant and equipment is likely in the near future. Construction costs are so high that enterprises spend on only the most urgent projects. Dividend increases are reducing corporate savings, conditions in the money market are not favorable to floating new issues, particularly equity issues, and the banks are showing signs of caution in making term loans. Despite the expansion of commercial loans the holdings of cash and demand deposits of business concerns appear to be decreasing.

(7) Even though no action is taken by the government to restrict the expansion of bank credit, uncertainty over long-term interest rates will increase and will make insurance companies, savings banks, and commercial banks increasingly reluctant to purchase long-term obligations at present prices. The difficulties in financing programs for expansion may force business concerns to curtail such expenditures, the demand for capital goods is likely to drop, and spotty unemployment may appear in the capital goods industries.

(8) A third round of wage increases is certain. If inflationary tendencies are weakening, as the above analysis suggests, business concerns will have difficulty in passing on the third round of wage increases in higher prices. Hence, the third round of wage increases will encroach seriously upon profits and will be deflationary.

To all of these specific reasons for expecting a recession should be added the important point that the economy is undoubtedly more vulnerable to unfavorable developments than it was a year ago. For example, part of the accumulated need for goods has been met, inventories have been built up in relation to sales, there has been a considerable increase in short-term debt (though the amount is still small in relation to incomes), and there has been a rise of prices relative to holdings of money and other liquid assets.

III.

The foregoing is the best case for an early recession which I have been able to construct. Perhaps the reader can add to it. In some respects the foregoing presentation greatly overstates the case for recession. For example, an increase in production, as I shall point out presently, may be inflationary rather than deflationary depending upon how the increase is financed. Weakness in cereal prices will not spread at an early date to most food prices, especially to meats which will be scarce for another year. A budget surplus need not be seriously deflationary or even deflationary at all. It depends on how the surplus is used. If the government uses the surplus to retire securities held by the general public, the surplus will help corporations float new issues. If the surplus is used to retire issues held by the commercial banks, it will enlarge bank reserves and stimulate the expansion of bank credit—possibly to a dangerous degree. Although uncertainty over long-term interest rates could interfere somewhat with the financing of programs of expansion and replacement, the effect upon the demand for capital goods would be limited. Only the most urgent expenditures are being made and these are being financed to an abnormal extent out of profits and depreciation allowances. If necessary, part of these expenditures could be financed by intermediate term bank credit. A third round of wage increases can be important as a *secondary* cause for deflation, but hardly as a primary cause. So long as independent influences are making for inflation, wage increases are likely to be inflationary rather than deflationary.

Let us look at the reasons for expecting a continuation of inflationary pressures. They make a far stronger case, in my judgment, than the reasons for expecting an early recession.

(1) Congress seems determined to reduce taxes—possibly by as much as $3 billion a year or more. This will increase the demand for consumer goods and capital goods, but especially consumer goods. Only a deadlock between Democrats and Republicans in Congress over how taxes shall be cut can prevent a tax reduction.

(2) Corporations are increasing dividends thus reducing corporate savings and raising consumer income. Corporate savings have been an important restraint on inflation during the last year.

(3) About one-fifth of the gross national product in 1947—about $48 billion—consisted of durable consumer goods, residential construction, durable producers goods, and business construction. The gradual elimination of bottlenecks will make possible some increase in the output of these goods. The purchase of all of these types of goods is financed in considerable measure by either the expansion of bank credit or the activation of idle bank balances. Hence a rise in the output of durable consumer goods, housing, and industrial construction and equipment will be inflationary, not deflationary.

(4) The Treasury regards the maintenance of low interest rates as more important than the prevention of inflation. The policy of the Federal Reserve System will continue to be dominated by the Treasury. Hence the government will continue to encourage the expansion of bank credit by supporting the prices of government bonds and artificially keeping down interest rates.

(5) There will be a third round of wage increases probably averaging from 8 cents to 12 cents an hour. Under the prevailing conditions these advances will be inflationary, not deflationary. They will not reduce employment except in a few marginal firms. They will raise payrolls, and thus increase the demand for consumer goods.

(6) The huge pent-up demand for consumer goods and the present stiff income tax rates have drastically weakened, for the time being at least, the incentive to save among the middle and upper income groups. These groups do nearly all of the personal saving in the community, but under present tax rates they are able to obtain only a meager return on their investments. The weak disposition to save is indicated by the fact that a rise of $18.3 billion in personal incomes after taxes between the third quarter of 1946 and the third quarter of 1947 produced *no* increase in personal saving. On the contrary, there was a small *drop* in saving. *All* of the increase in income and more went into expenditures for consumer goods.

The needs of industry for capital are large and urgent. The small volume of individual savings means that this need must be financed in large part by plowing back earnings. Corporations are reducing their savings by increasing dividends. Hence, one must expect industry to meet much of its need for capital by borrowing from banks. The Federal Reserve System is encouraging the banks to expand their loans by supporting the price of government bonds. Can one imagine a more perfect combination of circumstances for producing an expansion of credit and a rise in prices—huge needs for capital, strong reluctance of individuals to save, and adherence by the government to the policy of supporting the government bond market and encouraging the expansion of bank credit?

(7) Pent-up demand for consumer goods is far from having been met. Furthermore, at present high levels of real income, people desire more goods and better goods than was their previous custom. Particularly important in affecting the demand for goods is the increase in the number of workers per family. Families have increased by 4 million since 1940, but the number of persons at work by about 10 million. Hence far more families than ever before have more than one income earner. The country would undoubtedly be willing at present prices and incomes to own and operate at least 5 million more automobiles than it has today and it would be willing to pay for far more and better housing than it possesses. Relatively little has been done to adjust the quantity and quality of housing to the 33% rise in real per capita income after taxes which has occurred since 1940. Indeed far more families are living doubled up today than in 1940.

If consumer indebtedness were high in relation to consumer incomes, one might expect the huge needs for consumer goods to be translated into demand only as fast as people acquired incomes. Consumer indebtedness, however, is low in relation to incomes. Consequently, one must expect that consumers will insist on spending money faster than they receive it and that the volume of consumer expenditures will continue to be increased by a rise in consumer indebtedness. Many manufacturers, merchants, and banks are doing their best to encourage consumers to spend beyond their incomes and to go deeper into debt.

(8) Local and state expenditures are rising faster than revenues and are being financed to some extent by the sale of securities to commercial banks. During the year ended June 1947, state and local indebtedness increased by about $900 million. During 1948 state and local indebtedness will grow faster than in 1947.

IV.

Is anything likely to be done, either by government or business, to control inflation during the next year? The answer to this question is: "Not much." Let us examine first the prospects for action by the government and then the prospects for action by business.

The government is authorizing enterprises to cooperate in allocating a few scarce materials (useful in accelerating the elimination of bottlenecks) and it will probably impose stricter controls over exports. There is a little likelihood, however, that the government will make a serious effort to check any of the major inflationary influences. Each of these influences has strong popular support. Consequently, although there is much demand that "something" be done about inflation, every program for specific action meets formidable opposition. Let me be specific about this:

(1) A reduction in the income tax under present conditions would be inflationary, but the demand for such a reduction is strong.

(2) A third round of wage increases would be inflationary, but the demand for it is also very strong. One of the contradictions in present-day opinion is that many of the people who are most insistent about reducing taxes are most inclined to condemn wage increases as inflationary. Of course, *each* would be inflationary and for much the same reason—namely that it would give people more money to spend.

(3) Dividend increases are inflationary, but stockholders, who have waited long years for dividend increases and whose dividend payments often have less purchasing power than in 1940, are critical of managements which do not promptly pass on higher profits in the form of higher dividends.

(4) The terms on which housing loans are being made to veterans are inflationary because many of these loans are being financed by the creation of demand deposits and, in many cases, the veteran makes only a small down payment on the house. One hears few protests against present practices in making housing loans to veterans.

(5) The expansion of consumer credit is inflationary, but consumers wish to borrow and banks are eager to develop this well-paying business. Hence, any attempt to restore control over consumer credit will encounter strong opposition from banks and little support from most consumers.

(6) The expansion of bank credit under present conditions is inflationary because industry is already operating at capacity. Nevertheless, proposals to restrict the expansion of bank credit meet formidable opposition from banks.

(7) Support of the government bond market is inflationary because it facilitates the expansion of credit by the banks. No one in the government, however, is willing to take the responsibility for withdrawal of support and there is no popular demand that the government cease artificially depressing interest rates. Incidentally, extraordinary reasoning is used to justify support of the government bond market. One of the arguments for depressing interest rates on government bonds has been that this would help keep down Federal taxes. In order to prevent low interest rates from producing inflation, however, the government needs a large budget surplus, and in order to obtain a

large budget surplus, the government needs high taxes! As a matter of fact, taxes have not been high enough to prevent a substantial advance in prices. The rise of 24% in the price of consumer goods during the last two years may be regarded as a way by which the government in that period has repudiated one-fourth of the public debt.

V.

What are the prospects that business can protect the community against inflation? Business will certainly not resist inflation by putting up strong opposition to a third round of wage advances because the bargaining position of labor under present conditions is too strong. Business will do its best to increase production, and this best will be increasingly good. An economy which has millions of independent enterprises is particularly effective at discovering and eliminating the bottlenecks which hold back output. Unfortunately more production in itself does not defeat inflation. If the additional output is bought in large measure with money borrowed from banks, as are automobiles, houses, and much industrial construction and equipment, the rise in production, as I have pointed out, tends to aggravate rather than curb inflation. Hence the essential question is: Can business be expected voluntarily to refrain from borrowing from commercial banks except for the purpose of financing immediate increases in production and can it be expected to refrain from encouraging consumers to buy on credit? Can the banks be expected to confine their lending to non-inflationary loans—that is, loans which make possible an immediate increase in production? To ask these questions is to answer them. Indeed, the questions probably strike the reader as silly or naive. And yet it is no more naive to expect these questions to be answered by "yes" than to expect business to check inflation merely by increasing the output of goods.

VI.

Let us make a bold and daring assumption. Let us suppose that the community, by some miracle, develops the will to make a real attack upon the problem of inflation. What might be done?

The selection of policies should be based upon a clear perception of the basic economic problem which confronts the United States and, indeed, most of the countries of Europe and Asia. This problem is briefly and simply stated. On the one hand, the United States and most of the countries of Europe and Asia are acutely short of industrial plant and equipment. On the other hand, the people of these countries have a strong reluctance to save. Both of these conditions are partly a result of the war. The war prevented business enterprises from making ordinary replacements and compelled them to postpone executing plans for expansion. The war also compelled consumers to go without many goods which they would ordinarily have purchased. The huge need for consumer goods partly explains the low propensity to save. Since industry needs to make large capital expenditures and since people insist on spending their incomes for consumer goods, the needs of industry are being met in considerable measure by an expansion of credit. This is the essence of the problem of inflation in the United States. It is a large part of the problem in countries of Western Europe. In those countries, however, the problem is aggravated by the inability of governments to obtain enough tax revenue to meet their current expenses. In the United States the problem is aggravated by the state and local governments spending more than their revenues and also by many consumers spending more than their incomes.

As far as the United States is concerned, however, present conditions are abnormal only in degree, not in kind. Never have individual savings been sufficient over the long run to meet the capital needs of American industry. These needs have *always* been met in large measure by plowing back the earnings of business concerns. Even the plowing back of earnings has not been sufficient. Consequently, during every period of expansion the capital needs of industry have been met in part by an increase in bank credit. It will surprise many people to learn that the United States has suffered a chronic shortage of investment-seeking funds. Nevertheless, that is true and it explains in part why credit has expanded over the long term about three times as fast as physical output. Nor is the low disposition of the community to save solely the result of the huge needs for consumer goods which accumulated during the war. It is partly the result of very stiff surtaxes—rates so high that persons in the middle and upper income brackets obtain too small a return from investments to induce them to save a very large fraction of their income.

A program for controlling inflation should have two parts. One part should relate to controlling the expansion of bank credit; the other part to stimulating saving. It is obviously intolerable that bank credit should continue to expand after industry is operating at full capacity. Nevertheless, that has been happening, and it will continue to happen unless ways of controlling the expansion of bank credit are put into effect. The merely negative program of checking the expansion of bank credit is not enough. It does not reach the essential difficulty which confronts the community—namely the unwillingness of people to save. Industry has enormous needs for capital because during most of the years since 1929 it was consuming plant and equipment faster than it was replacing them. In the meantime the labor force has grown by about 10 million. As a result, capital per worker is substantially less now than it was in 1929 and many thousands of workers are able to obtain jobs only by using equipment which is inefficient and obsolete. If the standard of living of the country is to rise substantially above the present level, enormous amounts of new capital must be added to industry.

Restrictions on the expansion of bank credit would simply attack one of the results of the inadequate supply of savings—namely excessive reliance upon bank credit for financing the purchase of capital goods. It would severely hamper industry in its efforts to increase its capital. During recent years the community has gone to great extremes to discourage saving. Partly this result was an unintended consequence of the use of progressive income tax rates, partly it was a planned policy resulting from the illusion that the community suffers from a chronic surplus of investment-seeking funds and that the community has plenty of plant. Now that the capital needs of industry are far in excess of the willingness of the community to save, the impediments on saving (and investing) should be reduced. This should be the second part of an anti-inflationary program.

Let us look first at the possibility of restricting further expansion of bank credit and then at the possibility of removing some impediments to saving.

VII.

The lack of control over the expansion of bank credit is, of course, a result of the policy of supporting the price of government bonds which developed during the war. Many people believe that the Reserve Banks will be unable, for many years at least, to withdraw their support of government bonds and hence to regain freedom to discourage expansion of bank credit because the consequences to the economy would be too serious.

Termination of the policy of artificially depressing interest rates would obviously leave everyone in doubt as to how far interest rates would rise. Naturally, insurance companies, savings banks, and individuals would be reluctant for the time being to purchase long-term bonds. The pessimistic view of the consequences of this uncertainty is that business concerns, states, and municipalities would be unable to raise long-term capital (at least until interest rates settled down to the new levels), that the demand for capital goods would drop, unemployment would appear in the capital goods industries, and this, in turn, would produce a drop in the demand for consumer goods and a decline of employment in the consumer goods industries. The drop in the price of government bonds might even precipitate considerable selling of bonds by banks and the general public. Some extreme pessimists suggest that the drop in bond prices might precipitate redemption of gov-

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ernment savings bonds and shake people's confidence in the banks. In order to prevent a severe loss of confidence, the Reserve Banks might be compelled to buy considerable quantities of government securities. Hence, the commercial banks might emerge from the period of transition with substantially higher reserves and greater lending power than they had previously possessed. Thus the attempt of the Reserve System to regain control over the expansion of bank credit might defeat itself.

Certainly the seriousness of the problem should not be minimized. Nevertheless, before one adopts a defeatist attitude toward restoring the control of the Reserve System over the expansion of credit, one should consider the results of the policy of no control and one should explore the possibilities of minimizing the disturbances which might accompany a policy of restoring control. The large holdings of government bonds by commercial banks give them an enormour capacity to increase their reserves and thus to expand bank loans. The tremendous needs of industry for capital and the low disposition of the community to save mean that, unless controls over credit are restored, bank credit will expand enormously during the next five or ten years. Furthermore, in the absence of controls, the increase in credit may easily become disorderly.

There is much to be said for a substantial rise in the price level of the United States over the next five or ten years provided it comes gradually. Such a rise would help other countries sell to us and thus would help us develop properly balanced trade relations with the rest of the world. Furthermore, a large advance in prices may also be necessary in order to prevent the wage increases forced by unions from being deflationary. It is imperative, however, that the rise in credit and prices be orderly and occur slowly. Hence the essential question is not *whether* the Reserve System needs to recover its control over the expansion of credit. The essential question is *how* and *when* this control shall be re-established. Can it be done without creating grave disturbances? Under what conditions is the danger of disturbance least?

Undoubtedly much can be done to minimize the disturbances which result from withdrawal of support from the government bond market and undoubtedly, also, the timing of the action is important. It is quite probable that the disturbances will be much less than many people fear, particularly if the withdrawal of support occurs at a time when the budget is running a substantial surplus, when the demand for consumer goods and capital goods is strong, and when special measures are being taken to stimulate the demand for investment securities. Certainly withdrawal of support from the government bond market should be gradual and need not be complete. This withdrawal, or the prospect of it, would undoubtedly lead the banks and some individuals to reduce their holdings of medium and long-term government securities. The Reserve Banks would probably buy these securities (or a large part of them) at slightly below the old support prices. In order to prevent the commercial banks from substantially increasing their reserves, the Reserve Banks would sell short-term government securities. The Treasury might need to help by issuing short-term government bonds and retiring part of long-term issues. In order to reduce the capacity of the banks to increase their reserves by selling government bonds and to limit the demands on the Federal Reserve Banks, the government might offer holders of its obligations an opportunity to convert them into non-negotiable issues, running from three to five years. The rate on the non-negotiable issues could be made sufficiently attractive to cause a substantial proportion of present securities to be converted into non-negotiable issues. The interest costs of the debt to the government would rise, but this objection is of minor importance. Much of the national debt would be demonetized and the operation of restoring to the Reserve System power to halt the expansion of credit would be facilitated.

Is the present or the near future a good time for the Reserve Banks to withdraw their support of the government bond market? If the problem were merely a domestic one, the case for prompt action would be overwhelming. The budget is running a large surplus, there is an enormous and insistent demand for both consumer goods and for capital goods which will not be easily disturbed, corporate profits are large and the demand for industrial equipment and construction is being financed to an abnormal extent by ploughing back these profits. As time passes, the urgency of the demand for both consumer goods and capital goods will diminish. This will mean that the economy will be more sensitive to disturbances in the capital markets. Furthermore, pressure for tax reductions is so strong that it is doubtful whether the government can continue to run a large budget surplus for another year or two.

The principal doubts as to the wisdom of withdrawing support from the government bond market this year spring from the international interests of the United States. It is imperative that the economic prestige of the United States be maintained abroad and that the country continue to make a good record for turning out goods and for giving employment. If withdrawal of support to the government bond market produced a severe recession, the Russians and their supporters in Western Europe would make much capital from it. I believe that the operation can be so managed under present conditions as to avoid serious or prolonged effects on production and employment, provided Congress is willing to give its full cooperation by removing some of the impediments which in recent years have been placed on saving. Consequently, it is wise to act soon rather than to wait until the budget surplus has disappeared and much of the accumulated demand for consumer goods and industrial equipment has been met. Certainly advocates of delay should be prepared to show why conditions at a later date are likely to be as favorable as present conditions.

VIII.

How can the community's need for substantially more individual savings be met? Present taxes go to inexcusable extremes in penalizing both enterprise and thrift. The existing surtax rates cannot be defended either as a long-run source of revenue or on grounds of justice. It is not unreasonable to permit a man who invests money or who sells services to keep for himself at least half of what a willing buyer considers this money or these services to be worth. This is true regardless of how large a man's income may be. Unfortunately the present is not a good time to undertake a broad reform of the tax system—unless the reformers are willing temporarily to offset the immediate inflationary effects of tax reform by a forced saving levy. So great are the accumulated needs for goods that the immediate effect of tax reductions would be substantially to increase expenditures for consumer goods.

How then might saving be encouraged? One way is by making a renewed effort to sell government savings bonds and by making these bonds more attractive—say by offering to redeem them at the end of ten years with one-third more *purchasing power* than he buyer paid for them instead of one-third more *dollars* than he paid for them. Greater sales of savings bonds would enable the government both to control the expansion of bank credit by paying off part of the debt held by the Reserve Banks and to increase the funds available for private investment by paying off part of the debt held by corporations and individuals.

Efforts to sell more savings bonds under present market conditions will probably not produce the necessary increase in savings Hence stronger ways of encouraging saving are needed. A simple way of doing this is to permit taxpayers to claim a lower rate of taxation on that part of their taxable income which is saved but not hoarded. This could be done by permitting each taxpayer to submit a form showing the net amount of non-monetary saving which he has made during the last year—the net result of his purchases and sales of securities, stocks, bonds, and real estate, and the net change in his indebtedness less any decrease in his bank deposits. On this part of his income let him be permitted to claim a substantially lower surtax (say 25% less) than he would pay under present surtax rates. Such an arrangement would be a direct attack upon the country's essential economic difficulty — namely the deficiency of savings.

Removing some of the impediments to saving should be timed to occur when the Reserve Banks withdraw their support from the government bond market. A strong incentive for individuals to reduce their expenditures for consumer goods and to repay their debts and to increase their purchases of securities and real estate would go far to protect capital markets from disturbance as the Reserve Banks ceased supporting government bonds.

IX.

This analysis of the near term business outlook reveals the difficulties of operating the kind of economic institutions which the United States possesses. It would be comfortable and convenient if the economy would only run itself—as the nineteenth century economists thought that it could be trusted to do. The essential difficulty in operating the kind of economy which the United States possesses is that tolerating or encouraging inflation has far more political appeal than restricting it. There are political gains in supporting a price, in helping this, that, or the other group to obtain credit on easy terms, in encouraging this, that, or the other group to go after a wage increase, in protecting this or that industry from foreign competition. Hence, the more pervasive government intervention in economic matters, the stronger are the inflationary influences in the economy. And the stronger the inflationary influences, the more violent are the major collapses and the more comprehensive and radical are the measures which the government must use to combat a major collapse.

If the community continues to shrink from dealing with the problem of inflation, the volume of short-term debt will gradually increase relative to the national income and the creeping rise in prices will go on—interrupted every now and then by small recessions. The creeping advance in prices will not be the major problem—though it will create difficulties for special groups such as persons having a large part of their assets in bonds (government or private) and persons living on pensions or on the proceeds of life insurance. The principal problem will be the rise in short-term debts relative to the national income. Eventually the volume of commercial bank loans may climb to 40% of the national income where it stood in 1929. That would make it far above $100 billion at some future level of prices. Today commercial bank loans are not even one-sixth of the national income. As short-term debts rise relative to the national income, the foundation will slowly be laid for a big "bust." The economy is not near a bust at present. Indeed, years will be required to build up the conditions for a major collapse—especially since the demand for goods is fortified by huge accumulated needs.

The reluctance of the community to deal squarely with the problem of inflation makes one wonder what kind of a transformation the economy will go through when the next major collapse occurs. The community will not tolerate large-scale unemployment for long. It may insist on promptly underwriting orders for a large part of industry. The business man would be relegated to an order-taker rather than a maker of economic policy. Today the community has a chance of insisting that the economy be so operated that it does not gradually lay the foundation for a future bust. The public is not doing it and shows no signs of doing it.

Capitalism, as we know it, will not be overthrown—at least not in the United States. It may slowly change into something else by failure of the community to insist on the policies which stability requires. The community must not expect its policymakers, either government or private, to adopt measures which represent the long-run interests of the community but which at the moment the public is not willing to support. The central economic question of the time is whether institutions which demand so much foresight, so much self-restraint, and so much devotion to common interests by so many people as do the institutions of capitalism can be expected to survive.

Jackson Sales Mgr. for Harris, Hall & Co.

CHICAGO, ILL.—Harris, Hall & Co., Inc., 111 West Monroe Street, announces that as of Jan. 1, 1948, Carl W. Jackson has been appointed sales manager. Mr. Jackson joined the company shortly after it was organized in 1935 to carry on the corporate bond business formerly conducted by the investment department of the Harris Trust & Savings Bank.

Menace of Communism's Growth

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gether, now it will be a fight for life."

But the crisis passed without a revolution and Marx and Engels began to suspect that they had been false prophets. On February 13, 1863, Marx wrote to Engels thus: "This much is certain—the era of revolution has now fairly opened again in Europe. And the general position of things is good. But the comfortable delusions and the almost childish enthusiasm with which we hailed the era of revolution before February, 1848 have all gone to hell."

Similarly, in 1895, twelve years after the death of Marx, Engels wrote: "History has proved us, and all who thought like us, wrong. It has made it clear that the state of economic development on the Continent at that time was not, by a long way, ripe for the removal of capitalist production."

The time was not ripe and the premature insurrections failed because, as Engels said, big industry had not yet taken root in France, Germany, and other countries, and had not yet created "a genuine bourgeoisie and a genuine large-scale industrial proletariat." Moreover, attempts at revolution of the Marxian type were rare, for most of the radicals of those days were political leaders like Karl Schurz and Louis Kossuth, or utopian socialists like Fourier, Owen, and some of the Chartists.

Internationalism, however, survived, and took a new lease on life at and after the international exhibition held in London in 1862, when British and foreign labor leaders met and steps were taken toward the creation of an organization to promote the interests of labor throughout the world. The movement culminated in a meeting in London on Sep. 28, 1864, mostly attended by English wage-earners and labor leaders, with representatives from France and Italy and a group of German socialists, who had been members of the Communist League. Among them was Karl Marx, who was asked to prepare the Inaugural Address and a set of rules for "The Workingmen's International Association," which were unanimously adopted on Nov. 22, 1964. Thus was born the First International.

Strange to say, in his inaugural address Marx did not mention either socialism or communism, but dwelt chiefly on the miseries of the poor, the indifference of the rich, the benefits of labor legislation, the cooperative movement, and the need of solidarity of action between the British and the Continental working classes for the conquest of political power. But he did end his address with the slogan of the Communist Manifesto: "Working men of all countries unite!"

This toning down of revolutionism did not indicate that Marx had changed his views, but merely that most of his associates would not have stood for anything too radical. In a letter to Engels he wrote: "It was very difficult to frame the thing so that our own view should appear in a form acceptable from the present standpoint of the workers' movement. It will take time before their awakened movement allows the old boldness of speech."

Marx and Engels had great hopes of the International, even though it was not revolutionary enough for them. In the year 1867 Marx wrote, in a letter to Engels: "Things are moving. And in the new revolution, which is perhaps nearer than it appears, we (i.e. you and I) will have a powerful engine **in our hands.**"

But there was lack of unity and harmony in the movement because of theoretical differences, national and local conditions, and personal bickerings. In Germany, for example, the Social Democratic Party developed a sort of compromise between the views of Lassalle and those of Marx; in France and Italy there was a strong trend toward Anarchist-Communism; and in Britain the London Trades Council declined to become the British section of the International. Then, too, there was a serious quarrel between Marx and the anarchists led by Bakunin, which resulted in their expulsion from the International. This conflict, together with the Franco-Prussian War of 1870 and the events connected with the Commune of Paris, ruined the International, which ceased to exist after the final congress in Geneva in 1873. In a letter to Sorge, the German-American secretary, Engels wrote in September, 1874: "With your resignation the **old** International is entirely wound up and at an end . . . I think that the next International — after Marx's writings have had some years of influence—will be directly Communist and will openly proclaim our principles."

After this, the march of socialism continued in various countries, especially in Germany, where the Social Democratic Party, successor to the Universal German Workingmen's Association, founded by Lassalle in the year 1863, was very active under the leadership of Bebel and Liebknecht. But as they stood for reform rather than revolution and had discarded the name of communism they incurred the wrath of Marx and Engels who, in a long letter to Bebel, Liebknecht, Bracke, and others, criticized their policy of compromise with biting sarcasm, denounced the spineless attitude of those who wished to repudiate the class struggle and the expectation of a bloody revolution, and threatened to resign from the Party.

True, Marx and Engels themselves had compromised with the trend toward reformism and opportunism, but had never repudiated revolution as many social democrats had done, though still professing to be Marxists. In one connection Marx said: "I have sown dragons and gathered a harvest of fleas." And he used to say of certain French Marxists: "All I know is that I am not a Marxist."

The Second International, which was founded at an international congress in Paris in 1889 — the hundredth anniversary of the great French Revolution—was not rooted and grounded in the principles of communism according to Marx and Engels. It was a loose federation of socialist parties in various countries which had developed in their several ways, no longer called themselves communists, and were very conscious of the danger and futility of premature insurrection after the fashion of Babeuf. It was, therefore, characterized by a spirit of compromise, opportunism, repudiation of violence, and a disposition to wait patiently for the proletarian revolution to come in the fullness of time as a peaceful culmination of a long period of social evolution.

Engels, of course, still looked for a violent revolution when conditions should be favorable, but in 1895, twelve years after the death of Marx, he wrote: "In Latin countries it is being more and more recognized that the old tactics must be revised. Everywhere the unprepared onslaught has gone into the background, everywhere the German example of utilizing the suffrage, of winning all posts accessible to us has been initiated. Even in France the Socialists are realizing more and more that no lasting victory is possible for them unless they first win the great mass of the people, i.e., the peasants. . . . We, the revolutionists, the rebels—we are thriving far better on legal methods than on illegal methods and revolt."

As the proverb has it: "The proof of the pudding is the eating of it"; and certainly the tactics of the Second International seem to have been justified by the outcome, for the affiliated parties in every country increased in numbers and influence until it began to look as though the revolution might come by peaceful political action in several countries of western Europe. In Germany, for example, in the election of 1912, the Social Democrats polled no less than 4,238,000 votes, or 34.8% of the total vote.

But two years later the World War came and socialists everywhere, despite their profession of pacifism, sided with their respective countries and thus brought about an irreparable division of socialist forces from which the Second International has never quite recovered. Composed mostly of moderates it is detested and reviled by communists as standing for gradual evolution, pacifism, peaceful persuasion, obsolete democracy, parliamentarism, political action, compromise with the bourgeoisie, half-hearted encouragement of labor unions and, in general, a policy of watchful waiting until, by virtue of ballots rather than bullets, the proletariat shall come to its own. In brief, communists hate evolutionary socialists more than they hate capitalism, and their feelings are heartily reciprocated.

Writing in 1915, Lenin bitterly denounced Kautsky, "the greatest authority of the Second International," and Plekhanov, the leading Menshevik, thus:

"These people castrate Marxism; they purge it by means of obvious sophisms of its revolutionary living soul; they recognize in Marxism **everything except** revolutionary means of struggle, except the advocacy of, and the preparation for, such struggle, and the education of the masses in this direction." Elsewhere he wrote: "Reformist Socialism is dying; regenerating Socialism will be revolutionary, non-compromising, rebellious."

Not only Kautsky and Plekhanov were thus placed under the ban, but in his list of renegades and apostates Lenin mentioned a number of the leading socialists of the world, including Bernstein, Scheidemann, Vandervelde, Languet, Turati, Sidney and Beatrice Webb, Ramsay Macdonald, Philip Snowden, Arthur Henderson, and Bernard Shaw. In fact, there is scarcely one well-known socialist who could pass muster when Lenin separates the sheep from the goats. And to all of this William Z. Foster, chief of the Communist Party of the United States, said this hearty amen: "The Socialist parties of the world are the third parties of Capitalism, the maid-of-all-work of the capitalist class. The Socialist party stabs the working class in the back."

Notwithstanding the animosity of communists, evolutionary socialism is stronger in Great Britain, France, the Scandinavian countries, and some others than it was before the first world war, and is recognized by friend and foe as a bulwark against Bolshevism. The Second International was revived in 1919 and still exists, but the socialist parties in the several countries go their own way without much international cooperation.

The Bolshevik revolution led by Lenin and Trotsky broke out on Nov. 7, 1917 (Oct. 25, old style), and at a party conference in March, 1918, the Bolshevik faction of the Social Democratic Party of Russia, changed its name to "The Communist Party of Russia," and until the end of the war it was the only communist party in the world. At the call of the Central Committee of that Party the first "Communist International Congress" met in Moscow in March, 1919, and there was born the Third or Communist International — the Comintern — in opposition to the Second International and for the propagation of communism throughout the world. Gregory Zinoviev was elected President and served in that capacity until he was ousted by Stalin in 1926—and later "liquidated." After him the successive presidents were Bukharin, Molotov, Manuilsky, Kuusinen, and Georgi Dimitrov, of Bulgaria.

According to the constitution of the Communist International the supreme authority is vested in the World Congress, composed of delegates of the affiliated countries, but as it does not often meet the Comintern is dominated by the Central Committee of the Communist Party of the U.S.S.R., and that by the Political Bureau of seven members, of which Stalin was Secretary for so many years.

The basic principles of the Comintern are embodied in the famous "twenty-one points" laid down by Lenin in July, 1920, among which are the following: The decisions of the Congress and its Executive Committee are binding upon all the affiliated parties throughout the world, and iron discipline must be enforced. The whole press of every party must be directly under control of the Executive Committee. Every member of such a party must belong to a nucleus or cell within the establishment in which he is employed, and the duty of the nucleus is to convert the workers to communism, to obtain control of the labor unions, to foment mass strikes and, in general, to create unrest and prepare the way for the coming proletarian revolution. Reformists and centrists must be removed from all responsible positions within the labor movement and replaced by communists. Every communist party must endeavor to disorganize, as much as possible, the army of his country. Every party adhering to the Comintern must call itself officially a "communist party" and there must be periodical purges of the whole party membership.

Similar orders were given by Lenin in his "Left-Wing Communism," first published in June, 1920, in which he wrote: "The revolutionary but foolish left Communists stand by shouting:

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'the masses, the masses!' and refuse to work with the trade unions. Greater stupidity and greater damage to the revolution than that cannot be imagined." Thus Lenin sanctioned the policy of "boring from within" long practiced by socialists in the United States.

In the same book Lenin discussed another vital question as to whether communists should participate in bourgeois parliaments, and concludes that, although some might be corrupted by the bourgeois environment, the faithful would have opportunity in parliament to make their voices heard, and in times of election could appeal effectively to the masses. In England, for example, where such socialists as the Hendersons, Clynes, Macdonalds, and Snowdens were "hopelessly reactionary," it might upon occasion be wise to cooperate with them in order to trip them up later. Thus he wrote, in a passage worthy of Machiavelli:

"If I as a communist come out and call upon the workers to vote for the Hendersons against Lloyd George, they will certainly listen to me. And I will be able to explain in a popular manner not only why Soviets are better than Parliament, but I will also be able to explain that I want to support Henderson with my vote in the same way as a rope supports one who is hanged . . . and will accelerate the political death of the Hendersons and the Snowdens as was the case with their friends in Russia."

In the Program of the Communist International, adopted at the 6th Congress in 1928, the strategy and tactics of communist parties everywhere were prescribed along the lines laid down by Lenin in "Left-Wing Communism" and other writings. Directions are given for liquidating the rich peasants, neutralizing the middle peasants, and enlisting the support of the agricultural laborers and poor peasants. The small urban craftsmen and shopkeepers also are to be neutralized or mercilessly suppressed, but communists are asked to remember that "the industrial workers alone are capable of leading the entire mass of the toilers."

The winning of the masses, therefore, is the task of the communist parties in all countries and can best be achieved through the trade unions. "It is the bounden duty of ever communist to belong to a trade union, even a most reactionary one, provided it is a mass organization." As members of unions, communists are to cooperate in working for higher wages, shorter hours, and other partial demands and palliatives; but they must remember the final end in view and "utilize the minor, everyday needs as a starting point from which to lead the working class to the revolutionary struggle for power."

All this, of course, is preparatory to the expected day of ripeness for revolution and the time to strike. For this the instructions are specific and seem to be followed just now by Italy and France under orders from Moscow.

"When the revolutionary tide is rising, when the ruling classes are disorganized and the masses are ready for action and for sacrifice, the party of the proletariat is confronted with the task of leading the masses to a direct attack upon the bourgeois state. This it does by carrying on propaganda in favor of increasingly radical transitional slogans and by organizing mass action. This mass action includes: strikes; a continuation of strikes and demonstrations; a combination of strikes and armed demonstrations; and, finally, the general strike conjointly with armed insurrection against the state power of the bourgeoisie. The latter form of struggle, which is the supreme form, must be conducted according to the rules of war; it presupposes a plan of campaign, offensive fighting operations and unbounded devotion and heroism on the part of the proletariat. An absolutely essential condition is intensified revolutionary work in the army and navy."

After the revolution of November, 1917, the Bolsheviks, flushed with victory, expected the proletariat of the world to rise *en masse* as soon as they gave the word. Zinoviev, first President of the Comintern, wrote in 1919: "Before a year has passed the whole of Europe will have gone over to the Soviet system," and Trotsky claimed that the Red Army, after defeating the Whites, would conquer Europe and America. Lenin seemed to think that the world revolution was already an accomplished fact, for he said: "The Soviet system has conquered not only in backward Russia but in the most highly civilized country in Europe, Germany, and in the ancient capitalist stronghold, England. Even in America, the most powerful and youngest of the capitalist countries, the Soviet system has the sympathies of the working class."

These premature prophecies however, were not fulfilled, for the attempts at revolution in Germany, Austria, Hungary, Czechoslovakia, and elsewhere failed, and the Bolshevik revolution brought about its own negation in a world-wide counter-revolution which, in Italy, Germany, Spain, and some minor countries, took shape as Fascism, Nazism, and other reactionary dictatorships. The Comintern, always the agent of the Soviet Government, was at first very active in fomenting revolutionary movements in various countries, including China, and especially during the presidencies of Zinoviev and Bukharin; but after their demotion and liquidation, the purging of the Communist Party, and the liquidation of Trotsky and most of the old guard of Bolsheviks, the Soviet Government under Stalin followed more and more the old ways of nationalism, imperialism, and bureaucracy, and tried to make communism successful in Russia before launching another campaign for the conversion of the world.

The importance of the Comintern, therefore, gradually diminished, and in May, 1943, under stress of war and to allay the fears of Russia's allies, it was declared to be dissolved. This announcement was received with great enthusiasm in certain quarters, but those who were better informed believed that the Comintern had merely gone underground, hibernating, as it were, in a state of suspended animation, though ready to revive and resume upon occasion.

The occasion arose when it looked as though the United States would come to the help of Greece, Turkey, and western Europe in a large way and thus block the spread of communism and the territorial expansion of Soviet Russia. The Comintern, therefore, or its equivalent, awoke and took action. At a meeting in Warsaw in September, 1947, of representatives of the communist parties of the Soviet Union, Poland, Yugoslavia, Bulgaria, Romania, Hungary, Czechoslovakia, France, and Italy, it was decided to create an International Information Bureau which can be nothing else than a revival of the Comintern for the nine countries in question and such others as may later wish to participate.

The Information Bureau is to be composed of two representatives of the communist parties of the nine countries, seven of which are Russian satellites, and their task is "to recognize and exchange experience and, in case of necessity, coordinate the activity of communist parties on the foundation of mutual agreement." The Bureau is to publish a fortnightly and, later, a weekly organ, and its headquarters are to be in Belgrade, capital city of Yugoslavia.

In the Manifesto, which was made public on Oct. 5, it is stated that after the war the Soviet Union and the democratic countries "desired the rebuilding and strengthening of democracy in Europe, the liquidation of fascism and the prevention of a possible aggression on the behalf of Germany," whereas "the United States of America and with them England aim at a different goal—the elimination of competition on the world market (Germany and Japan) and the consolidation of their dominant position."

The Manifesto also declared that "the Truman-Marshall Plan is only a farce, a European branch of the general world plan of political expansion being enlarged by the United States of America in all parts of the world." It denounced also the "treasonable policy of the Rightest Socialists of the kind of Leon Blum, Prime Minister Attlee and Foreign Secretary Bevin, Socialist leader Dr. Kurt Schumacher in Germany, and the right-wing Socialist Paul Ramadier who are traitors in this common cause."

The Manifesto closes with this menacing resolution:

"The Communist parties should place themselves in the vanguard of opposition against the imperialistic plans of expansion and aggression in all their manifestations, whether in support of state administration, politics, economics, or ideology; and they should at the same time make and coordinate their efforts on the basis of a common anti-imperialistic and democratic platform as well as gather around themselves all democratic and patriotic forces in their respective countries."

This recrudescence of the Comintern is, of course, in the first instance an attack on the Marshall Plan and the supposed imperialistic designs of the United States. But, in view of the violent speeches of the Soviet representatives in the United Nations and similar belligerent articles in the Soviet press, and the behavior of communists in France and Italy, one wonders whether the Soviet Government believes that the time is ripe for revolution in western Europe and that Britain and the United Nations can do nothing to prevent it.

However that may be, it looks as though the Comintern and its affiliated parties had begun to celebrate the 100th anniversary of the Communist Manifesto and the abortive revolution of 1848.

Can the Federal Reserve Serve Two Masters?

(Continued from first page)

its commitment to the Treasury Department or to maintain adequate credit control in line with its legal public responsibilities as outlined in the Federal Reserve Act. When the Federal Reserve Board buys government securities for any reason it increases the reserves of member banks, which is inflationary.

The Federal Reserve System purchases and sells government securities through the operation of its open-market committee. The Federal Reserve Act states that the principles governing open-market operations are that "the time, character, and volume of all purchases and sales of paper described in Section 14 of this Act as eligible for open-market operations shall be governed with a view to accommodating commerce and business and with regard to their bearing upon the general credit situation of the country." This, and this only, is the legal justification for the open-market operations of the Board. It is true that as a corollary to its general powers the Board might be justified in purchasing government securities in certain instances—(1) if commercial banks are in need of funds (2) if it could be proven that a drop in the market value of government securities would impair the financial integrity of these institutions or would give rise to a belief in the mind of the general public that such impairment had taken place. Nowhere in the Act does it state that the function of the Board is to support government bond prices or control interest rates in order to keep the debt service as low as possible. It is contrary to the Act if such a policy would have an adverse effect on the general business and credit situation of the country. Such action would therefore be extra-legal as far as the Federal Reserve Act is concerned.

No one would criticize such extra-legal activities of the Board in supporting the government easy-money policy during wartime, especially when, under our war-regimented economy, such a policy would have little ill effect on our economy. It should be clear, however, that the policy was extra-legal and that Congress has never sanctioned such a policy by any amendment to the Federal Reserve Act.

Low Interest Rates Favored

The Federal Reserve has favored low interest rates almost continuously since the advent of the New Deal. In the early days of the great depression, the argument was made that low interest rates in general would stimulate business and low rates on government issues would keep down the cost of servicing a rapidly rising debt. At that time the public credit policy of the Federal Reserve and the Treasury policy were quite compatible. During World War II, a policy favoring a gradual declining interest rate was favored by the Treasury Department and the Federal Reserve System, the two working hand in hand in supporting government securities.

Such a policy was not at variance with the public responsibilities of the Board. It was in the general public interest as part of our war program. Credit was restricted unless it was used to promote war production or production to satisfy essential minimum consumer needs. We did have credit inflation; but it was almost entirely the result of war financing through commercial banks, which was essential in financing the higher Federal deficits.

The Treasury Department quite generally favored a low interest rate from the early days of the New Deal until the summer of 1947. Naturally, the cost of servicing the government debt was paramount in the minds of the United States Treasury officials. Everything possible was done, from an analysis of the most economical maturities to use, to control over the types and amounts of government securities channeled to various segments of our economy in order to secure the most economical financing of a rapidly expanding government debt.

In its 1945 annual report issued in 1946, the Federal Reserve Board pointedly recognized the dilemma facing it in the atmosphere of a postwar inflation. The Board asked Congress for additional and varied control over credit in order to avoid the existing dilemma. In discussing the inflationary boom, the Board stated that the "problem called for a vigorous attack on the basic cause of inflationary pressures." In discussing the need for additional legislation to control credit, the Board stated that existing "restraints may not suffice because of circumstances which are the heritage of war financing." Particularly worried about the short-term government debt at that time, the Board added: "The Federal Reserve System stands ready to purchase short-term securities on the open market in order to prevent short-term interest rates rising above the level the Government is now paying. This assurance (to the United States Treasury) was given because the Board does not favor a higher level of interest rates than the Government is now paying." The Board admitted that the policy made it possible for the commercial banks to increase the money supply irrespective of the Board's national monetary policy. The Board did add that while it did not favor higher interest rates still a "constant downward pressure on interest rates is . . . not desirable under inflationary conditions." Thus the Board favored rates stabilized at about the 1945 levels. It did not favor higher rates nor the replacement of short-term governments with long-term securities as either course would increase the cost of the public debt."

The Board at the time further took the position that the current inflation was the result of a large supply of money already created and the insufficiency of production in relation to the monetary supply, neither of which cause would be corrected by higher interest rates.

Attitude on Government Bond Prices

The Board stated that if government bond prices were permitted to fall and interest rates to rise this would create difficult market problems for the Treasury which must refund constantly; and, in addition, if the price decline was sharp, it might weaken the confidence of the public in financial institutions whose assets were so largely invested in government obligations. However, the Board saw inflation as a dangerous threat to our further economic well-being and asked for more power to curb the rising inflationary spiral, as its existing powers could not be used.

In its 1946 annual report, issued in 1947, the Board called attention to certain factors which were limiting the further monetization of the public debt: (1) the redemption of securities by the Treasury, (2) the selling of governments by commercial banks in order to obtain reserves to back expanding loans, (3) and a discontinuance of the preferential rate by the Federal Reserve on government secured loans. The Board repeated the stand on interest rates which it had stated forcefully in 1945. "In view of the large public debt outstanding, it is desirable to maintain at the existing low level the rate at which the government can borrow on its long-term obligations." As in the 1945 report however, the Board stated that "it would be desirable to avoid further declines . . . in interest rates."

For some time the Board feared the shift by banks from short-term governments to long-term governments in order to increase earnings. To prevent this, the Federal Reserve Board stated that it must be given a direct way to decrease the ability of banks to shift at will their holdings of government securities to the Federal Reserve System and thus engage in excessive credit expansion. The Board stated that attempts to restrict credit at the present time by selling securities of the system in the open market, or by limiting the purchasing of securities by the system, either of which actions might cause sharp declines in the prices of government securities, 'could not be tolerated and . . . might fail to accomplish the desired purpose" in any event.

Statements issued in 1947 by the Board have not contradicted the announced policy of the Board regarding interest rates; in fact, the summer of 1947 found the Federal Reserve System holding the vast majority of the very shortest term government securities as a result of its support policy. This is what happens when you support an artificial rate. You may end up holding all of the securities you are trying to support. Perhaps this is a lesson that the Federal Reserve Banks might review in considering continued support of long-term government securities. The Federal Reserve has permitted long-term rates to drift gradually upward from 2.08% to 2.39% during the past two years.

The Treasury Department raised the rates on its shortest term securities from ⅝% to ⅞% and on its one-year securities from ⅞% to 1% in the summer and early fall of 1947. This must have been a slight set-back to the Federal Reserve that had so recently argued that the rates should not be increased because of the additional cost that would be entailed by the United States Treasury Department. The "sixty-four dollar" question is whether or not the Treasury has decided to let all yields of government securities seek their free and uncontrolled economic level and has released the Federal Reserve from its commitment to support government bond prices.

Federal Reserve Requests Additional Powers

In November, Mr. Eccles requested additional powers to control credit in a statement before the Senate Banking and Currency Committee. Surprisingly enough, his request included only one of the series of changes suggested in the Board's 1945 and 1946 annual reports to which bankers were seriously opposed. Mr. Eccles offered a five-point program to prevent inflation. The point to which bankers took immediate and vociferous exception was that commercial banks be required to hold special secondary reserves against both demand and time deposits in addition to existing primary legal reserve requirements. This reserve would be in the form of short-term government securities or cash items. Mr. Eccles suggested that the maximum be fixed at 25% of demand deposits and 10% of time deposits. Not only has banking opinion been universally opposed to this proposal, but Mr. Snyder, Secretary of the Treasury, stated "I am against it because I don't think it will achieve the ends he expects." The Federal Advisory Council also came out 100% against the proposal and so advised the Board as is its duty.

In summary of the Board's position, it has stated that it must have additional powers to control credit; because if it uses its existing powers, especially in open-market operations, such action would run counter to its commitment to the Treasury. It justifies this commitment, even though it is extra-legal, on the following grounds: (1) that the additional cost to the Treasury would be great; (2) that instability might result in the financial markets, which would interfere with the refunding which must constantly be carried on by the Treasury; and (3) that the decline in market values of government securities might jeopardize the financial standing of banks and insurance companies in the eyes of the public.

Is the Federal Reserve System justified in its position? From the standpoint of costs, the Treasury itself has already adjusted short-term rates upward and the Federal Reserve has permitted yields on long-term issues to rise to 2.39%. If the yield on long-term government securities was to be permitted to rise in line with demand and supply forces, it seems highly unlikely that the additional cost to the Treasury would exceed one and a quarter billion dollars. Balanced against this would be the savings the government obtained by halting or slowing down the pace of the inflationary spiral, which would be well in excess of the billion and a quarter dollars extra interest cost. Furthermore, it is the taxpayer who would be called upon to bear the additional interest cost; but, as a consumer, his savings resulting from halting or slowing down the pace of the inflationary spiral would be many times the increased cost of serving the debt.

In the second case, in the matter of refunding, it seems extremely unlikely that the Federal Government, after adjusting its new offerings to current market conditions, would run into any difficulty in refunding operations. There is still and will be a great demand for governments at the right yield. In fact, if the Federal Reserve and the Treasury Department insist on maintaining yields at low rates not justified by general economic conditions, refunding might be much more difficult than it would be under conditions where rates were permitted to adjust to their free economic level. Support of abnormally low yields might even mean that the Federal Reserve would be buying in great volume the refunding issues as well as the outstanding issues. Therefore, the reserve of the Federal Reserve contention in this regard might be expected.

Effect of Lower Prices of Government Bonds

In the third case, what about the problem of a declining market value of government securities held in the portfolio of financial institutions? It has been estimated that less than 10% of the holdings of commercial banks have maturities in excess of ten years. No conceivable drop in government bond prices could seriously affect such institutions. In the case of savings banks and insurance companies, it would certainly be justifiable to permit them to carry a government security at par; as there is no foreseeable reason for their being forced to liquidate their long-term securities, even though the proportion of their assets in long-term governments, especially in the case of savings banks, is higher than that of commercial banks. Banks should be permitted to borrow from the Federal Reserve against their government securities at par although, of course, at a rate that would not make it profitable for them to do so.

It does not seem that the Federal Reserve Board is justified in supporting government bond prices further or in preventing the yield on government securities from rising. The Board has said that higher interest rates would not, in its opinion, deter inflation, as low interest rates were not the cause of inflation. While it must be conceded that the major cause of inflation is the over-supply of money in relation to production, this situation will gradually change; and while the interest rates may not now be of major importance as a deterrent to inflation, it will gradually assume increasing importance. On the other hand, when the Federal Reserve does support government securities by purchasing them, in order to keep the yield down, it places an equivalent amount of reserves in the hands of commercial banks. It thus expands the credit base, which must be considered as strongly inflationary, at a time when the Board itself is asking for more powers to restrict credit.

The Federal Reserve Board should permit interest rates to adjust gradually to their economic level. It should ask to be released from its commitment to the Treasury Department. At the end of December the Board permitted the price of United States government securities to drop by lowering its bid for certain government securities. However, the Board indicated that this new level will be permanent and that they will not permit a further decline. Does the Board actually mean this or is its recent action only a step in a program to permit government securities to gradually seek their economic level? This is the question that many bankers are asking at the moment.

The Reserve Board should review its stated policy towards government interest rates at a time when the inflationary spiral is rising rapidly. The broad viewpoint as to what is best for our whole economy and not what the Treasury Department thinks it will cost the government should be the guiding principle of Federal Reserve policy. The Board needs no additional powers to meet its responsibility. A leading banker Mr. J. Stewart Baker, President of the Board of the Bank of Manhattan Company, stated the "minimum program" clearly. "To stem the tide of rising prices, expansion in the supply of money and credit must be curtailed. In order to accomplish this the Federal Reserve Board should abandon all commitments—stated and implied—to hold yields on United States Government securities at specific levels. . . . Inflation is too high a price to pay for cheap money and we know that inflation is the inevitable result of artificially maintaining cheap money by the expansion of central bank credits."

Redemption of Bonds Of Republic of Haiti

Banque Nationale de la Republique d'Haiti, as fiscal agent, is notifying holders of Republic of Haiti internal loan (5%) series A bonds and bond certificates due July 15, 1957, that $410,040 aggregate principal amount of these bonds and bond certificates will be redeemed on Jan. 15 at a redemption price equivalent to 100% of the principal amount and interest to the redemption date, through operation of the sinking fund. Payment of the bonds and bond certificates will be made at the head office of the fiscal agent, Port-au-Prince, Haiti, and at the head office of its New York agent, the National City Bank of New York.

W. P. Watts Dead

William Prescott Watts, widely known railroad bond consultant for Stroud & Company, Incorporated, died at the age of 62 after a month's illness.

He joined Stroud & Company's Philadelphia office in 1936, after a number of years in Washington and Baltimore where he acted as an independent railroad bond consultant. For the Stroud firm, he wrote and edited the publication, "Bond of the Week," and was known to hundreds of persons in financial circles throughout the country.

Raising Income Levels vs. Consumer Credit as Inflation Factor

(Continued from page 4)

of consumer credit changes on sales and prices.

When monthly personal income payments are compared with monthly levels of consumer credit, it is apparent that the *cause* of the fluctuations in income payments is not the relatively greater change in the volume of consumer credit. The decline in the index of personal income payments (not the same as disposable personal income referred to in Table I) in 1929 (cf. Table II) began in September while the decline in the total consumer credit index did not begin until November. The downward trend in personal income payment halted in April, 1933, while the more drastic decline in consumer credit halted in June, 1933. The upward trend in personal income payments halted in September, 1937, while the trend in total consumer credit started downward in November, 1937. In 1938, the index of personal income payments rose in July while the consumer credit trend started up uncertainly in August and definitely in November.

Table I.—Indices of Total Consumer Credit Outstanding and Disposable Personal Income (1929=100).

Year	Total Consumer Credit (End of Year)	Disposable Personal Income
1929	100	100
1930	89.4	89.3
1931	72.4	76.4
1932	53.6	58.0
1933	51.4	54.8
1934	57.6	62.6
1935	71.2	70.3
1936	89	80.1
1937	98.1	86.1
1938	92.5	79.4
1939	104.6	85.1
1940	119.7	91.8
1941	129.5	111.6

Source: "Federal Reserve Bulletin" for consumer credit; U. S. Department of Commerce, "Survey of Current Business," Supplement, July, 1947 for disposable personal income.

It appears, therefore, that changes in credit trends are the result of changes in personal income receipts. It is the *expectation* of income increases that stimulates credit expansion and the expectation of declining income that depresses credit volume; therefore, it is fair to conclude that devices designed to stimulate credit expansion during recessions will not succeed unless an expectation of increasing incomes is developed; nor will devices designed to curb consumer credit expansion succeed unless the prospect of rising personal income payments is dampened.

It is important to know, especially as an administrative device, the relation of specific types of consumer credit volume to personal income trends. For this purpose we may review three classes of consumer credit: instalment sale debt (including automobiles); instalment cash loans, and charge account sale debt.

Table II—Indices of Variations of Consumer Credit and Personal Income Payments According to the Timing of the Variation.

Year—	Consumer Credit 1935-39=100	Personal Income Payments 1933-37: 1929=100; 1938-41: 1935-39=100
1929 (recession)	Nov. 113.6	Sep. 102.1
1933 (recovery)	Jun. 57.7	Apr. 55.5
1937 (recess'on)	Nov. 115.6	Sep. 88.7
1938 (recovery)	Nov. 105.3	July 96.4

Source: U. S. Dept. of Commerce, *Survey of Current Business.*

Instalment sale debt shows the same relation to disposable personal incomes as was pointed out in the case of total consumer credit—falling more rapidly than declining disposable personal income and rising more rapidly than rising disposable personal income. While the decline in personal income payments began in September, 1929, the index of instalment sale debt started down unsteadily in September and decidedly in November. The recovery in income payments came in April, 1933, while the recovery in instalment sales debt began in May. The collapse in personal income payments in 1937 began in September; in instalment sales debt it began in October. The recovery in income payments began in July, 1938, and in instalment credit in November.

The conclusions already reached regarding total consumer credit are applicable to instalment credit. This is true because instalment credit made up so large a part of total consumer credit volume during these years. The variations in instalment credit relative to incomes indicate that they are normally the result and not the cause of income fluctuations. Efforts aimed at controlling instalment credit, therefore, may be attacking symptoms rather than causes.

Instalment cash loans show little correlation in time to income variations. For example, the decline in instalment cash loans lagged behind the decline in income payments in 1929 by 14 months. While income payments decreased in 1937, instalment cash loans continued to rise through 1941.

Charge account sale debt indices began a decline, after four months of stability, in January, 1930, lagging behind the September, 1929, decrease in income payments. Recovery began in December, 1933 lagging far behind the start of recovery in personal income payments. The decline in charge account sale debt began in December, 1937, following the September, 1933, decline in personal income payments. Recovery in income payments began in July, 1938, while recovery in charge accounts began slightly before—in June, 1938. The same conclusion regarding the relation of credit trends to income levels that has been reached already applies in this case also.

It has been shown that, following a change in the trend of consumer credit which normally occurs after a change in personal income payments, consumer credit volume then moves in the same direction as income payments until the next change in the income payments trend occurs. The fluctuations in consumer credit trends are more severe than the corresponding movement in the trend of personal income payments. It may be argued that in none of the years under consideration was an effort made to shape the course of credit movement like the efforts made during the War. If the effort had been made then credit changes could have been controlled. If changes in credit volume had been controlled then it may be argued that income would have shown greater stability during this period.

The time relations between consumer credit changes and personal income payments indicates that people incur debt on the basis of expectations of rising personal incomes, and they liquidate those debts on the basis of an expectation of falling personal incomes. The expectation of rising incomes lessens the risk of incurring debt; the expectation of falling incomes increases the risk of incurring debt.

Studies of the Federal Reserve Board shows that as we advance along the income scale, savings increase ("Federal Reserve Bulletin," August, 1947, pp. 951 ff.). Reports of the Department of Commerce show that from 1929-1941 as total personal income payments varied savings out of those incomes varied in the same direction. In other words, the trend of savings rates varies in the same direction as the trend of income and consumer credit.

It follows, then, that as incomes rise and people are confident of the future, if they find consumer credit is not available they will spend from savings or from income that would otherwise have been saved. They are willing to reduce their savings volume in order to spend because savings are a safeguard against the uncertainties of the future; when rising incomes provide this safeguard, then the need for savings is diminished in the saver's mind.

This may be illustrated by the fact that in 1930 when disposable personal incomes stood at $73,688 millions and the volume of total consumer credit outstanding was declining and the cost of living was falling, personal savings for the year amounted to $2,899 millions. This was the beginning of an era of declining personal incomes. In 1939, at the beginning of an era of rising personal incomes (following the 1937-1938 recession) when personal income payments stood at $70,167 millions, savings out of personal income amounted to $2,701 millions. In other words, out of an income, that in 1939 amounted to $3½ billion less than in 1930, savings amounted to almost as much as in 1930. The relatively large proportion of savings out of income in 1939 was due, no doubt, to a lower cost of living as well as to rising personal incomes. But the rising volume of consumer credit that accompanied the increased volume of savings in 1939 is significant. It indicates that despite the lower cost of living people were willing to save and to incur debt. In so far as these savings were deflationary they offset the inflationary tendency of consumer credit; and, in so far as the volume of both consumer credit and savings appears to be the result of changes in the volume of personal income payments, a reduction by force in consumer credit would have been offset by a decrease in the volume of savings. Inflation can be controlled only by an attack on credit, savings habits and incomes—not on credit volume alone.

The objection may be raised to the last conclusion that those who use credit are not the people who provide the savings; therefore, if restrictions are placed on the use of credit they will not affect the rate of savings and, hence, these restrictions will serve to retard total spending. It is true that if the level of dividend, rent, interest and transfer payments in 1939 is corrected for changes in the cost of living, the recipients of these shares of distribution had the ability to save as much, if not more, in 1939 as in 1930. Estimates of the Federal Reserve Board show that approximately 50% of spending units received incomes from $2,000-$5,000 in 1946 and provided about 45% of liquid assets held. If consumer debt arises largely from this group and those below it, who held about 16% of liquid assets, and if our conclusions regarding the reasons for the incurrence of debt be true, it seems certain that a great deal of the contraction in consumer debt afforded by controls will be offset by spending from savings or income that would otherwise be saved so long as incomes have a tendency to rise.

II.

Consumer Credit and Department Store Sales—If consumer credit exerts an important influence in creating inflation it must do this by affecting the demand for goods. In order to ascertain the normal influence of consumer credit on sales, two relations may be established: (1) The timing of charge account sales debt of department stores and instalment sale debt of department stores and mail order houses compared to department store sales; (2) the relative variations in these types of consumer credit, personal income payments and department store sales.

The timing of changes in charge account, instalment sale debt of department store and mail order houses and department store sales is shown in Table III.

Table III.—Indices (Seasonally Adjusted) and Timing of Changes in Trends of Charge Account Sale Debt, Instalment Sale Debt of Department Store and Mail Order Houses, and Department Store Sales.

Year—	Charge Account Sale Debt 1935-39=100	Instalment Sale Debt 1935-39=100	Sales 1923-25=100
1929 (recession)	Jan. 124.3 '30	Mar. 61 '30	Oct. 112
1933 (recovery)	Dec. 77.2	Apr. 37.6	Apr. 67
1937 (recession)	Dec. 104.3	Dec. 119.2	Oct. 93
1938 (recovery)	Jun. 100.3	Nov. 113	Jun. 82

Source: Cf. Table II.

Both types of credit lagged behind the decrease in sales in 1929. Charge account sale debt lagged behind sales in the recovery of 1933 while the instalment credit revival started with the sales revival. Both types of credit lagged behind sales in the 1937 recession. Instalment sale debt, unlike the 1933 recovery, lagged far behind the recovery in sales in 1938 while charge account sale debt recovery began with the recovery in sales. Variations in personal income payments (cf. Table II) preceded the 1929 recession in sales; came in the same month as the recovery in sales in 1933; preceded the 1937 sales recession; and followed the 1938 sales recovery by a month.

The timing of the expansion in sales credit was more closely related in some years with expansion in sales than was the relation between the contraction of credit and the contraction in sales. But the closer relation between the expansion of the variables is not consistent. In 1933, instalment sale debt and department store sales expansion came in the same month. In the 1938 recovery in instalment, sales debt lagged five months behind the recovery in department store sales. Charge account expansion lagged behind the recovery in department store sales in 1933 by eight months while in 1938 recovery in both came in the same month. In view of this, it is questionable if credit is the primary cause of variations in sales. In so far as it is not, then credit controls will prove ineffective in controlling demand in this area.

A comparison of the extent of change in charge account, instalment sale debt, personal income payments and department store sales is given in Table IV. This will indicate the extent to which a change in each of these influences the volume of sales.

From 1933 to 1937 the extent of the expansion in department store sales was much more closely correlated to the expansion in income payments than to credit. From 1938-1941, instalment sale credit and income payments expansion ran far ahead of sales expansion while the charge account sale debt volume increased nearly the same degree as sales.

The conclusion can be reached

Table IV—Relative Changes in Volume of Charge Account Sale Debt, Instalment Sale Debt of Department Store and Mail Order Houses, Personal Income Payments and Department Store Sales.

Period	Charge Account Sale Debt	Instalment Sale Debt	Income Payments	Sales
1933—	75.4—	37.2—	55.1—	57—
1937	108.1	120.2	90.2	94
1938—	99.2—	112—	96.2—	78—
1941 (June)	127.6	177.8	137	104

Source: Cf. Table II. Base Years: Charge Account Sale Debt and Instalment Sale Debt 1935-39=100.
Department Store Sales, 1923-25=100.
Income Payments, 1933-37, 1929=100; 1938-41, 1935=100.
All figures seasonally adjusted.

that credit expansion does not have the causal or intensifying influence on sales volume that is assumed by those that advocate its control.

III.

Consumer Credit and Cost of Living—Despite its apparent unimportance in causing changes in the trend of incomes and sales, consumer credit appears to have some influence in stimulating sales after a trend in a certain direction has set in. It is possible then that after a trend has set in, credit contraction or expansion might cause prices to fall or rise to a greater degree than would occur in the absence of the intensifying influence of credit.

A comparison of the extent and timing of total consumer credit fluctuations and cost of living indices from 1929 to 1941 is shown in Table V.

Table V.—Indices of Variations of Consumer Credit Volume and Cost of Living, 1929-1941.

Year—	Consumer Credit	Cost of Living 1923=100
1929 (recession)	Nov. 113.6	Nov. 100.9
1933 (recovery)	Jun. 57.7	May 72.3
1937 (recession)	Nov. 115.6	Nov. 89
1938 (recovery)	Nov. 105.3	Jan. 86.9
1941 (April)	150.1	86.9

Source: Cf. Table II.

The recession in consumer credit and in retail prices began in November, 1929, and November, 1937. But the same correlation in timing is not shown when the expansion of consumer credit is compared to the expansion of retail prices. The 1933 retail price level rise preceded the increase in consumer credit and, whereas the index of consumer credit had risen from 105.3 to 150.1 between November, 1938, and April, 1941, the cost of living had increased none. The evidence is conclusive that consumer credit expansion had little influence in creating a price rise.

It may be argued that the present situation differs from the condition in the years reviewed here in that scarcities exist today. To that extent any supplement to income quickly pushes prices up. In this respect the imposition of credit controls will serve some purpose in curbing price increases. But, in so far as credit levels are the result of income variations and in so far as, during periods of rising income, credit expansion is offset by increased savings the effort to combat price inflation by credit controls will prove fruitless.

The evidence of this paper points to the fact that it is the level of personal income that is the fundamental causal factor in creating the spiral of inflation. Every effort must be made to control that factor; otherwise, those who are responsible for extending and for controlling consumer credit will be saddled with a responsibility which they may be unable to carry out to the goal of preventing price inflation.

Peace Targets for 1948 and 1950!

(Continued from page 4)

ditions to increase its prospects of success, but above all, treating it as the bipartisan program that it is, and not permitting quibbling or politics to delay and handicap or cut in half and destroy.

Third: We should maintain a strong military position and increase our air power and enlarge our research. This is essential for the dual reasons that no one can guarantee future peace and the decisions of others are more likely to be for peace if we are strong.

Fourth: Our economic practices must be consistent with our foreign policy. Specifically, we should promptly stop shipping to Russia heavy machinery, machine tools, electrical devices, and other apparatus and equipment which could become a part of a Communish war machine. This stoppage of this type shipment should be our rule unless and until the leaders in the Kremlin show by definite agreement and action that they will cooperate in rebuilding Europe. According to latest available statistics, in 1947 the United States shipped more industrial machinery to Russia than to either France or England, and more electrical machinery to Russia than to France and England combined. This does not make sense under the current obstructionist policies of the Politburo. Neither the attempts to minimize the amounts nor to refer to our imports justify this inconsistency. The claim that we receive most of our essential manganese and chrome ore from Russia is not true. We have received less than 1/3 of our total imports of these two ores from Russia and we can, with comparative ease, develop the other sources to fill our complete needs.

Fifth: We should promptly initiate an extensive world-wide campaign of ideas to combat the propaganda line of the Communists of Russia. Its objective should be to advocate, explain, inspire, individual freedom for men everywhere. It should go far beyond the voice of American broadcasts and with versatility and resourcefulness assist the genuine desire for freedom and slake the world-wide thirst for truth.

The 1950 Target

If these five interim phases are well carried out, the year 1950 could see this situation:

Continued success of the American economic system, marked progress in rebuilding Europe with rising standards of living, and a definite trend toward increased individual economic, social and political freedom, continued low production and poor living standards in Russia compounded rather than corrected by the ruble purge, the inability of the Kremlin to successfully wage aggressive war, and diminishing Communist strength in other nations.

This could well be the soil from which the United Nations could grow to greater strength along with a major realignment of Russian policy. This could mean an increased assurance of peace, a brighter outlook for individual freedom and human rights, a larger enjoyment of life with higher production and easier flow of goods, of ideas and of men between nations, and tremendous dividends of better living to all peoples.

To those who mutter "dreamer" and "visionary" to thoughts like these, permit me to respond that all broad happy steps in mankind's tortuous progress, including the original establishment of these United States of America, were met by such labels.

Let me further ask for the alternatives to such an integrated program of long view.

Avoid Jellylike Appeasement

Certainly the history of the world does not recommend a policy of blind and spineless semi-surrender to totalitarian concepts or demands as advocated by the extreme left now in America. From modern Munich to ancient Athens history says that the road to peace cannot be paved with the jellylike blocks of appeasement.

Equally do the lessons of the past and our own powers of reason tell us that problems are not solved by closing our eyes to them, nor does time stop marching if we reach out to turn backward the hands of the clock.

The Young Republicans of America can in this year, 1948, make an historic impact on the policies of our party and own country.

Some of our seniors may demonstrate this year policies and practices which to the youth of the party appear as shortsighted, obstructionist, evasive, and narrow. It will be their right to act as they see the issues. But it will also be not only our right, but our duty to oppose them.

I am convinced that only by such direct and forthright opposition can the Republican party in 1948 be a party that is of service, a party that is humanitarian, a party that is victorious.

Reynolds Elected Pres. Of Pittsburgh S. E.

PITTSBURGH, PA.—W. W. Reynolds, Reynolds & Co., has been elected President of the Pittsburgh Stock Exchange, succeeding John A. Carothers, of James Carothers & Co.

Frank M. Tiernan, Jr., Preston, Watt & Schoyer, was elected Vice-President. William J. Bauer, John B. Barbour & Co., and Hugh A. McNicol, Secretary, were re-elected. Clyde A. Buzza, McKelvy & Co.; Nathan K. Parker, Kay, Richards & Co.; and M. A. Eberhardt were elected directors for three-year terms.

Joseph R. Donaldson Is With Weil & Arnold

JACKSON, MISS.—Joseph R. Donaldson has become associated with Weil & Arnold, Millsaps Building, and will provide continuing service to Mississippi investors through the medium of selected mutual investment funds, according to announcement by R. C. Strain, resident manager. Mr. Donaldson has been in the investment business for many years, in the past having been in the business in New York City.

Clarifies Restrictions on Gold Refined From Foreign Ore

Director of Mint sends letter to American Smelting Refining Co. stating condition under which imported gold ore refined in U. S. may be exported.

The "Chronicle" has been furnished with a copy of the following letter of Nellie Tayloe Ross, Director of the Mint, dated Jan. 2, 1948, and addressed to the American Smelting and Refining Co. and other American refiners.

"Dear Sirs:

"Inquiries from refiners engaged in the business of refining imported gold-bearing material make it appear that many refiners interpret the amended gold regulations as permitting United States residents and organizations, other than the importer and refiner of the gold-bearing material, to participate in the sale of the gold refined from such material.

"To avoid any misconception of the licensing policies of the Treasury Department, we wish to advise you that a license on Form TGL 16 for the export of gold refined from imported gold-bearing material will not be granted in any instance in which it appears that a person or an organization in the United States has participated in the sale of such gold.

"In order effectively to carry out this policy, TGL 16 licenses authorizing exports to anyone other than the foreign exporter of the gold-bearing material will not be granted unless:

"(1) The order of the foreign exporter to deliver such gold states the names and addresses of all persons who have participated in the sale of such gold; and

"(2) The applicant submits a supplementary statement giving (a) all information available to him concerning the persons who have participated in the sale of such gold; and (b) the nature of any information or assistance which the applicant has supplied in connection with that sale.

"Very truly yours,
"NELLIE TAYLOE ROSS,
"Director of the Mint."

Thomas Kemp Officers

PASADENA, CALIF.—Thomas Kemp & Co., 180 East California Street, is now doing business as a corporation. Officers are F. Thomas Kemp, President and Treasurer; J. W. Moorehead, Vice-President; and John J. Fetters, Secretary. Mr. Kemp has been sole proprietor of the firm, with which Mr. Fetters has been associated for some time.

Werle Nominated Again For Curb Chairman

Edward C. Werle has been nominated to the Chairmanship of the Board of Governors of the New York Curb Exchange for the ensuing year, it was announced last night by Francis Adams Truslow, President of the Exchange. Mr. Werle has served in that capacity during the past year.

Edward C. Werle

The slate proposed by the nominating committee for offices to be filled at the annual election of the Exchange on Feb. 9, 1948, also names Eugene P. Barry of Shields & Co., John J. Mann, Fred C. Moffatt, President of the Curb Exchange Securities Clearing Corp., C. V. Quayle and Howard C. Sykes to three-year terms as Class A Governors of the Curb Exchange. Mr. Barry and Mr. Mann will be new members of the board. Mr. Quayle was named a Governor during 1947 to fill the unexpired term of Thomas W. Bartsch, resigned. Mr. Moffatt and Mr. Sykes are current board members.

Caspar C. deGersdorff of Harris, Upham & Co., William E. Dugan of Laidlaw & Co., Bayard C. Hoppin of Hoppin Bros. & Co. and John J. Nolan of G. H. Walker & Co. have been nominated for election to serve for three years as Class B members of the board.

Thomas Morris and E. J. Muller have received nominations for three-year terms as trustees of the Curb Exchange gratuity fund.

The nominating committee was headed by Walter E. Kimm, Sr. of Kimm & Co. and included James A. McDermott, Charles M. Finn of Adriance & Finn, and Joseph F. Reilly, as Class A members, and Albert G. Redpath of Auchincloss, Parker & Redpath, Marshall S. Foster of Gammack & Co. and Conrad H. Liebenfrost of Stern, Lauer & Co. as Class B members.

Mr. Werle began his career in Wall Street in 1919 as a page boy on the floor of the New York Stock Exchange. He quickly became an order clerk for the stock exchange firm of Wade, Templeton & Co., worked for two years for Morin S. Hare & Co., and in 1923 joined the employ of Johnson & Wood. In 1928, Mr. Werle was appointed salaried market employee for Aymar Johnson of Johnson & Wood, and in that capacity represented the firm on the New York Curb Exchange floor until, in 1940, he acquired his membership on the Curb and became a partner of the firm.

A member of the Curb Exchange since July, 1940, and a Governor for the past four years, Mr. Werle has been continuously active in exchange affairs. He is at present Chairman of the Executive Committee and has served in the past on many of the standing committees of the exchange.

News about Banks and Bankers

(Continued from page 17)

Absorption by the **National Commercial Bank & Trust Co. of Albany, N. Y.,** of the **Rensselaer County Bank & Trust Co. of Rensselaer, N. Y.,** on Dec. 22, was indicated in the weekly announcement Dec. 27 of the Board of Governors of the Federal Reserve System. The Board states that in connection with the absorption, the former office of the Rensselaer County Bank & Trust Co. as well as the branch formerly operated by the Rensselaer County Bank & Trust Co. will be operated by the National Commercial Bank and Trust Co.

The Albany "Times-Union" of Dec. 16, referring to the proposed consolidation, stated that Walter Nelson, Cashier and Trust Officer of the Rensselaer County Bank & Trust Co., has been named a Vice-President of the National Commercial Bank & Trust. He will be directing head of the two Rensselaer banks coincident with the merger, said the paper from which we quote, which also stated in part:

"At the same time it was announced that Bartlett M. Huth, Assistant Cashier of the Rensselaer bank, will occupy the same position in the Commercial Bank organization after the consolidation.

"Edward J. Guilfoil, President of the Rensselaer County Bank for the last 22 years, will retire as operations under the new plan begin."

The stockholders of the Rensselaer bank approved the consolidation plans on Dec. 15; the directors had previously voted in favor of the plan.

* * *

Four officers of the **Security Trust Co. of Rochester, N. Y.,** have been named to new posts. Elected Vice-Presidents are: Frederick J. Bendon, John G. Ermantinger and Stanley J. Du Burck, according to the Rochester "Times-Union" of Dec. 23, which added that Kenneth C. Wild was named Assistant Vice-President.

* * *

FIDELITY-PHILADELPHIA TRUST CO. OF PHILADELPHIA

	Dec. 31, '47	Sept. 30, '47
Total resources	$202,789,895	$199,316,898
Deposits	177,188,189	171,655,770
Cash and due from banks	42,450,088	40,291,020
U. S. Govt. security holdings	73,700,739	75,739,375
Loans & bills discounted	61,615,386	54,396,960
Undivided profits	4,118,486	5,046,017

* * *

PHILADELPHIA NATIONAL BANK, PHILADELPHIA, PA.

Total resources	$766,335,111	$713,838,267
Deposits	698,794,474	648,475,219
Cash and due from banks	265,441,018	240,715,735
U. S. Govt. security holdings	288,373,195	298,623,750
Loans & bills discounted	155,155,579	120,327,025
Undivided profits	8,485,825	8,081,853

* * *

On Jan. 1, Albert M. Creighton was redesignated Chairman of the Board of Directors and Federal Reserve agent for the **Federal Reserve Bank of Boston** for the year 1948. Mr. Creighton, who has served in this capacity since his original appointment in January, 1942, was also reappointed as Class C director of the bank for a three-year term. At the same time Harold D. Hodgkinson, Vice-President, General Manager and Chairman of the management board of William Filene's Sons Co., was designated as Deputy Chairman of the board of directors of the Reserve Bank. Mr. Hodgkinson has been a Class C director since January, 1947. These appointments were made by the Board of Governors in Washington, which appoints the three Class C directors and designates the chairman and deputy chairman. The other six directors of the Boston bank are elected by Federal Reserve member banks in the New England district.

* * *

CORN EXCHANGE NATIONAL BANK AND TRUST CO. OF PHILADELPHIA

	Dec. 31, '47	Sept. 30, '47
Total resources	$284,325,594	$279,600,587
Deposits	261,384,974	256,408,944
Cash and due from banks	72,924,275	69,593,792
U. S. Govt. security holdings	115,263,138	108,945,234
Loans & bills discounted	72,812,258	77,913,682
Undivided profits	3,144,346	3,044,962

* * *

A 10-for-1 stock splitup has been recommended by directors of **American Security & Trust Co. of Washington, D. C.,** according to an item in the "Washington Post" of Dec. 23 by S. Oliver Goodman, whose advice also said in part:

"The action, if approved by stockholders at the annual meeting on Jan. 20, will mean changing the par value of each share from $100 to $10. There will be no change in the total par value of outstanding capital stock which is $3,400,000. A letter to stockholders explained the proposed stock splitup is 'in order to encourage a broader distribution' of the bank's stock. Last transaction in American Security's stock on the Washington Stock Exchange was at $300 a share."

* * *

The election of Joel M. Bowlby, President of the Eagle-Picher Co. of Cincinnati, Ohio, to the board of directors of the **Federal Reserve Bank of Cleveland** was announced on Jan. 1 by Geo. C. Brainard, Chairman. Mr. Bowlby will fill the unexpired term, ending Dec. 31, of Thomas E. Millsop, President of the Weirton Steel Co., Weirton, W. Va., who resigned following his election as Mayor of that city.

Joel M. Bowlby

President Ray M. Gidney of the bank announced that George C. Brainard, President of the Addressograph-Multigraph Corp. of Cleveland, and Reynold E. Klages, President of the Columbus Auto Parts Co., Columbus, Ohio, have been reappointed Chairman and Deputy Chairman, respectively, of the bank's board of directors for the year 1948 by the Board of Governors of the Federal Reserve System at Washington. Mr. Brainard also was reappointed Federal Reserve Agent.

The Board of Governors reappointed A. Z. Baker, director of the Cleveland Union Stockyards Co., to the board of directors of the bank and renamed Paul G. Blazer and Josiah M. Koch to the boards of directors, respectively, of the Reserve Bank's branches at Cincinnati and Pittsburgh, all for terms ending Dec. 31, 1950. The directors of the Federal Reserve Bank reappointed John H. McCoy, President of the **City National Bank & Trust Co. of Columbus, Ohio,** to the Federal Advisory Council for the year 1948, and

Redesignated Dr. Francis H. Bird and Howard W. Jordan, Chairmen, respectively, of the Cincinnati and Pittsburgh Branch boards of directors, both for the year 1948, and reappointed Walter H. J. Behm and Thomas C. Swarts to the boards of directors, respectively, of the Cincinnati and Pittsburgh branches, both for terms ending Dec. 31, 1950.

* * *

Promotions of three officers of the **Union Bank of Commerce of Cleveland, Ohio,** were announced on Dec. 31 by John K. Thompson, President. Archie J. Battista, who has been Assistant Vice-President, has been advanced to Vice-President, while E. W. McNelly and W. T. McWade, Assistant Cashiers, have been named Assistant Vice-Presidents. Mr. Battista, who heads the bank's foreign department, was associated with the foreign department of J. P. Morgan & Co. Inc. for 17 years before joining the Union Bank of Commerce in 1946. He is a director of the Cleveland World Trade Association and is a member of various organizations. E. W. McNelly came to the Union Bank of Commerce in 1940 from Investment Counsel, Inc. of Detroit and previously had spent three years with Chemical Bank and Trust Co. of New York. Mr. McWade has been with the bank since its formation, having previously been associated with the Union Trust since 1924.

* * *

CONTINENTAL ILLINOIS NATIONAL BAND AND TRUST CO. OF CHICAGO

	Dec. 31, '47	Oct. 6, '47
Tot. resources	$2,422,901,275	$2,417,711,559
Deposits	2,229,664,369	2,228,000,0[illegible]0
Cash and due from banks	634,122,208	550,112,685
U. S. Govt. security hldgs.	1,210,873,167	1,330,833,601
Loans and bills discounted	490,000,608	458,929,978
Undiv. profits	27,399,698	38,988,514

* * *

Chicago Title and Trust Co. of Chicago, Ill., had net income for 1947 of $1,773,147, equal to $2.96 per share, as compared with $2,108,044, equal to $3.51 per share, in 1946. Earnings as reported did not include capital gains or losses from sales of investments in securities or real estate. Holdings of U. S. Government obligations at the year-end totaled $27,104,815. About 90% of the U. S. Government obligations mature in less than one year. Holdings of preferred and common stocks were reduced from the year previous and State, municipal and corporate bond holdings in the one- to 10-year maturity range have been considerably increased. At the year-end marketable securities had a market value of $1,164,589 above cost. The undivided profits account was credited with a release of excess reserves accounting to $475,000 and the account was charged with the cost of moving and expenses related to the opening of the company's new offices amounting to $72,908 and the purchase of equipment amounting to $367,762. During the year the company's entire employee retirement program was approved by the Bureau of Internal Revenue and the company thereupon transferred to the employees' pension trust the full amount of $1,712,992 shown as a liability in last year's balance sheet.

* * *

Roger B. Shepard, St. Paul, Minn., has been reappointed Class C director and renamed as Chairman of the Board of the **Federal Bank of Minneapolis** and Federal Reserve agent by the Board of Governors of the Federal Reserve System, the bank announced on Jan. 2. Mr. Shepard's term as director is for three years ending Dec. 31, 1950. His appointment as Board Chairman is for the year 1948. W. D. Cochran, proprietor of W. D. Cochran Freight Lines, Iron Mountain, Mich., was redesignated Deputy Chairman of the bank's board for 1948 by the Board of Governors. At the same time it was announced that Henry E. Atwood, President of the **First National Bank of Minneapolis,** has been reappointed by the bank's directors to the Federal Advisory Council for the coming year. Malcolm E. Holtz, Great Falls, Mont., and B. M. Harris, President of the **Yellowstone Bank, Columbus, Mont.,** were reappointed to the directorship of the Minneapolis Federal Reserve Bank's branch at Helena, Mont., for two-year terms ending Dec. 31, 1949. Mr. Holtz received his appointment from the Board of Governors, and Mr. Harris was named by the directors of the Minneapolis Reserve Bank.

* * *

FIRST NATIONAL BANK IN ST. LOUIS

	Dec. 31, '47	Oct. 6, '47
Total resources	$485,500,857	$454,965,535
Deposits	454,151,505	422,920,446
Cash and due from banks	148,217,904	117,306,423
U. S. Govt. security holdings	143,549,177	151,472,896
Loans & bills discounted	179,552,017	171,190,751
Undivided profits	7,546,246	8,197,367

* * *

THIRD NATIONAL BANK, NASHVILLE TENN.

	Dec. 31, '47	Oct. 6, '47
Total resources	$96,395,083	$89,600,542
Deposits	90,854,304	84,219,155
Cash and due from banks	29,036,675	23,961,504
U. S. Govt. security holdings	23,069,823	24,312,700
Loans & bills discounted	38,635,300	34,874,514
Undivided profits	867,634	708,704

* * *

The election of Dudley E. Binyon as Vice-President of the **Mercantile National Bank of Dallas, Texas,** has been announced by Milton F. Brown, President of the bank. In noting this, the Cleveland "Plain Dealer" of Dec. 25 said in part:

Mr. Binyon, who has been with the Society for Savings since 1932, was named a Vice-President of the Cleveland bank in January, 1947. Becoming associated with the Society as a collector in the school savings department 15 years ago, he has gained experience serving in most of the departments. He has been a member of the term loan and investment department since its inception.

* * *

The directors of **Westminster Bank Ltd. of London** announce that Duncan Alexander Stirling has been appointed a Deputy Chairman of the bank as of Jan. 1 in the place of Sir Malcolm Hogg who, acting on medical advice, retires from the Deputy Chairmanship, but will remain a member of the board. Sir Eric Charles Mieville, K.C.I.E., has been appointed an additional director.

R. F. Lafferty & Co. Admits

Bernard Wolff has been admitted to partnership in R. F. Lafferty & Co., 19 Rector Street, New York City, members of the New York Curb Exchange. Mr. Wolff has been with the firm for some time as trader.

Looks for Only Small Cut in Tax Burden Even Under Reduced Budget

New York Trust Co. points out more effective budgetary control is needed by Congress. Notes dependence of Federal Government on direct taxes on individuals.

More effective budgetary control and scrutiny of expenditures by Congress are urgently needed, according to a study of the Federal Budget in the Winter issue of "The Index," quarterly publication of The New York Trust Co. While the budget can be reduced, only small cuts in our heavy tax burden appear feasible, the analysis observes, and "substantial reductions are possible only if Congress is willing to review periodically its major programs with a view toward contracting them as conditions change and the necessity no longer exists."

In the first two postwar years, the article says, "a start has been made toward control of expenses. Previous Congresses, however, gave benefits to special groups several times as great as the reductions recently initiated. It has been the buoyancy of revenues resulting from a boom and price inflation, rather than reduction of programs, which has permitted the budget to be balanced.

"As for the fiscal year ending June 30, 1949, maintenance of present business volume and prices will doubtless mean a continuation of high revenues. However, if European Recovery Plan outlays are imposed on top of the present level of expenditures, the budgetary surplus will be primarily dependent on the extension of present abnormal conditions."

After tracing the development of budget control in this country, the article notes that "in terms of past procedure, the budgetary process is greatly improved, particularly in initial preparation and screening by the Budget Bureau. However, it would seem much still remains to be done at the Congressional stage. The Budget submitted to Congress is so complex that it is intelligible only to the few who have been dealing with it for many years.

"Most important of all, Congress has never adopted the concept of a legislative audit, nor does it call for periodic progress reports from the Departments, which would permit proper evaluation of the various programs. The machinery for a post audit, review of expenditures in terms of appropriations originally made, and the adoption of general accounting procedure will call for a much larger professional staff than Congress has so far contemplated. Certainly it is difficult, if not impossible, for each member of the various Appropriation Sub-Committees to be fully cognizant of the agency on whose appropriation he must act."

As for expenditures, "The Index" notes that national defense, the veterans' program and international affairs and finance, together with approximately $5.1 billion interest and $2 billion of tax refunds, aggregate $29.3 billion or almost 80% of the entire 1948 budget.

"In appraising Congress' effectiveness in limiting expenditures," the article continues, "it must be remembered where ultimate responsibility rests: the Appropriations Committees do not originate expenditure programs; they may recommend appropriations only for objects on which legislative action has already been taken. The Military Affairs, Veterans' and Foreign Affairs Committees, to mention only a few, approve the basic legislation for which appropriations are necessary."

Concerning revenues, "The Index" says that "individual and corporate taxes are estimated to provide over 71% of total revenues in 1948 compared with only 49% in 1939. Excise taxes, while expanding sharply, now provide only about 17% of total revenues, and miscellaneous receipts only 8%. This category, representing mainly sale of surplus property and recapture of funds in government corporations will undoubtedly decline in future years. Customs taxes now account for only slightly more than 1% of total revenues. Prior to World War I, customs and excise taxes together made up 90% of all Federal revenue. Direct taxes on individuals now provide 16 times as much revenue as in 1939."

Halsey, Stuart Group Offers Utility Issue

Halsey, Stuart & Co. Inc. headed a group of dealers which was awarded $10,000,000 Central Illinois Public Service Co. first mortgage bonds, Series B, 3⅜% due Sept. 1, 1977, on Jan. 5, on its bid of 101.705%. Reoffering of the bonds is being made at 102.365% and accrued interest, yielding 3¼%.

Proceeds from the sale of the bonds and from the recent sale of additional common stock are to be applied to the cost of additions and extensions to the company's properties.

The company is engaged principally in furnishing electric energy and gas to 60 counties in central and southern Illinois, with an estimated population of 650,000. Among the larger cities served are Quincy, Mattoon and West Frankfort. For the 12 months ended Sept. 30, 1947, about 90% of gross operating revenues of $29,971,830 was derived from the sale of electricity, about 8% from the sale of gas and the remainder from the sale of ice, water and heating. During that period the company reported gross income, after maintenance depreciation and all taxes, of $5,910,755; maximum annual interest charges on all bonds outstanding after this financing will require $1,697,000.

With Barcus, Kindred

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Richard D. Ames has joined the staff of Barcus, Kindred & Co., 231 South La Salle Street.

Cladmetals Shares Publicly Offered

Mercer Hicks & Co., New York, on Jan. 6 announced the offering of 1,000,000 shares of American Cladmetals Co. common stock, of $1 par value, at $1.50 a share.

The proceeds of the issue will be used to purchase machinery and equipment necessary for commercial operation, adapt the company's plant in Pennsylvania to operations, purchase inventory, retire small existing obligations, and for working capital.

Philip T. Collins Is With Graham, Parsons

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL.—Philip T. Collins has become associated with Graham, Parsons & Co., 135 South La Salle Street. He was formerly institutional representative for Kneeland & Co., with which he had been associated for a number of years.

M. L. Morton Opens Offices

(Special to THE FINANCIAL CHRONICLE)

SOUTH BEND, IND.—Max L. Morton has opened offices at 1425 East Fox Street to engage in a securities business under the firm name of M. L. Morton Securities Co. He has recently been associated with Maxson Securities Co. and prior thereto was in business for himself in South Bend.

James Ebert Co. Opens

BAKERSFIELD, CALIF.—James Ebert has opened offices in the Haberfelde Building to engage in a securities business under the firm name of James Ebert Co. He was formerly with Walston, Hoffman & Goodwin and H. R. Baker & Co.

How Far can World Bank Contribute to Marshall Plan?

(Continued from page 6)

amendments of the Charter with all the legal difficulties and delays involved in such a move. Moreover, the new dollars (the only currency of any practical importance at this time) would have to come from the U. S. Treasury and thus would again burden the American taxpayer. Therefore, an increase of the capital does not appear to represent a constructive answer to the fund raising problem.

Bond Sales Outside the United States

Additional bonds may be marketed in this country or abroad. The President of the Bank visited the more important capitals of Europe during the fall to explore the possibilities of bond flotations. The silence he has maintained on that subject since his return indicates that his efforts were not successful. However, the matter deserves more thorough exploration before it may be written off as hopeless.

Obviously, the countries which suffered from the war are in no position to spend any of their precious dollars for investment in bonds of the International Bank. However, this might not exclude the possibility to exchange some of their investments in American Government bonds or stocks for those in bonds of the Bank in the interest of European reconstruction.

Moreover, there are the huge amounts of hidden dollars which may be channeled into some productive uses by appropriate methods. An interesting proposal by Andre Istel, noted French expert, should be studied closely by the staff of the Bank.[4]

There is a different situation for the former neutrals. Sweden and Switzerland, in particular, were important prewar financial centers and were prosperous during the war. However Sweden, which has much greater natural resources than little Switzerland, has managed under its Socialist Government to get involved into serious monetary troubles (this is a quite unusual situation deserving some special analysis).

This has left Switzerland, with a more conservative administration, the only important financial market of Continental Europe at this time. Financial experts in Switzerland when consulted by the writer expressed the opinion that the interest rate of the Bank's bonds is too low for European investors. They point to the fact that a 50 million francs 4% loan of the Belgian Railroad Administration and guaranteed by the Belgian Government maturing in 12 years and offered at 99% was received with little enthusiasm. They tend to believe that a bond issue of $10 to $20 million might be placed in Switzerland provided the terms would satisfy the Swiss investors.

This, of course, would be just a drop in the bucket, but the implications would be significant as an initial step toward making the Bank a truly international organization such as it was intended to be originally. What has been said about switching operations before, should be particularly timely in the instance of Switzerland. There are large holdings of so-called "finance dollars" which the Swiss National Bank does not accept for conversion into francs at the official rate; these funds are now mainly invested in U. S. Government securities. By exchanging part of them for bonds of the International Bank, Switzerland could contribute materially toward success of the Marshall Plan without any inconvenience to the holders of those funds.

The Bank would be well advised in taking a much more vigorous attitude in its dealings with foreign countries. Every effort should be made to explain its work and its aims to nations which are flooded with misleading information. This may be accomplished without any considerable expense through the worldwide facilities of the United Nations Information Services as well as the various central banks. In Europe, the assistance of the Bank for International Settlements might be enrolled advantageously. Better understanding of the Bank's activities may be very helpful in facilitating negotiations with borrower governments by removing political and psychological obstacles and misunderstandings.

A recent ruling of the U. S. Treasury Department that interest on the Bank's bonds paid to non-resident aliens is exempt from taxation under the Internal Revenue Code may furnish a good starting point for a drive pointing toward a broader international distribution of the Bank's bonds. In the long run, these bonds should be a leading means for international arbitrage operations such as flourished during the inter-war period and may be resumed gradually during the next few years.

The American Guarantee

In any event, it is the American market that will determine the scope of the Bank's operations and decide whether the $4½ billion goal can be attained or will remain just a dream.

Any analysis of that market, however, will have to begin with the U. S. subscription to the Bank's capital usually referred to as the "American guarantee." The total U. S. subscription amounts to $3,175 million; 20%, or $635 million, have been paid in, while the remaining 80%, or $2,540 million, can be called only to meet unpaid obligations of bondholders.

Under present-day conditions, the market considers the U. S. subscription as the principal security behind the Bank's bonds. This belief has been strengthened even more by the public relations policy of the Bank which persistently stressed the guarantee when preparing the market for its initial bond issue. This may have been unavoidable to secure a successful sale of those bonds, but it was certainly most unfortunate from a long-range viewpoint. For the market has finally decided upon a definite "ceiling" of some $3 billion for issues of the Bank and this de facto attitude has become almost official when referred to in the report of the Harriman Committee.

In the circumstances, there is scant hope to reach the $4,500 million goal as required for the next four years. Responsible quarters seem to be in a somewhat fatalistic mood. They feel they are at the mercy of the market and have little power of influencing it.

And yet the present situation makes it imperative to prepare a determined attempt for breaking the vicious circle that prevents bond issues beyond the $3 billion ceiling. This is a problem which well deserves most careful analysis and exploration.

Interest Rates and the U. S. Guarantee Are Interrelated

Bond sales may be promoted either by an increase in interest rates, a strengthening of the security behind the bonds or a combination of both. The rule that the lower the security the higher the interest rate has always been fundamental. Recent efforts to minimize the significance of the interest rate were not successful in the long run.

The Bank has insisted all along that it is marketing a highest-grade bond which is qualified for a low interest rate. To justify its contention it had to overemphasize the U. S. guarantee. However, with a view to the big job the Bank has to face, the question arises as to whether this policy has not narrowed unduly the market for the bonds. As shown above, it has made their sale in foreign countries virtually impossible.

The demand for industrial rehabilitation and expansion is worldwide and almost limitless; but the supply of funds is determined by uncertainties regarding future developments, both political and economic as well as doubts in the sanctity of contractual agreements in the international field. Investors feel they have a right for some kind of risk premium in stepping into that field even if the risk is small and indirect only. After the first world war, excessive and unconscionable terms were demanded and agreed upon by borrowers which could not stand the stress of less favorable business conditions. Now there appears to be some danger of falling into the opposite extreme: Attempts to keep the interest rates at the lowest possible level may eventually dry up the flow of funds and may leave many countries without urgently needed means of production.

Here is a real dilemma; but it has to be broken in order to meet the present economic situation.

Different Kinds of Bonds May Be Helpful

There is a very strong inducement for the managers of the Bank to proceed slowly and not to worry very much about the future. The Bank may be able to sell another two billion dollars over the next few years within the limits of the American guarantee at interest rates somewhat higher than those of last summer in view of the general stiffening of the market. Why not leave it to future developments to take care of the situation when the "three billion dollar ceiling" will be close on hand?

There should be strong objections to such a take-it-easy policy. The Bank has a job assigned to it by the Charter and the Marshall Plan and it has a duty to do its best to complete it even if this should mean a good deal of troubles and difficulties. The management should consider the *whole* program at this time and try to work out a new approach and new methods in a determined effort to complete its task successfully. This will mean, for all practical purposes, to go beyond the "three billion dollar ceiling" in order to sell up to $4,500 million of new bonds.

In the circumstances, the Bank will have to face the fact that it will have to deal with two different groups of investors and will have to draft its policies accordingly. In the first group are those investors, particularly institutions, which participated in the first bond issue. They look for high grade material but are satisfied with a comparatively low rate of interest. In view of this position, they will avoid even to approach the "ceiling" and as a result the volume of bonds they will be willing to absorb is definitely limited. In addition, they will exercise pressure upon the Bank to deal with the best borrowers only and to pass over applications that may be eligible from a broader point of view.

The second group, on the other hand, will consist of investors who are willing to take reasonable risks provided they are allowed an appropriate premium either by means of a higher interest rate or an opportunity for appreciation of the principal.

In order to appeal to those investors, the Bank may have to issue bonds with a higher interest rate and perhaps below par. The spread between the two categories may be 1 to 1½%. However, these "junior bonds" would have to give preference to the low-interest bonds in regard to the "American guarantee." They would participate in that guarantee to the extent only as it has not been used up by the senior issue. In every other respect the rights of both categories of bonds would be the same.

Temporary Support From U. S. Trust Funds Indispensable

Any attempt to sell from two to three billion of these junior bonds under the present unsettled world conditions would require excessive interest rates and high pressure methods of selling similar to those used during the 'twenties. The market will have to be seasoned for the absorption of this type of bonds and the initial flotations would have to be rather small. Therefore, special measures will have to be taken during that initial period in order to avoid an additional burden upon the American taxpayer.

The trust funds under the administration of the U. S. Treasury Department may provide the means to bridge the period until an improvement of the international situation—such as is expected to result from the Marshall Plan—will permit large-scale sales of junior bonds to private investors who are prepared to take limited risks in exchange for a higher return.

The trust funds are increasing now by some three billion dollars annually; moreover, they sold almost $1,800 million government bonds during 1947 and, therefore, have constantly large sums available for investment. All these amounts have been used for placing government securities and the proceeds used by the Treasury to retire short-term holdings of government securities by the banking system.

This very recommendable policy could be continued even if an amount of two to two-and-a-half billion dollars should be earmarked for the purchase of junior bonds of the International Bank over the next few years; this would absorb only a fraction of the annual accumulation. However, these purchases of the trust funds would be made only if the bonds could not be placed with private investors. The very fact that the trust funds are standing ready to absorb these bonds would surely support their market to a degree as may greatly reduce the total to be sold to the trust funds.

The trust funds receive now 1⅞% to 2½% interest from the Treasury. The difference between the present return and the higher interest rate of the Bank's bonds would have to be placed in a special reserve to provide for possible defaults in the service of the bonds.

Special legislation will probably be required to permit these investments. But Congress surely will prefer this solution to the need for additional disbursements from the Treasury's general fund.

Bondholders Should Be Secured By Mortgage on Facilities Constructed With Bank's Loans

The Bank, in its loan agreements negotiated up to now, has failed to provide for such safeguards as the bondholders may reasonably expect. This was one more reason why so much emphasis had to be given to the "American guarantee." Although the question has been under discussion for more than a year, the Bank has not explained why it did not ask for additional guarantees in the past and whether it will continue that policy in the future.

Undoubtedly, this is a ticklish problem in view of the fact that a majority of the executive directors are instructed by governments which seem to be determined to use the time-honored doctrine of sovereignty as a convenient excuse for their unwillingness to give the bondholders the protection to which they are entitled.

Unless the Bank makes it abundantly clear that it will not extend loans under the Marshall Plan scheme unless it receives adequate security for the benefit of its bondholders, rather than mere paper promises, it will have to face increasing difficulties in selling its bonds.

There is no conclusive reason why the facilities constructed with funds advanced by the Bank should not be mortgaged in the interest of the bondholders to give them something to bargain with in case of default of a debtor country.

Under the terms granted by the Bank in the past there is no protection at all once the proceeds of a loan have been spent; the Bank can merely rely on the good intentions of its borrowers. Who would pretend that these are reasonable terms under prevailing world conditions which investors might accept without misgivings?

Mere silence will not settle the problem. The Bank will have to consider it fully and will have to make its position clear beyond any doubt.

Three and a half years ago, when the Bretton Woods agreements were drafted, there were high expectations regarding the important role of the newly created international organizations in the post-war period. However, events were different from those foreseen by the draftsmen of the Charter and thus rendered very difficult the development of the new institutions.

The next year may bring a decisive turn in the work toward a permanent peace and better conditions all over the world. To achieve success, all available forces will have to be concentrated just as it had to be done during the closing phases of the war. The International Bank has been assigned its place in the strategic plan and it will be up to the management to make sure that there will be no failure.

[4] New York "Times," Nov. 24, 1947.

Tax Cut and Reduced Govt. Spending to Come

(Continued from first page)

cost of government has risen out of all reason. They want those costs cut. We shall do that. The Republican Congress during its first session started to eliminate unnecessary expenditures and relieve the Federal payroll of needless persons. We lopped off several billion dollars from President Truman's padded budget. We have reduced the Federal payroll by approximately one million persons since the Republican drive to eliminate useless bureaucrats.

These accomplishments were made in spite of vigorous opposition of President Truman and his followers. The Administration fought economy every step of the way. They turned loose their propaganda machine to misrepresent the facts.

All across the country one could hear the wails of busybody bureaucrats deprived of some of their sugar plums. The American people are deeply concerned over the high cost of government.

Federal, state, and local governments now cost about $50 billion a year. That is one-fourth of our entire national income of roughly $200 billion. Think of it! The nation's food bill was less than $40 billion in 1946. It cost our people more to be governed or misgoverned than their food cost them. It is estimated that the cost of food has increased about 93% since 1939, while the cost of the Federal Government has gone up 33%. Yes, we are going right ahead with our reduction of unnecessary government expenditures this session. Of course, we'll not be able to finish that job and other matters until the people next November elect a Republican President who will cooperate with a Republican Congress.

Now as to taxes, we shall pass a tax reduction bill this session. I am hopeful we can pass it in the House this month. Continuation of war taxes in peacetime is intolerable and indefensible. The American people know the Republican Party is a party of economy in government and of tax reduction. Twice during the first session of the Eightieth Congress we passed tax reducing bills, only to meet indefensible vetoes by the President. I say indefensible because the Constitution definitely lodges in the Congress the power to say what the tax policy shall be.

Our Federal Treasury today would be operating in the red if the Republican Congress had approved all the spend and spend proposals of the Truman Administration. Largely due to encouragement for competitive enterprise with the advent of a Republican Congress and the constructive record of this Congress, Federal revenue now exceeds outgo for the first time in 17 years. We got the government out of the red, and we are getting the Reds out of the government.

We shall continue to provide adequate funds for effective national defense and the needs of our war veterans. We shall do whatever necessary to maintain the upsurge in home building begun when the Congress took charge of the housing effort from ignorant New Deal planners. We appropriated the largest amount in history for flood control. The Republican Party originated the vast reclamation program that today is meeting the needs of our Western states. The present Republican Congress is expanding and developing that program in a sensible, businesslike way.

With continuation of the economy record of the present Congress, there will be ample margin of Treasury surplus to give the people the tax relief they demand and which they are entitled to have. Lower taxes mean more take-home pay. Lower taxes mean more money to invest in business enterprises for production of goods and to provide jobs. Lower taxes will help cut the cost of living. Taxes enter into the cost of everything we buy. Everytime you housewives go to the store and spend ten dollars, $2.50 of it goes for taxes. Lower taxes mean more money to save, and for our aged citizens lower taxes mean they can obtain the necessities of life and some of the comforts. We must cut the cost of government and cut taxes to help keep America strong.

The American people want to do all they can to help friendly foreign countries recover from the war. They want to stop Communism, but our people want the Congress to be prudent about it and not bankrupt America. Only a strong America can be a bulwark for the Republican form of government and an inspiration for liberty.

Two With Edwards & Sons

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Harold M. Cahill and Frank C. Montgomery have joined the staff of A. G. Edwards & Sons, 409 North Eighth Street, members of the New York and St. Louis Stock Exchanges. Mr. Cahill was formerly with Slayton & Co.; Mr. Montgomery was with Whitaker & Co.

Neilson-Breithaupt

ALEXANDRIA, LA.—Neilson-Breithaupt, Underwriters, 915 Sixth Street, are now engaging in a securities business.

Securities Salesman's Corner

By JOHN DUTTON

SECOND ARTICLE

(Training of Salesmen)

In order to be successful as a security salesman, a man must have certain qualifications that lend themselves to this unique business. Only if he has those qualities will he have the capacity of inspiring others to place confidence in his ability to offer them competent investment service. If he does not have the following attributes of character and personality, it is unfair to the new candidate for a position of salesman to waste his time trying to train him for the job:

(1) **Honesty**—No man can carry conviction and cause others to believe in his own integrity if he is in any way dishonest with himself. By this we do not mean honesty in money matters alone but in every other act of life itself.

(2) **A Desire to Help Others**—No man can make a lasting success out of the investment business if he goes into it with the idea of making a quick killing, using it as a stepping stone to some other line of endeavor, or as a method of exploiting the established relations which he may have with friends and relatives.

(3) **Courage of Convictions**—A man must believe in our capitalistic system, private enterprise, and the benefits of saving and investing if he wishes to convey sound investment ideas to others. He must believe in his own capacity for doing a good job whatever it may be.

(4) **A Desire to Be a Success in the Securities Business—He Must Like the Business**—The securities business is not an easy business but some men like it. They are willing to pay the price of hard work, constant study, and the insecurity which surrounds this industry, because they enjoy their work and the associations that go with it.

(5) **Mental Courage**—To be a good salesman in any line of endeavor a man must be able to take it on the chin and keep plugging. There are days when selling securities is not too difficult—other times the going is so tough that many a man just can't take it. Those who stick to this business in good times and bad must have plenty of old fashioned "guts."

(6) **Good Health**—No man can go out and inspire others to follow him if he doesn't have the energy to back up his ideas with a smile and a healthy outlook on life. Without good health this is impossible.

(7) **Creative Imagination**—There are those with a flair for saying something with a little salt and spice, or of making a suggestion that can turn an objection into a reason for doing business. It will come in handy if you have the ability to dream and think things out in a different way, although many men have made a success retailing securities without too much of this sort of thing. Some men can see a trade or a sale while another may walk right by it—that is the sort of an opportunist that does well in any business, but it is especially valuable to a securities salesman.

If you can hire men who measure up to the foregoing standards, and who also have the mental and educational background to grasp the fundamentals of the investment business, you should be able to train such men to become good salesmen.

The next step after you have selected the men whom you think have the qualifications for success in this work is to teach them how to CREATE CONFIDENCE. Before any man can persuade others to believe in what he is selling HE MUST BELIEVE IN IT HIMSELF. Please read that over again. He must believe in what he is selling. That is where those who do the training must do some selling themselves. To do this you must have policies and principles of your own, which you can convey to new men that will give them confidence in your abilities and experience. If you are just selling securities, buying this and selling that, following a trend or the style of the times, how in the world do you expect a new man coming into the business to pick up the pieces you are throwing around? Yet many firms do just that.

If you sell special situations and do original research to back up your offerings—show your new man how this works out to the advantage of your clients. If you specialize in portfolio analysis show him how this is of benefit to your clients. Give him some proof by allowing him to see some actual case histories that you have in your office. If you combine special situations with investment offerings, let him see how this can be of advantage to the customer. Let your new man understand that no security that you offer will be sold to any customer unless your research and experience causes you to believe that his welfare will be served best by selling such a security. Make it understood that you would rather pass up an order than sell something unsuitable to your clients.

After your new man has confidence in his firm and the competent way they do things you can assist him in acquiring confidence in his own ability to go out and do business. Keep your training course simple. There are much more important things for a new man to learn than statistics. The first thing to learn is how to detect the three broad classifications of security buyers than he will meet. (We are not including institutional buyers because that is a special field of work in itself.) The three classification are as follows: (1) The investor who seeks income; (2) primarily desires income but takes a flyer once in a while for price appreciation; (3) interested in price appreciation. If a security salesman can determine into which classification his prospect belongs he can then select the proper approach in the solicitation of business. The sales presentation for an investor will not fit the speculator—this is just common sense. In other words, your new salesman must learn the three main targets at which he has to aim—then he selects the right ammunition. This does not mean that a canned sales talk can be prepared to bring in the business from each type of security buyer—but there is a certain framework for each particular sales presentation that can be used to advantage, and that is what you should teach your new men.

Next week we will present the framework of a sales campaign based upon obtaining business from the first group—those primarily interested in investing for income. Summarizing briefly the nucleus of a plan for training new men is: (1) Pick men who have the qualifications for success; (2) establish their confidence in the firm for whom they are working; (3) build their own confidence in themselves by teaching (a) knowledge of the business; (b) showing them how to recognize three different types of security buyers; and (4) furnish the right sales ammunition to be used for each particular category of investor or speculator. The fine points of selling will come along later and most men learn more by doing, than by going to the classroom.

Bowman Associates Formed

PACIFIC PALISADES, CALIF.—Bowman Associates has been formed with offices at 15316 Sunset Boulevard to engage in the securities business. Partners are Jesse R. Bowman and Mrs. E. G. Warendorff. Mr. Bowman was formerly with Slayton & Co., Inc.

Joins F. H. Breen Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William J. A. Hughes has been added to the staff of F. H. Breen & Co., 609 South Grand Avenue.

Reports Reduction in Manufacturing Net Income

Joint study of SEC and Federal Trade Commission computes 1947 second quarter net profits at $2.5 billion against $2.7 billion in preceding quarter.

The net income after taxes of all United States manufacturing corporations amounted to $2.5 billion during the second quarter of 1947, according to the quarterly report made public jointly today by the Securities and Exchange Commission and the Federal Trade Commission. This may be compared with the $2.7 billion of profits after taxes during the first quarter reflecting higher costs and expenses more than offsetting higher sales.

According to the report, total sales of all manufacturing corporations for the second quarter are estimated at $36.9 billion contrasted with $35.4 billion the preceding quarter. Net profits before taxes amounted to $4.1 billion compared with $4.4 billion during the first quarter; Federal income taxes were estimated at $1.6 billion for the second quarter and at $1.7 billion for the first quarter. More than $800,000,000 was paid out in dividends, an increase of about $100,000,000 over those paid during the prior quarter.

Total assets of all manufacturing companies amounted to $91.9 billion at the end of June, 1947, while stockholders' equity was estimated at $64.5 billion, an increase of $1.7 billion over the quarter. Of total assets, about $25.2 billion was in the form of inventories, an increase of $500,000,000, while $29.9 billion represented net property, plant, and equipment. The net working capital of all manufacturing corporations amounted to $36.0 billion at the end of June.

As shown by the report, the rates of profit both in relation to investment and to sales were somewhat lower during the second quarter than in the previous quarter. This was true for all but the smallest size class of corporations and for nearly all industry groups. The quarterly ratio of profits after taxes to stockholders' equity dropped from 4.2% during the first quarter to 3.9% for the second. Related to sales, profits after taxes dropped from 7.5% during the first quarter to 6.8% during the second quarter.

Corporations in the middle-size class with assets between $1,000,000 and $5,000,000 continued to show the highest profit ratios while the smaller and larger companies showed lower ratios. Comparing ratios for different industrial groups, it was found that manufacturers of paper and allied products and lumber and wood products had the highest profits related to stockholders' equity. The transportation equipment industry, other than motor vehicles again had the lowest ratio, 0.5%.

The ratio of cash and government securities to current liabilities, which is one rough measure of corporate liquidity, amounted to 90% for all manufacturing corporations at the end of June, 1947, a slight increase over the March ratio. This ratio varied from 66% for companies with less than $250 thousand in assets to 111% for the large corporations with assets of $100,000,000 and over.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—John R. Wahlstedt is now with Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue.

Marxer & Co. Admits Jones

DETROIT, MICH.—Marxer & Co., Penobscot Building, members of the Detroit Stock Exchange, have admitted H. H. Jones to partnership in the firm.

J. O. Ruvoldt Opens

REYNOLDSBURG, OHIO—James O. Ruvoldt is engaging in a securities business from offices at 94 East Main Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Election speeches in and out of Congress will make for nervous market for next few weeks. Be prepared for surprises.

From the way things look from where I'm sitting, this isn't going to be much of a stock market week. The biggest obstacles ahead are the political speeches sheduled to start this week.

* * *

As the weeks pass these speeches will increase, but they will become commonplace by then and will have little effect on the market. It is the first few utterances that make an impression.

* * *

The fact that Congress will also sound off in various directions, will also bring market repercussions. These will be nothing new, except that this is in an election year. So no matter what the various parties believe in or want, it's a safe bet they'll have to go back to some sort of regulation, not voluntary, to show the voters they have their interests at heart.

* * *

It is possible that the market, by it lethargic behavior of the past ten days or so, has already anticipated the above and will react to the various speeches and promulgated programs by more dullness—it is possible, but not probable. So holders of common stocks had better be prepared for "surprises."

* * *

In the past few weeks I have recommended the purchase of steels, oils and coppers. Re-examining them today, they continue to show the "up" tendencies that led me to advise them originally. Some of the individual stocks in these groups are well in the black, others are just so-so.

* * *

This is as good a chance as any to explain my market philosophy; not that I haven't done it before. Many readers of this column are investors. To me an investor is one who seeks a reasonable return on his money plus some assurance that his investment is safe. Under normal economic and political conditions such an approach is wise. It may even turn out to be profitable. Because safety and reasonable return on principal frequently carries with it unexpected profits which may not have originally been anticipated.

* * *

However, I am not an investor. I'm a trader, or if you prefer, a speculator. Safety and return on capital is nice to have, but I'm primarily concerned with profits. I think this is most important today if only to keep intact the purchasing value of the dollar. Stocks are probably the only media which haven't kept pace with the inflationary movement that has touched us on all sides. This doesn't mean that stocks are necessarily cheap. They are never cheap. They are always worth what they are selling for, no more — no less. Subsequent changes make them higher or lower. It is the speculator's job to foresee these changes and act to protect his profits or add to them.

* * *

In all the years I have written this column I have kept this objective before me. If my own records mean anything I think I have managed to do fairly well, though I doubt if there are any sensational profits in this record. But by the same token, neither do I have any shattering losses to worry about.

* * *

What 1948 will bring, I don't know. But I'll continue to go along as I have in the past. The market will probably stay in business for some time. And so long as it does it will, in its own way, forecast coming changes both here and abroad.

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.]

Germany's Sorry Outlook

(Continued from page 10)

Plan" for raising German production to about its 1936 level was published. He was able to see how the plan called forth absolutely no enthusiasm from the German people; the attitude was one of complete indifference, people being too much absorbed in the daily cares of getting today's and tomorrow's bread and fuel for the winter. It is a strange sight to see on hot summer days adult workers in the Berlin Zoo—it would be better to say the former zoo—chopping roots or to see women gathering sticks, in a temperature of 100 degrees.

The "New Plan"

The Allied administration announced that it had been decided to "put" the level of industry on what would be approximately a 1936 basis. Of this, however, the administration is incapable; the German people must do this and be willing to make the effort to realize the plan. There is noticeable in Germany, however, a growing disinclination to conform with allied regulations, either because of suspicion or because of a spirit of resistance. It is not necessary to believe in the latter in order to explain this mentality. The German, both the industrialist and the worker, is prepared to work only if he can share in the fruits of his efforts. This partly psychological factor is clearly reflected in Ruhr coal production statistics, which have not only reacted to the food ration, but also to an increase or decrease in the export of coal.

Without doubt, work is getting done in Germany. It is striking that, in the majority of towns, the clearing of debris has made rapid strides since 1946; more is being repaired, even built, but all this is to the benefit of the German people which, in this way, is improving its apparatus. Whether he be an industrialist or a worker, the German is quite indifferent to an export program as at present being put forward by the allies. This was to be seen at the Hanover Export Fair, held from Aug. 18 to the beginning of September. A number of contracts were concluded — orders even ran into some tens of millions of dollars—but it is doubtful whether these will be carried out. Half of the 1,300 exhibitors were prepared to conclude contracts, on condition that the necessary raw materials and power for production would be supplied. They would not allot raw materials from their own reserves, because only Reichsmarks are received in exchange for the product and this means living on real capital. The other half of the exhibitors were quite uninterested in exports, and exhibited only because the "Handelskammern" (Chambers of Commerce) had encouraged them, and unpleasantness with the allied authorities was feared if it were not done. It is difficult to get anything done with intractable people. It is extremely difficult for the Allied administration to get the cooperation of the Germans in the "New Plan," simply because they do not believe in it. The plan has come too late. A similar action might perhaps have spurred the Germans to cooperation in 1946. This will now be extremely difficult: the misery is so great that the people seem to be inert. What must happen in Germany and how will it be possible to bring about improvement?

Increase in Ruhr Coal Production

In Allied circles the only possibility of improvement is seen to be in the increase of Ruhr coal production. It is true that this is necessary before all. It is hoped to achieve this by an increase in the food ration and a different organization of the mines whereby the management would be put into German hands, under the supervision of the North German Coal Control, the body that acts as trustee for the British Military Government in whom the ownership of the mines is vested. This body acts as manager and will be supplemented by American members. Professional men are of course necessary for good commercial management. It is doubtful whether this will be guaranteed by the way in which the Allied administration thinks to appoint German leaders: by means of an economic council, whose members are appointed by the parliaments of the "Laender." This threatens to give the management a political rather than a commercial character. It remains to be seen whether this will inspire the confidence of the German worker.

There is just as much—or as little—desire for nationalization in the German miners as there is political interest displayed by the German generally: he is more preoccupied with the way in which he can get today's and tomorrow's meal. He will follow and give his confidence to those who can offer him more bread and work. The plan for the raising of Ruhr coal production—which is now showing an increase owing to larger food rations—does not depend only on the quantity of food one puts into the Ruhr. Also necessary in order to guarantee regular labor and production is the confidence one creates among the miners by management and by the destination of the coal produced. This is a psychological factor of the first rank. It is therefore of the greatest importance that (1) one can give the Germans a better standard of living through their increased achievements, (2) provide more hope in the future by good commercial management, so that they can give up their economically—extremely wasteful method whereby, for the greater part, they try to support themselves, by direct exchange, primitive barter!

Stimulating the Desire to Export

In order to revive exports it is just as necessary to have the desire to export, of the German industrialist and worker. To this end it is essential to recreate confidence in the intentions of the Allied Administration and to examine by what technical means the desire to export can be stimulated and finally in what way the new German export can be placed on the world's markets.

If one offers the German worker more to eat and affords him the opportunity of really buying something with the fruits of his efforts and not merely of exchanging them for Reichsmarks without purchasing power, and he realizes that, in this way, he is better off than he is with the present primitive barter, he will undoubtedly, if at first slowly, set to work in a more normal fashion with more animation and less absenteeism. The manufacturer must also be able to trade in a currency that has a certain value and a purchasing power that can be relied on. He must also be free of administrative machinery and red tape. In this connection it must not be forgotten that no freedom of trading can be granted him, not only because one would thus loose control over the activities of German industry and because all sorts of impermissable practices would creep in again. Control is also desirable with a view to German competition on the world market; every country now wants to export and many countries are suspicious of the export drive of others and restrict their imports. One must therefore "fit in" German exports into world trade. This aspect of the German export problem may perhaps produce just as many or even more difficulties as the internal German problem, however great the demand may for the moment be for goods which Germany can supply.

Not Exclusively a Food Problem

As far as can be seen from outside, the Allies have seen the whole problem chiefly as a food problem, as the organization of the management (about which one is not agreed) and as a problem of greater efficiency in the control of imports and exports via the Joint Export and Import Agency. This latter, however, with the retention of the red tape character of this control, which acts as a strong brake. In the event of an expansion of the German exports to the desired level (let us say for the time being up to 5 billion reichmarks a year) it would grow into a monstrosity. As enticement of a bonus of 10% of the foreign currency proceeds to the exporter has been attached to this, but the division of it among those who have a right to it is a puzzle in the case of each transaction demanding the wisdom of Solomon. When one reads in one of last year's monthly reviews of the Neckarsulmer Werke AG that this firm is supplied with parts for the cycles and motorcycles it manufactures by fifteen factories from the Western zones, one can understand with what puzzles the dividers of the bonus are faced.

Necessity for an Export Currency

In what way all these objections could be met? How is one to arrange the appropriate policy? It must be clear that the money situation in Germany if not the root of all evil is one of the most important factors. Without sound money all economic measures are doomed to fail. There are already several plans for money reform from American as well from British as from German side. Apart from the fact that the monetary problem was considered at Potsdam as an exclusively quadripartite affair and agreement with the Russians is not reachable on this point, a monetary reform at this moment will involve difficulties which could only be surmounted by doing it in the rough way of the recent Russian money purge. And even this way would not be effective if there are no guarantees against a new inflation which would make the money reform meaningless. The situation in Germany is so complicated that the advice of men who know German economy well and has also had experience of monetary measures may be useful.

Interview With Dr. Schacht

It was for this reason that the writer, during his visit to Germany, sought out Dr. Schacht, the former President of the Reichsbank (from 1923 to 1928 and from 1933 to 1938) to hear his views on the matter. Through the kindness and cooperation of the Eucom the writer was able to talk with Dr. Schacht at length. Schacht, however, intends to publish his plans—which he says are completed—when, as he says, he is rehabilitated in the eyes of his people. Put more simply: Schacht will cooperate if he is released. Nevertheless, an interview of about two hours with the former leader of German financial and banking policy gave the writer—who has followed Schacht's policy closely since 1923*—an insight into Dr. Schacht's plans. Dr. Schacht him-

*It is interesting to note that the writer has continually criticized Dr. Schacht's policy, which caused Schacht to express his great displeasure publicly at the Stillhalte conference in July, 1933, because the writer had demanded that a Receiver be appointed for Germany because she was no longer paying her debts.

self said only that they would restore Germany's exports without German competition—since 1900 a recurring cause of international friction—being revived and without creating political tension. Further that they would be based on private initiative, without which he did not consider recovery possible; he most strongly condemns every form of collectivism.

What did Schacht do after the last war, when the situation in Germany was by no means so serious as it is now, but in principle had the same features? He stabilized the Reichmark and, to promote exports, established the Golddiskontbank at about the same time—in March, 1924. This had a capital of 10 million pounds sterling and its task was to supply export credits and to issue banknotes in foreign currencies. It never issued banknotes, but it was extremely useful in creating export credits. It attracted a great deal of foreign capital and issued export credits on this basis to German industry. These credits, from Britain, United States, Holland and France, helped to make it possible that Germany, however impoverished, could execute the agreement of Rapallo of 1922 and issue credits to Russia and other East European countries. One can see that such an organization would certainly have to be kept under control. By means of this organization it is possible to get a complete survey of German exports and thus prevent undesirable competition, international cartels and other unwished for developments, and therefore political friction as well. There is further the advantage of being able to replace an official control apparatus with one that is commercially organized and made the instrument of a commercial purpose, which, of course would have to be managed through or under allied control. The Golddiskontbank worked very well for many years, attracting foreign capital through bills of German undertakings and banks endorsed by the Golddiskontbank and foreign establishments. This method would, moreover, have the great advantage that the risks of loans to Germany would no longer be borne by allied taxpayers but chiefly by foreigners who had direct interest in the revival of German exports.

Such a new Golddiskontbank would create an export currency which Germany primarily needs. There would be no objection whatsoever to letting this freely circulate in Germany; it would be a means of exchange with a fixed value in addition to the Reichsmark. There is no reason to be concerned for such a parallel currency provided one allows a free forming of quotations in terms of Reichsmarks. Does not the famous *gulden-banco* — the accounting unit of the Amsterdamse Wisselbank of the 17th and 18th century—then *the* currency for the whole of Europe—afford the finest example of a parallel currency that did not cause the slightest disturbance?

The insoluble problem of the division of the 10% bonus among exporters and workers would then be solved because it would be paid out in export currency. The division can be safely left to the Germans because it is clear that everyone wishing to buy something for export will have to pay in such fixed-value currency. It could gradually replace the old Reichsmark, offering thus a sound opportunity to bring the financial and monetary aspects of the German recovery problem nearer to a solution.

Joins Corbrey Staff

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Roy H. Morris is now with Carter H. Corbrey & Co., 135 South La Salle Street.

The State of Trade and Industry

(Continued from page 5)

that if certain groups are given more steel it must come out of quotas already set up by steel firms for other steel users. A checked survey by "Iron Age" editors indicates almost without exception steel customers are opposed to allocation of steel supplies under government control or suggestion.

Some consumers and steel producers fear, the above trade authority notes, that steel allocations if put into effect will provide a major shot in the arm for gray market activity which has lessened some recently because of the glare of publicity and militant action by some steel companies. Small users and even large consumers whose quotas might be cut further early this year must have steel to maintain competitive manufacturing schedules and as they have done in the past they will obtain it no matter what the price.

Steel consumers are in for another jolt soon because of the second freight rate advance. The rate raise will force additional steel firms to withdraw from distant territories because present steelmaking costs will not allow them to absorb the additional freight necessary to remain competitive in those areas.

Increased freight costs, the almost certainty that steel labor will receive a moderate wage increase, the probability of higher ore prices and the chance that miners' wages and the price of coal may be advanced this year all point to a strong possibility that steel prices must be advanced before the next several months go by, the magazine concludes.

The American Iron and Steel Institute announced on Monday of this week the operating rate of steel companies having 94% of the steel-making capacity of the industry will be 97.9% of capacity for the week beginning Jan. 5, 1948. This compares with 96.4% one week ago, 97.7% one month ago and 90.3% one year ago. Comparison of the current rate with that for the similar week in January, 1947 must give consideration to the change in basic ingot capacity of the industry.

This week's operating rate is equivalent to 1,708,600 tons of steel ingots and castings as against 1,686,900 tons last week, 1,710,000 tons a month ago and 1,580,900 tons one year ago.

FREIGHT LOADINGS 28% UNDER PRECEDING WEEK DUE TO CHRISTMAS HOLIDAY

Loadings for the week ended Dec. 27 totaled 599,357 cars, according to the Association of American Railroads. This was a decrease of 232,773 cars or 28% below the preceding week, and represents a decrease of 28,610 cars or 4.6% below the corresponding week in 1946 but an increase of 93,380 cars, or 18.5% above the same week in 1945.

ELECTRIC PRODUCTION 6.4% HIGHER THAN A YEAR AGO

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 3, 1948 was 4,868,011,000 kwh., according to the Edison Electric Institute. This was an increase of 38,432,000 kwh. when compared to the 4,829,579,000 kwh. produced in the preceding week, and exceeded by 6.4% the 4,573,807,000 kwh. turned out in the week ended Jan. 4, 1947.

AUTOMOTIVE PRODUCTION FOR DECEMBER LARGEST SINCE WAR'S END

Estimated output of cars and trucks in the United States and Canada the past week amounted to 74,092 units, "Ward's Automotive Reports," states. This compared with a revised figure of 75,638 units in the preceding week.

Last week's total comprised 52,987 cars and 18,225 trucks built in the U. S. and 1,870 cars and 1,010 trucks in Canada.

Production in December, 1947 according to preliminary computations by "Ward's" amounted to 483,639 units and exceeded the previous postwar peak of 460,527 units reached in October, last.

The breakdown for December included 361,928 cars and 100,980 trucks made in the U. S. and 14,993 cars and 5,738 trucks in Canada.

Production in 1947 totaled 5,048,780 cars and trucks in the United States and Canada and was exceeded only by 1929, when 5,621,045 units were made, and by 1941, when 5,108,992 were turned out.

BUSINESS FAILURES RESUME UPWARD TREND

Commercial and industrial failures rebounded in the week ending Jan. 1 from the previous week's sharp decline, Dun & Bradstreet, Inc., reports. Rising from 38 to 58, concerns failing were almost twice as numerous as in the comparable week of 1947 when 30 occurred. Although higher than in the first week of any of the years, 1944 through 1947, failures remained far below the prewar level, claiming only one-fifth as many businesses as in the corresponding week of 1939.

Failures involving liabilities of $5,000 or more predominated in the week just ended, numbering 52, compared with 34 a week ago, and were two times as heavy as in the same week of last year. Of the 52 larger failures occurring this week, 7 had losses exceeding $100,000. Small failures under $5,000 remained low, totaling 6, against 4 in the previous week and in the corresponding week a year ago.

FOOD PRICE INDEX CONTINUES UPWARD TREND

The continued rise in foodstuffs lifted the Dun & Bradstreet wholesale food price index for Dec. 30 to $7.24, a new peak. This was a sharp rise above the $7.11 a week earlier. The most recent index represented an increase of 16.6% above the corresponding date a year ago when the index stood at $6.21.

WHOLESALE COMMODITY INDEX RECEDES SLIGHTLY

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., held within a fairly narrow range during the final week of 1947. The index figure for Dec. 30 registered 301.48, as compared with 302.30 a week ago, and with 243.35 on Dec. 31, 1946.

Holiday dullness prevailed in leading grain markets in the week with price movements highly irregular and largely reflecting uncertainties hanging over the markets.

Corn declined sharply at mid-week as the result of liquidation of long accounts by commission houses. Some of the losses were regained in final dealings aided by good demand for the cash article and continued small country offerings of the yellow cereal. Trade in wheat declined and prices sagged under the influence of selling for income tax purposes. Domestic demand for flour showed usual year-end slowness, with prices trending easier as bakers generally displayed little inclination to expand their commitments. Export flour business showed some improvement following issuance of February allocations.

Demand for lard was relatively slow. Prices remained steady despite recent marked strength in hogs. Hog receipts at the principal Western markets totaled 291,500 head for the week, compared with 247,300 for the corresponding 1946 period.

Trading in spot cotton markets was less active last week, reflecting the holiday season. Prices fluctuated in a narrow range and the undertone was firm throughout the period.

There was a moderate advance on the final day of the week, stimulated by the belief that the mid-December parity would show a rise and the expectation of increased European buying.

The higher parity was confirmed by the Department of Agriculture announcement that the Dec. 15 figure was 30.38 cents, or 50 points above the revised November parity of 29.88 cents. Some slackening was reported in textile mill operations. Holiday dullness characterized trading in cotton gray goods. Some mills were said to be selling moderate yardages for fourth quarter delivery.

Although trading in domestic wools in the Boston market remained seasonally dull in the week ending Dec. 30, there was a fair volume of business done to fill in needs for the near future. Buyers displayed a keen interest for fine and half-blood staple wools. Trading in foreign wool markets was largely suspended due to the holidays.

RETAIL AND WHOLESALE TRADE LOWER FOR WEEK BUT ABOVE YEAR AGO

The large increase in the number of clearance sales following the Christmas holiday helped to attract consumers to the stores. Retail volume in the past week was moderately below that of the preceding week and slightly exceeded that of the corresponding week a year ago, according to Dun & Bradstreet, Inc., in its survey of trade for the period ended Dec. 31, last. Generally, mark-downs were neither as large nor as widespread as they were a year ago but consumer response was very favorable.

The approach of New Year's Day stimulated the demand for food and grocery volume was steady and at the high level of the previous week. The demand for liquor was steady at the level of the preceding week but was moderately below that of a year ago.

Promotional and clearance sales of apparel induced consumers to buy. Silk blouses and fancy dresses were popular with some increase in the demand for resort-wear evident. The prices of many types of Fall and Winter apparel were lowered but consumers were especially eager to purchase reduced sportswear.

While the dollar volume of housewares was well ahead of that of a year ago, unit volume rose only slightly.

Good quality china and glassware were eagerly sought and demand for nationally advertised stoves, refrigerators and washing machines remained very large. Automobile tires and accessories were steadily purchased and sporting goods continued to sell well.

The wholesale centers were generally quiet following the Christmas holiday with buyer attendance considerably below that of previous weeks. Wholesale volume was somewhat below that of the preceding week but slightly exceeded that of the corresponding week a year ago. Purchasing continued to center on current needs.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Dec. 27, 1947, increased by 27%* from the like period of last year. This compared with an increase of 8% in the preceding week. For the four weeks ended Dec. 27, 1947, sales increased by 11% and for the year to date increased by 9%.

The effects of the heavy snow storm the past week, a record for New York City, followed by sleet storms, played havoc with business in general and retail sales volume in particular. More department stores showed sales declines than those reporting increases for the period.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Dec. 27, 1947 increased 15%* above the same period last year. This compared with an increase of 7% (revised) in the preceding week. For the four weeks ended Dec. 27, 1947, sales increased 7% and for the year to date rose by 9%.

*The large increases shown for this week reflect in part the fact that in 1947 Christmas fell on Thursday and the week therefore included three days of heavy pre-Christmas shopping as compared with two days last year when Christmas fell on Wednesday.

Let's Close the Import Gap

(Continued from page 16)

and our mistakes will be of greater consequence.

The man in the street is the one who must realize that a peaceful world depends on equal trading opportunities for all; that it depends to a large extent on how quickly the United States can put into effect measures guaranteeing a proper relationship between our exports and imports. It must be accepted as though it were "holy writ," that we cannot continue to sell more than we buy and expect to escape the consequences. We must expose the ugly history of unbalanced and restricted trade; explain how it led to a depression, to a second world war and how easily it can lead to a third.

How about the foreign trading policy of our government? As a nation we are committed to the development of free and unrestricted trade. But this may die in a diplomatic pouch unless the people of this country—the businessmen, the workers, from all walks of life—put teeth into it by backing it up with some cold facts about exports and imports instead of hearsay and a smattering of ignorance which too long has deluded all of us as far as world trade is concerned.

How can the people be told? Not in terms of astronomical figures, these are for the economist and the banker. Not by the rising and falling of lines on charts and graphs, these are the sign language of industry. People with empty chairs beside their tables seldom have the patience to wait while an explanation takes such hurdles. They want a simple answer, and it is our duty to explain to them simply that in selling more and buying less we are incubating the seeds of mistrust; instigating a situation whereby people in other countries misconstrue our motives.

Meaning of Imports

Furthermore, we must impress people that imports serve other practical purposes. Imports mean cigarettes, house paint, spices, cosmetics, mica for electrical equipment, tungsten for electric lights, leather for shoes. There is hardly an article they use that does not depend, to some extent, upon imported materials.

Without imports this country could never have reached its present industrial capacity. Our great industrial plants would drone to a standstill without imported manganese, nickel, tin, asbestos, chrome ore—imports which also make it possible for us to sell our cotton, locomotives, automobiles, machinery and other products.

We must preach facts and figures to combat the reasoning of those who ignore imports and are actually thinking in terms of reducing exports. Before such experts finish wiping off their celluloid collars let us agree with the first fact they drag out of their portfolios. Yes, it's true that we only export on an average of about 7% of our national income. But before we frown at the size of this figure let us see how big it really is. Our automobile industry sells only 7% of its output in Boston, Chicago, New York and Washington, but if it dispensed with these markets, it would be unable to operate profitably on a mass production basis.

The idea of free and unrestricted trade is not a myth. Every day Americans are given a demonstration of how it works. As a nation we have made a tremendous success out of selling things to each other and our economy is based on the free and unrestricted exchange of goods between states, between cities, between towns and between people. If we were a continent composed of 48 nations and if we attempted to follow some of the principles which countries use in international trading, there would come a time when the people of Pittsburgh were forced to use all the steel they produced; the people of Akron all the rubber they manufactured; the people of Texas and Oklahoma all the oil they drilled. If such a situation existed in this country we would be obliged to make the same kind of decision that the world must make today. We must decide either to live as a single trading unit, or else to engage in periodic wars in order that the man in the industrial state can secure food and the man in the agricultural state can secure machinery.

According to figures recently published by the Department of Commerce, the annual rate of our exports is now in the nature of $16 billion with imports tagging along at less than $7 billion. Even making all possible allowances, there will still remain a sum of approximately $5 billion for which we will receive no return. This is the gap we must close, this is the battle we must fight.

The Marshall Plan

You have heard a great deal about the Marshall Plan. This is one of the remedies for world rehabilitation currently being considered to supply needed credits for the rebuilding of shattered economies. The plan holds hope, but its greatest hope lies in our willingness to accept some of the goods we have helped other countries produce in payment for these credits and for our exports. Whatever plan is adopted, the Battle of the Gap can only be won by the removal of trade restrictions and the international acceptance of goods and services.

There are people in this country who believe that trade and commerce, being based on profit and advantage, are rather sordid affairs which have no place in the niche reserved for idealism and the advancement of mankind. Happily, there is no contradiction between promoting the sale of American products in the world and the general advancement of the world. And there is a great need for both idealism and realism in the efforts being made to raise economic levels abroad.

Westinghouse Import Department

Proof that idealism and realism can be combined toward this goal is best expressed by two activities undertaken by Westinghouse. Most recent was the creation of an Import Department in 1944 which for Westinghouse, with its heritage of research, engineering and manufacturing, involved a new way of thinking. In this new role, Westinghouse has been acting as the exclusive U. S. Distributor for the products of foreign manufacturers. Since this enterprise is serving as a mechanism by which dollars can be planted where they will do this country the most good, no line has been drawn as to the type of products to be handled, except where they are in competition with those products being manufactured by domestic customers of Westinghouse. Consequently, a great variety of articles have found their way into the warehouses of the Import Department—silverware from Peru, Mexico, Belgium and Denmark; tennis court surfacing materials and bicycles from England; sausage casings from Iran; alabster lamp bases and leather articles from Italy, and a host of other widely assorted items—a strange galaxy but the best that the world has to offer in exchange for dollars it needs so badly. This Import Department puts Westinghouse into foreign trade with both feet, since the export activities of Westinghouse have been handled for a quarter of a century by its International Company. Naturally, the dollars planted abroad by this means will not return directly to Westinghouse but they will help export trade in general and Westinghouse stands to benefit the same as do other U. S. manufacturers.

Another example of combining idealism and realism is the way Westinghouse is aiding countries by selling them design and manufacturing information, in other words, industrial know-how. Under specific arrangements, foreign manufacturers are permitted to make products according to Westinghouse methods and standard and to sell them in certain designated areas abroad. In this connection, Westinghouse is also assisting in the formation of new companies abroad such as Industria Electrica de Mexico and the Central Manufacturing Works in China. To such companies Westinghouse grants a licensee arrangement, furnishes technical assistance regarding plant layout, and also specifies the type of equipment needed for manufacturing operations. Additionally, we train in our plants hundreds of students who will have key positions in these new industries.

Such instances of international cooperation are of a nature compatible with the fact that people in other countries are more anxious to be partners than to be receivers of charity; that they want to use their own hands and create their own economies as did the people of this country and, despite popular thinking, they are eminently qualified to do just this, provided they have the proper tools.

One of the principle advantages which we do have in this country is the unbounded opportunity offered to us by a large home market which makes it practical for our minds to run free in devising and putting into operation many improvements in methods of manufacturing and in the development of basic materials. It is this market which has kept our techniques a step ahead of the rest of the world. It isn't that we have all the brains.

We in the United States have reached a point where we must act in accordance with the important part our country must play in the world's future. For too long we have reserved the real facts about international trade for "experts" and "special interests." But today, with many countries engulfed in waves of suspicion about each other's motives, there is a great need for universal understanding of trading problems and for the intervention of economic statesmanship as opposed to governmental diplomacy.

People must realize that all the commotion is being caused by Man—who is eternally seeking the basic essentials of life and who will get them one way or another. It is our job to see that he gets them peacefully. And we can do this job best by closing the gap between our exports and imports. In this Battle of the Gap let us find inspiration for our slogan in Britain's "Export or Die." But let's make ours read: "Import or Else."

With Herrick, Waddell & Co.

(Special to THE FINANCIAL CHRONICLE)

DAVID CITY, NEB.—Fred C. Busing is with Herrick, Waddell & Co., Inc., of 55 Liberty Street, New York City.

With Wm. C. Juen Co.

(Special to THE FINANCIAL CHRONICLE)

BELLEVILLE, ILL.—John T. Murphy has been added to the staff of William C. Juen & Co., 9 Public Square.

Traces Effects of Lowered Govt. Bond Prices

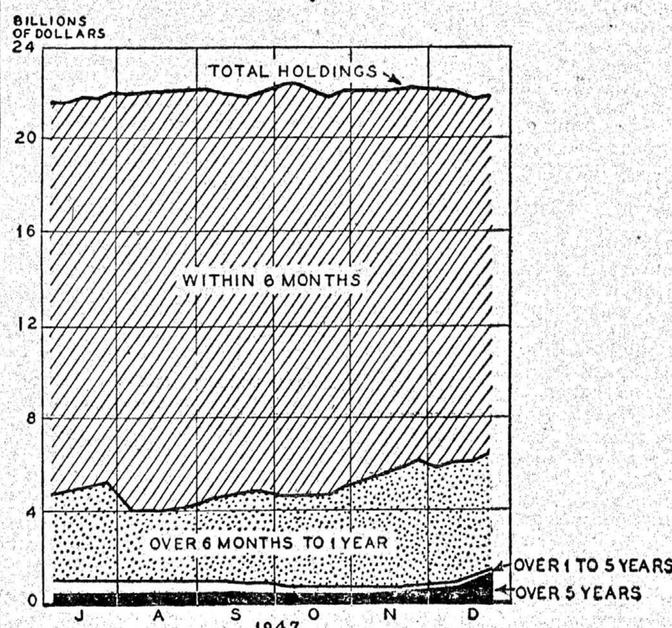
(Continued from page 11)

be used to redeem $400 millions of the certificate of indebtedness maturing on that date, held by Federal Reserve Banks. Furthermore, it appears likely that considerable amounts of the latest issue of Treasury bills will be absorbed by the banks, resulting in a corresponding reduction in Reserve Bank holdings and in the excess reserves of member banks.

"The effects of recent purchases of Treasury bonds and of earlier transactions in other types of Treasury securities on Federal Reserve holdings of Government securities, classified by maturity, are shown in the accompanying chart by weeks from the beginning of July, 1947, through Dec. 24. As illustrated in the chart, Federal Reserve holdings of Treasury obligations maturing within six months have declined since early in July, and those maturing in over six months to a year have increased, as a result of commercial bank shifts from the longer term certificates and notes into shorter term certificates, redemptions of maturing securities (chiefly Treasury bills and certificates), and sales of bills and short certificates indirectly to nonbank investors as well as banks having available funds for temporary investment. This tendency is obscured somewhat by shifts of securities from one maturity group to another caused by the passage of time. For example, a large certificate issue entered the "within six months" category early in August, causing a sharp rise in Federal Reserve holdings of the shortest maturity group during the week ended Aug. 6, while holdings of securities maturing in over six months to one year showed a corresponding reduction.

The line for securities with final maturities extending beyond five years began to rise toward the middle of November, and Federal Reserve Bank holdings of such issues increased $600 million between Nov. 12 and Dec. 17. Purchases of longer term Treasury securities were more than offset by sales of the shortest term Treasury securities outstanding and by redemptions of maturing issues, however, so that Federal Reserve holdings of the latter fell about $1 billion. In this period the decline in the total Federal Reserve portfolio was about $400 million. In the last two weeks of the year, however, the volume of Federal Reserve acquisitions of Treasury bonds maturing in over five years exceeded sales of shortest-dated issues by about $900 million. Treasury purchases of longer term Government bonds were also substantial in November and in the first three weeks of December, but such purchases in effect represented the return of tax and other Treasury receipts to the market and could not be considered as adding to the money supply."

Federal Reserve System Holdings of Government Securities by Maturity, 1947*



* Wednesday dates; latest figures are for December 24.

Spring Term Courses Opening at N. Y. Inst.

Registration for the Spring Term of the New York Institute of Finance, successor to the New York Stock Exchange Institute, has begun. The Institute of Finance specializes in stock brokerage practice and investment analysis courses, offered in the early evening and by correspondence.

Located at 20 Broad Street, its instructors and the majority of its students are drawn from the ranks of professionals actively engaged during the working day in the securities business. Enrollments last term totalled 1,000. Mature professionals attend courses in Current Developments in Railroads, Utilities, and Selected Industries, Current Economic Developments Affecting Security Values, and Commodity Trading Principles. Beginners are offered such courses as Work of the Stock Exchange and Brokerage Office Procedure, Accounting, Business Finance, and Security Analysis. Every state has had representation in the correspondence student body.

P. Caswell Exch. Member

CHICAGO, ILL.—The Executive Committee of the Chicago Stock Exchange today announced the election of Percy A. Caswell to membership. Mr. Caswell is a partner of Caswell & Co. which maintains offices at 120 South LaSalle Street. With his election, Caswell & Co. becomes registered as a member firm.

The total number of partnerships and corporations which are now member firms has reached 157, the highest in the history of the Exchange.

E. F. Hutton Admits

E. F. Hutton & Co., members of the New York Stock Exchange, 14 Wall Street, New York City, have admitted W. Allen Taylor and Frank E. Naley to partnership. Mr. Taylor makes his headquarters at the firm Santa Monica office.

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)	Jan. 11	97.9	96.4	97.7	90.3
Equivalent to—					
Steel ingots and castings produced (net tons)	Jan. 11	1,708,600	1,686,900	1,710,000	1,580,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Dec. 27	5,285,440	5,284,489	5,257,250	4,713,200
Crude runs to stills—daily average (bbls.)	Dec. 27	5,543,000	5,246,000	5,309,000	4,932,000
Gasoline output (bbls.)	Dec. 27	17,013,000	16,006,000	16,667,000	15,556,000
Kerosine output (bbls.)	Dec. 27	2,334,000	2,291,000	2,324,000	2,113,000
Gas oil and distillate fuel oil output (bbls.)	Dec. 27	7,041,000	6,520,000	6,382,000	6,000,000
Residual fuel oil output (bbls.)	Dec. 27	9,698,000	8,643,000	8,405,000	8,147,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Dec. 27	91,269,000	87,056,000	86,319,000	91,851,000
Kerosine (bbls.) at	Dec. 27	16,393,000	16,866,000	20,619,000	17,338,000
Gas oil and distillate fuel oil (bbls.) at	Dec. 27	50,324,000	51,502,000	61,988,000	60,304,000
Residual fuel oil (bbls.) at	Dec. 27	51,896,000	52,113,000	56,747,000	52,922,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Dec. 27	599,357	832,130	792,339	627,967
Revenue freight rec'd from connections (number of cars)	Dec. 27	641,576	722,498	706,018	620,984
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Jan. 1	$54,364,000	$63,608,000	$214,014,000	$61,908,000
Private construction	Jan. 1	26,057,000	36,231,000	137,329,000	32,200,000
Public construction	Jan. 1	28,307,000	27,377,000	76,685,000	29,708,000
State and municipal	Jan. 1	23,611,000	18,837,000	55,800,000	24,124,000
Federal	Jan. 1	4,696,000	8,540,000	20,825,000	5,584,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Dec. 27	8,340,000	*13,180,000	11,970,000	9,508,000
Pennsylvania anthracite (tons)	Dec. 27	746,000	1,218,000	1,057,000	818,000
Beehive coke (tons)	Dec. 27	103,500	*142,800	126,300	111,500
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Dec. 27	357	*576	367	281
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 3	4,868,011	4,829,579	5,217,950	4,573,807
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Jan. 1	58	38	60	30
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Dec. 30	3.18925c	3.18925c	3.18925c	2.83599c
Pig iron (per gross ton)	Dec. 30	$38.39	$37.39	$37.06	$30.14
Scrap steel (per gross ton)	Dec. 30	$40.00	$39.75	$40.25	$31.17
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Dec. 31	21.200c	21.200c	21.200c	19.275c
Export refinery at	Dec. 31	21.435c	21.425c	21.425c	19.675c
Straits tin (New York) at	Dec. 31	94.000c	94.000c	80.000c	70.000c
Lead (New York) at	Dec. 31	15.000c	15.000c	15.000c	12.550c
Lead (St. Louis) at	Dec. 31	14.800c	14.800c	14.800c	12.350c
Zinc (East St. Louis) at	Dec. 31	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 6	100.73	100.69	101.84	104.15
Average corporate	Jan. 6	110.52	109.97	111.07	117.00
Aaa	Jan. 6	115.82	114.85	116.02	121.25
Aa	Jan. 6	114.08	113.50	114.27	119.61
A	Jan. 6	109.60	108.88	110.70	117.00
Baa	Jan. 6	103.30	102.96	104.14	110.34
Railroad Group	Jan. 6	104.66	104.31	106.04	112.75
Public Utilities Group	Jan. 6	112.37	112.00	112.93	117.80
Industrials Group	Jan. 6	114.85	113.70	114.66	120.22
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 6	2.45	2.45	2.38	2.22
Average corporate	Jan. 6	3.14	3.17	3.11	2.80
Aaa	Jan. 6	2.86	2.91	2.85	2.59
Aa	Jan. 6	2.95	2.98	2.94	2.67
A	Jan. 6	3.19	3.23	3.13	2.80
Baa	Jan. 6	3.55	3.57	3.50	3.15
Railroad Group	Jan. 6	3.47	3.49	3.39	3.02
Public Utilities Group	Jan. 6	3.04	3.06	3.01	2.76
Industrials Group	Jan. 6	2.91	2.97	2.92	2.64
MOODY'S COMMODITY INDEX	Jan. 6	448.1	455.7	453.3	375.6
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods					
Fats and oils	Jan. 3	242.1	238.4	237.4	217.2
Farm products	Jan. 3	280.0	272.7	282.0	277.3
Cotton	Jan. 3	278.6	279.9	272.9	229.6
Grains	Jan. 3	341.9	336.3	333.2	314.3
Livestock	Jan. 3	305.3	304.9	310.9	198.1
Fuels	Jan. 3	269.1	272.6	258.9	228.6
Miscellaneous commodities	Jan. 3	213.0	*209.0	198.2	157.6
Textiles	Jan. 3	179.9	180.2	178.9	154.4
Metals	Jan. 3	220.6	*219.7	224.6	215.0
Building materials	Jan. 3	160.8	160.4	159.3	141.3
Chemicals and drugs	Jan. 3	236.3	236.3	236.4	215.0
Fertilizer materials	Jan. 3	156.4	156.4	157.1	153.1
Fertilizers	Jan. 3	137.5	137.5	136.8	124.8
Farm machinery	Jan. 3	141.8	141.8	140.6	129.7
All groups combined	Jan. 3	134.5	134.5	129.3	120.8
	Jan. 3	224.8	*223.2	219.1	191.3
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Dec. 27	114,444	157,585	171,580	99,555
Production (tons)	Dec. 27	126,659	183,641	170,175	109,210
Percentage of activity	Dec. 27	71	100	93	66
Unfilled orders (tons) at	Dec. 27	406,738	416,851	420,456	532,773
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Jan. 2	149.4	149.9	150.7	150.5
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Dec. 27	163.0	162.5	159.8	139.6
Farm products	Dec. 27	197.0	196.9	190.3	167.7
Foods	Dec. 27	177.8	178.2	178.3	159.1
Hides and leather products	Dec. 27	203.4	204.4	203.3	171.3
Textile products	Dec. 27	146.9	146.9	144.7	133.3
Fuel and lighting materials	Dec. 27	127.7	126.2	119.1	97.0
Metal and metal products	Dec. 27	152.0	151.6	151.3	133.9
Building materials	Dec. 27	189.1	189.1	187.2	154.6
Chemicals and allied products	Dec. 27	133.0	132.9	138.0	126.1
Housefurnishings goods	Dec. 27	135.3	135.3	134.8	120.5
Miscellaneous commodities	Dec. 27	121.5	120.5	118.7	107.7
Special groups—					
Raw materials	Dec. 27	183.4	183.4	177.9	154.2
Semi-manufactured articles	Dec. 27	157.4	156.9	157.1	135.0
Manufactured products	Dec. 27	155.0	154.4	152.5	134.5
All commodities other than farm products	Dec. 27	155.4	154.9	153.1	133.5
All commodities other than farm products and foods	Dec. 27	146.6	145.4	142.6	123.9

*Revised figure.

	Latest Month	Previous Month	Year Ago
BUSINESS FAILURES—DUN & BRADSTREET, INC.—Month of November:			
Manufacturing number	124	98	38
Wholesale number	26	55	8
Retail number	115	129	36
Construction number	25	25	9
Commercial service number	23	29	13
Total number	313	336	104
Manufacturing liabilities	$12,574,000	$13,337,000	$8,492,000
Wholesale liabilities	1,198,000	2,321,000	289,000
Retail liabilities	1,531,000	2,289,000	392,000
Construction liabilities	537,000	2,301,000	136,000
Commercial service liabilities	505,000	1,074,000	3,202,000
Total liabilities	$16,345,000	$21,332,000	$12,511,000
CIVIL ENGINEERING CONSTRUCTION — ENGINEERING NEWS RECORD — Month of December:			
Total U. S. Construction	$503,384,000	$474,357,000	$352,855,000
Private Construction	272,367,000	224,385,000	246,307,000
Public Construction	231,017,000	249,972,000	106,548,000
State and Municipal	144,347,000	204,100,000	96,332,000
Federal	86,670,000	45,872,000	10,216,000
EMPLOYMENT AND PAYROLL — U. S. DEPT. OF LABOR — Month of October:			
Estimated number of production workers in manufacturing industries—			
All manufacturing	12,854,000	*12,829,000	12,253,000
Durable goods	6,528,000	*6,477,000	6,281,000
Non-durable goods	6,326,000	6,352,000	5,972,000
Employment indexes—			
All manufacturing	156.9	*156.6	149.6
Durable goods	180.8	*179.4	173.9
Non-durable goods	138.1	138.7	130.4
Payroll indexes—			
All manufacturing	341.6	*336.9	292.[illegible]
Durable goods	379.6	*372.2	328.1
Non-durable goods	304.5	302.4	258.3
Estimated number of employees in manufacturing industries—			
All manufacturing	15,832,000	*15,798,000	15,064,000
Durable goods	7,938,000	*7,881,000	7,623,000
Non-durable goods	7,894,000	7,917,000	7,441,000
GRAY IRON CASTINGS (DEPT. OF COMMERCE) Month of October:			
Shipments (short tons)	1,154,192	1,025,089	1,077,838
For sale (short tons)	654,426	590,702	626,273
For producers' own use (short tons)	499,766	434,387	451,565
Unfilled orders for sale at end of month (short tons)	2,668,781	2,679,858	2,952,705
LIFE INSURANCE — BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of October:			
Death benefits	$112,523,000	$108,179,000	$111,755,000
Matured endowments	36,261,000	30,167,000	35,899,000
Disability payments	7,609,000	7,269,000	7,996,000
Annuity payments	18,024,000	17,795,000	17,721,000
Surrender values	34,205,000	30,640,000	26,172,000
Policy dividends	38,527,000	42,364,000	36,232,000
Total	$247,149,000	$236,414,000	$235,775,000
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of October:			
Shipments (in pounds)	299,000	247,000	715,000
METAL OUTPUT (BUREAU OF MINES)—Month of October:			
Mine production of recoverable metals in the U.S.			
Copper (in short tons)	65,745	*70,470	‡50,196
Gold (in fine ounces)	215,087	*194,263	‡125,296
Lead (in short tons)	32,197	*30,000	‡27,706
Silver (in fine ounces)	2,951,569	*2,767,891	‡1,814,853
Zinc (in short tons)	50,643	*47,126	‡47,149
*Revised figure. ‡Monthly average in year 1946.			
NEW BUSINESS INCORPORATIONS — DUN & BRADSTREET, INC.—Month of November	7,855	9,609	8,485
PORTLAND CEMENT (BUREAU OF MINES)—Month of September:			
Production (bbls.)	17,319,000	17,480,000	16,450,000
Shipments from mills (bbls.)	19,840,000	*20,365,000	17,153,000
Stocks (at end of month) (bbls.)	7,931,000	*10,452,000	8,612,000
Capacity used	88%	86%	83%
PRICES RECEIVED BY FARMERS — INDEX NUMBER—U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of Dec. 15:			
Unadjusted—			
All farm products	301	287	264
Crops	281	268	232
Food grain	318	312	224
Feed grain and hay	305	283	186
Feed grain	350	324	134
Tobacco	377	354	406
Cotton	275	257	242
Fruit	149	151	211
Truck crops	294	272	164
Oil-bearing crops	367	*349	334
Livestock and products	320	304	296
Meat animals	352	338	313
Dairy products	311	293	312
Poultry and eggs	262	242	226
Seasonally adjusted—			
Fruit	164	167	234
Truck crops	271	307	155
Dairy products	288	273	289
Poultry and eggs	232	214	202
RR. EARNINGS—CLASS I ROADS (ASSOC. OF AMER. RRS.)—Month of October:			
Number of miles represented	227,414	227,209	227,414
Total operating revenues	$794,165,231	$726,549,842	$710,020,099
Total operating expenses	611,871,599	588,591,241	558,483,907
Operating ratio—per cent	77.05	81.01	78.66
Taxes	$89,490,106	$75,939,347	$53,156,191
Net railway operating income before charges	76,433,466	47,979,446	85,255,053
Net income after charges (est.)	48,000,000	21,150,000	58,000,000
RAILROAD SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of September:			
Net railway operating income	$47,968,461	$80,824,826	$67,538,702
Other income	14,158,696	14,228,841	14,278,016
Total income	62,127,157	95,053,667	81,816,718
Miscellaneous deductions from income	3,294,298	3,445,697	2,533,429
Income available for fixed charges	58,832,859	91,607,970	79,283,289
Income after fixed charges	23,053,739	55,083,092	42,535,562
Contingent charges	2,906,783	3,739,746	2,496,065
Net income	20,146,956	51,343,346	40,039,497
Depreciation (way & structures & equip.)	29,486,338	29,578,939	28,441,182
Amortization of defense projects	1,336,568	1,354,223	1,139,580
Federal income taxes	20,381,450	30,738,444	5,798,420
Dividend appropriations:			
On common stock	9,676,324	17,280,446	15,161,926
On preferred stock	1,189,238	4,318,989	399,184
Ratio of income to fixed charges	1.64	2.51	2.16

Truman Urges Higher Taxes on Business

(Continued from first page)

which divide us but upon those which bind us together—the enduring principles of our American system, and our common aspirations for the future welfare and security of the people of the United States.

The United States has become great because we, as a people, have been able to work together for great objectives even while differing about details.

The elements of our strength are many. They include our democratic government, our economic system, our great natural resources. But these are only partial explanations.

The basic source of our strength is spiritual. For we are a people with a faith. We believe in the dignity of man. We believe that he was created in the image of the Father of us all.

We do not believe that men exist merely to strengthen the State or to be cogs in an economic machine. We do believe that governments are created to serve the people and that economic systems exist to minister to their wants. We have a profound devotion to the welfare and rights of the individual as a human being.

The faith of our people has particular meaning at this time in history because of the unsettled and changing state of the world.

The victims of war in many lands are striving to rebuild their lives and are seeking assurance that the tragedy of war will not occur again. Throughout the world new ideas are challenging the old. Men of all nations are reexamining the beliefs by which they live. Great scientific and industrial changes have released new forces which will affect the future course of civilization.

The state of our Union reflects the changing nature of the modern world. On all sides there is heartening evidence of great energy—of capacity for economic development— and even more important, capacity for spiritual growth. But accompanying this great activity there are equally great questions—great anxieties—great aspirations. They represent the concern of an enlightened people that conditions should be so arranged as to make life more worth while.

Basis for True Freedom and Opportunity

We must devote ourselves to finding answers to these anxieties and aspirations. We seek answers which will embody the moral and spiritual elements of tolerance, unselfishness and brotherhood upon which true freedom and opportunity most rest.

As we examine the state of our Union today, we can benefit from viewing it on a basis of the accomplishments of the last decade and our goals for the next. How far have we come during the last 10 years and how far can we go during the next 10?

It was 10 years ago that the determination of dictators to wage war upon mankind became apparent. The years that followed brought untold death and destruction.

We shared in the human suffering of the war, but we were fortunate enough to escape most of war's destruction. We were able through these 10 years to expand the productive strength of our farms and factories.

More important, however, is the fact that these years brought us new courage and new confidence in the ideals of our free democracy. Our deep belief in freedom and justice was reinforced in the crucible of war.

On the foundations of our greatly strengthened economy and our renewed confidence in democratic values, we can continue to move forward.

Must Plan for Future

There are some who look with fear and distrust upon planning for the future. Yet our great national achievements have been attained by those with vision. Our union was formed, our frontiers were pushed back, and our great industries were built by men who looked ahead.

I propose that we look ahead today toward those goals for the future which have the greatest bearing upon the foundations of our democracy and the happiness of our people.

I do so, confident in the thought that with clear objectives and with firm determination, we can, in the next 10 years, build upon the accomplishments of the past decade to achieve a glorious future. Year by year, beginning now, we must make a substantial part of this progress.

Our first goal is to secure fully the essential human rights of our citizens.

The United States has always had a deep concern for human rights. Religious freedom, free speech and freedom of thought are cherished realities in our land. Any denial of human rights is a denial of the basic beliefs of democracy and of our regard for the worth of each individual.

Today, however, some of our citizens are still denied equal opportunity for education, for jobs and economic advancement, and for the expression of their views at the polls. Most serious of all, some are denied equal protection under our laws. Whether discrimination is based on race, or creed, or color, or land of origin, it is utterly contrary to American ideals of democracy.

The recent report of the President's Committee on Civil Rights points the way to corrective action by the Federal Government and by State and local governments. Because of the need for effective Federal action, I shall send a special message to the Congress on this important subject.

We should also consider our obligation to assure the fullest possible measure of civil rights to the people of our territories and possessions. I believe that the time has come for Alaska and Hawaii to be admitted to the Union as States.

Our second goal is to protect and develop our human resources.

The safeguarding of the rights of our citizens must be accompanied by an equal regard for their opportunities for development and their protection from economic insecurity. In this nation the ideals of freedom and equality can be given specific meaning in terms of health, education, social security and housing.

Wants Expanded Social Security

Over the past 12 years we have erected a sound framework of social security legislation. Many millions of our citizens are now protected against the loss of income which can come with unemployment, old age, or the death of wage-earners. Yet our system has gaps and inconsistencies; it is only half finished.

We should now extend unemployment compensation, old age benefits, and survivors' benefits to millions who are not now protected. We should also raise the level of benefits.

Health Program

The greatest gap in our social security structure is the lack of adequate provision for the nation's health. We are rightly proud of the high standards of medical care we know how to provide in the United States. The fact is, however, that most of our people cannot afford to pay for the care they need.

I have often and strongly urged that this condition demands a national health program. The heart of the program must be a national system of payment for medical care based on well-tried insurance principles. This great nation cannot afford to allow its citizens to suffer needlessly from the lack of proper medical care.

Our ultimate aim must be a comprehensive insurance system to protect all our people equally against insecurity and ill-health.

Another fundamental aim of our democracy is to provide an adequate education for every person.

Our educational systems face a financial crisis. It is deplorable that in a nation as rich as ours there are millions of children who do not have adequate schoolhouses or enough teachers for a good elementary or secondary education. If there are educational inadequacies in any state, the whole nation suffers. The Federal Government has a responsibility for providing financial aid to meet this crisis.

In addition, we must make possible greater equality of opportunity to all our citizens for an education. Only by so doing can we insure that our citizens will be capable of understanding and sharing the responsibilities of democracy.

The Government's programs for health, education and security are of such great importance to our democracy that we should now establish an executive department for their administration.

More Homes Needed

Health and education have their beginning in the home. No matter what our hospitals or schools are like the youth of our nation are handicapped when millions of them live in city slums and country shacks. Within the next decade we must see that every American family has a decent home. As an immediate step we need the long-range housing program which I have recommended on many occasions. This should include financial aids designed to yield more housing at lower prices. It should provide public housing for low-income families, and vigorous development of new technics to lower the cost of building.

Until we can overcome the present drastic housing shortage, we must extend and strengthen rent control.

We have had, and shall continue to have a special interest in the welfare of our veterans. Over 14,000,000 men and women who served in the armed forces in World War II have now returned to civilian life. Over 2,000,000 veterans are being helped through school. Millions have been aided while finding jobs, and have been helped in buying homes, in obtaining medical care and in adjusting themselves to physical handicaps.

All but a very few veterans have successfully made the transition from military life to their home communities. The success of our veterans' program is proved by this fact. This nation is proud of the eagerness shown by our veterans to become self-reliant and self-supporting citizens.

Natural Resources to Be Conserved

Our third goal is to conserve and use our natural resources so that they can contribute most effectively to the welfare of our people.

The resources given by nature to this country are rich and extensive. The material foundations of our growth and economic development are the bounty of our fields, the wealth of our mines and forests, and the energy of our waters. As a nation, we are coming to appreciate more each day the close relationship between the conservation of these resources and the preservation of our national strength.

Yet we are doing far less than we know how to do to make use of our resources without destroying them. Both the public and private use of these resources must have the primary objective of maintaining and increasing these basic supports for an expanding future.

We must continue to take specific steps toward this goal. We must vigorously defend our natural wealth against those who would misuse it for selfish gain.

We need accurate and comprehensive knowledge of our mineral resources and must intensify our efforts to develop new supplies and to acquire stockpiles of scarce materials.

We need to protect and restore our land — public and private — through combating erosion and rebuilding the fertility of the soil.

We must expand our reclamation program to bring millions of acres of arid land into production, and to improve water supplies for additional millions of acres. This will provide new opportunities for veterans and others particularly in the West, and aid in providing a rising living standard for a growing population.

We must protect and restore our forests by sustained-yield forestry and by planting new trees in areas now slashed and barren.

We must continue to erect multiple-purpose dams on our great rivers—not only to reclaim land but also to prevent floods, to extend our inland waterways and to provide hydro-electric power. This public power must not be monopolized for private gain. Only through well-established policies of transmitting power directly to its market and thus encouraging wide-spread use at low rates can the Federal Government assure the people of their full share of its benefits. Additional power—public and private—is needed to raise the ceilings now imposed by power shortages on industrial and agricultural development.

We should achieve the wise use of resources through the integrated development of our great river basins. We can learn much from our Tennessee Valley experience. We should no longer delay in applying the lessons of that vast undertaking to our other great river basins.

Seeks Higher Living Standards

Our fourth goal is to lift the standard of living for all our people by strengthening our economic system and sharing more broadly among our people the goods we produce.

The amazing economic progress of the past ten years points the way for the next ten.

Today 14,000,000 more people have jobs than in 1938.

Our yearly output of goods and services has increased by two-thirds.

The average income of our people, measured in dollars of equal purchasing power, has increased—after taxes—by more than 50%. In no other ten years have farmers, businessmen and wage earners made such great gains.

We may not be able to expand as rapidly in the next decade as in the last, because we are now starting from full employment and very high production. But we can increase our annual output by at least one-third above the present level. We can lift our standard of living to nearly double what it was ten years ago.

If we distribute these gains properly, we can go far toward stamping out poverty in our generation.

To do this, agriculture, business and labor must move forward together.

Permanent farm prosperity and agricultural abundance will be achieved only as our whole economy grows and prospers. The farmer can sell more food at good prices when the incomes of wage earners are high and when there is full employment. Adequate diets for every American family, and the needs of our industries at full production, will absorb a farm output well above our present levels.

Although the average farmer is now better off than ever before, farm families as a whole have only begun to catch up with the standards of living enjoyed in the cities. In 1946 the average income of farm people was $779. contrasted with an average income of $1,288 for non-farm people. Within the next decade, we should eliminate elements of inequality in these living standards.

Price Supports for Farm Products

To this end our farm program should enable the farmer to market his varied crops at fair price levels and to improve his standard of living.

We need to continue price supports for major farm commodities on a basis which will afford reasonable protection against fluctuations in the levels of production and demand. The present price support program must be re-examined and modernized.

Crop insurance should be strengthened and its benefits extended in order to protect the farmer against the special hazards to which he is subject.

We also need to improve the means for getting farm products into the markets and into the hands of consumers. Co-operatives which directly or indirectly serve this purpose must be encouraged—not discouraged. The school lunch program should be continued and adequately financed.

We need to go forward with the rural electrification program to bring the benefits of electricity to all our farm population.

We can, and must, aid and encourage farmers to conserve their soil resources and restore the fertility of land that has suffered from neglect or unwise use.

All of these are practical measures upon which we should act immediately to enable agriculture to make its full contribution to our prosperity.

More Industrial Capacity

We must also strengthen our economic system within the next decade by enlarging our industrial capacity within the framework of our free enterprise system.

We are today far short of the industrial capacity we need for a growing future. At least $50,000,000,000 should be invested by industry to improve and expand our productive facilities over the next few years. But this is only the beginning. The industrial application of atomic energy and other scientific advances will constantly open up further opportunities for expansion. Farm prosperity and high employment will call for an immensely increased output of goods and services.

Growth and vitality in our economy depend on vigorous private enterprise. Free competition is the key to industrial development, full production and employment, fair prices and an ever improving standard of living. Competition is seriously limited today in many industries by the concentration of economic power and other elements of monopoly. The appropriation of sufficient funds to permit proper enforcement of the present anti-trust laws is essential. Beyond that we should go on to strengthen our legislation to protect competition.

Well Being of Wage Earners

Another basic element of a strong economic system is the well-being of wage earners.

We have learned that the well-being of workers depends on high production and consequent high employment. We have learned equally well that the welfare of industry and agriculture depends on high incomes for our workers.

The Government has wisely chosen to set a floor under wages. But our 40-cent minimum wage is inadequate and obsolete. I recommend lifting the minimum wage to 75 cents an hour.

In general, however, we must continue to rely on our sound system of collective bargaining to set wage scales. Workers' incomes should increase at a rate consistent with the maintenance of sound price, profit and wage relationships and with increasing productivity.

The Government's part in labor-management relations is now largely controlled by the terms of the labor-management relations act of 1947. I made my attitude clear on this act in my veto message to the Congress last June. Nothing has occurred since to change my opinion of this law. As long as it remains the law of the land, however, I shall carry out my constitutional duty to administer it.

As we look ahead we can understand the crucial importance of restraint and wisdom in arriving at new labor-management contracts. Work stoppages would result in a loss of production—a loss which could bring higher prices for our citizens and could also deny the necessities of life to the hard-pressed peoples of other lands. It is my sincere hope that the representatives of labor and of industry will bear in mind that the nation as a whole has a vital stake in the success of their bargaining efforts.

If we surmount our current economic difficulties we can move ahead to a great increase in our national income which will enable all our people to enjoy richer and fuller lives.

All of us must advance together. One-fifth of our families now have average annual incomes of less than $850. We must see that our gains in national income are made more largely available to those with low incomes, whose need is greatest. This will benefit us all through providing a stable foundation of buying power to maintain prosperity.

Business, labor, agriculture and government, working together, must develop the policies which will make possible the realization of the full benefits of our economic system.

Problem of World Peace

Our fifth goal is to achieve world peace based on principles of freedom and justice and the equality of all nations.

Twice within our generation, world wars have taught us that we cannot isolate ourselves from the rest of the world.

We have learned that the loss of freedom in any area of the world means a loss of freedom to ourselves—that the loss of independence by any nation adds directly to the insecurity of the United States and all free nations.

We have learned that a healthy world economy is essential to world peace—that economic distress is a disease whose evil effects spread far beyond the boundaries of the afflicted nation.

For these reasons the United States is vigorously following policies designed to achieve a peaceful and prosperous world.

We are giving, and will continue to give, our full support to the United Nations. While that organization has encountered unforeseen and unwelcome difficulties, I am confident of its ultimate success. We are also devoting our efforts toward world economic recovery and the revival of world trade. These actions are closely related and mutually supporting.

We believe that the United States can be an effective force for world peace only if it is strong. We look forward to the day when nations will decrease their armaments. Yet so long as there remains serious opposition to the ideals of a peaceful world, we must maintain strong armed forces.

Favors Conscription

The passage of the National Security Act by the Congress at its last session was a notable step in providing for the security of this country. A further step which I consider of even greater importance is the early provision for universal training. There are many elements in a balanced national security program, all interrelated and necessary, but universal training should be the foundation for them all. A favorable decision by the Congress at an early date is of world importance. I am convinced that such action is vital to the security of this nation and to the maintenance of its leadership.

The United States is engaged today in many international activities directed toward the creation of lasting peaceful relationships among nations.

We have been giving substantial aid to Greece and Turkey to assist these nations in preserving their integrity against foreign pressures. Had it not been for our aid, their situation today might well be radically different. The continued integrity of those countries will have a powerful effect upon other nations in the Middle East and Europe struggling to maintain their independence while they repair the damages of war.

The United States has special responsibilities with respect to the countries in which we have occupation forces: Germany, Austria, Japan and Korea. Our efforts to reach agreements on peace settlements for these countries have so far been blocked. But we shall continue to exert our utmost efforts to obtain satisfactory settlements for each of these nations.

Many thousands of displaced persons, still living in camps overseas, should be allowed entry into the United States. I again urge the Congress to pass suitable legislation at once so that this nation may do its share in caring for homeless and suffering refugees of all faiths. I believe that the admission of these persons will add to the strength and energy of this nation.

We are moving toward our goal of world peace in many ways. But the most important efforts which we are now making are those which support world economic reconstruction. We are seeking to restore the world trading system which was shattered by the war and to remedy the economic paralysis which grips many countries.

To restore world trade we have recently taken the lead in bringing about the greatest reduction of world tariffs that has ever occurred. The extension of the provisions of the reciprocal trade agreements act, which made this achievement possible, is of extreme importance. We must also go on to support the international trade organization, through which we hope to obtain worldwide agreement on a code of fair conduct in international trade.

Europe Recovery Program

Our present major effort toward economic reconstruction is to support the program for recovery developed by the countries of Europe. In my recent message to the Congress, I outlined the reasons why it is wise and necessary for the United States to extend this support.

I want to reaffirm my belief in the soundness and promise of this proposal. When the European economy is strengthened, the product of its industry will be of benefit to many other areas of economic distress. The ability of free men to overcome hunger and despair will be a moral stimulus to the entire world.

We intend to work also with other nations in achieving world economic recovery. We shall continue our co-operation with the nations of the Western Hemisphere: A special program of assistance to China, to provide urgent relief needs and to speed reconstruction, will be submitted to the Congress.

Unfortunately, not all governments share the hope of the people of the United States that economic reconstruction in many areas of the world can be achieved through co-operative effort among nations. In spite of these differences we will go forward with our efforts to oversome economic paralysis.

No nation by itself can carry these programs to success; they depend upon the co-operative and honest efforts of all participating countries. Yet the leadership is inevitably ours.

I consider it of the highest importance that the Congress should authorize support for the European recovery program for the period from April 1, 1948, to June 30, 1952, with an initial amount for the first fifteen months of $6,800,000,000. I urge the Congress to act promptly on this vital measure of our foreign policy—on the decisive contribution to world peace.

We are following a sound, constructive and practical course in carrying out our determination to achieve peace.

We are fighting poverty, hunger and suffering.

This leads to peace—not war.

We are building toward a world where all nations, large and small alike, may live free from the fear of aggression.

This leads to peace—not war.

Above all else, we are striving to achieve a concord among the peoples of the world based upon the dignity of the individual and the brotherhood of man.

This leads to peace—not war.

We can go forward with confidence that we are following sound policies, both at home and with other nations, which will lead us toward our great goals for economic, social and moral achievement.

Inflation, Major Problem

As we enter the new year, we must surmount one major problem which affects all our goals. That is the problem of inflation.

Already inflation in this country is undermining the living standards of millions of families. Food costs too much. Housing has reached fantastic price levels. Schools and hospitals are in financial distress. Inflation threatens to bring on disagreement and strife between labor and management.

Worst of all, inflation holds the threat of another depression, just as we had a depression after the unstable boom following the first world war.

When I announced last October that the Congress was being called into session, I described the price increases which had taken place since June, 1946. Wholesale prices had increased 40%, and retail prices had increased 23%.

Since October prices have continued to rise. Wholesale prices have gone up at an annual rate of 18%. Retail prices have gone up at an annual rate of 10%.

The events which have occurred since I presented my 10-point anti-inflation program to the Congress on Nov. 17 have made it even clearer that all 10 points are essential.

High prices must not be our means of rationing.

We must deal effectively and at once with the high cost of living.

We must stop the spiral of inflation.

I trust that within the shortest possible time the Congress will make available to the Government the weapons that are so desperately needed in the fight against inflation.

Cites Budget Surplus

One of the most powerful anti-inflationary factors in our economy today is the excess of Government revenues over expenditures.

Government expenditures have been and must continue to be held to the lowest safe levels. Since V-J Day Federal expenditures have been sharply reduced. They have been cut from more than $63,000,000,000 in the fiscal year 1946 to less than $38,000,000,000 in the present fiscal year. The number of civilian employees has been cut nearly in half from 3,750,000 down to 2,000,000.

On the other hand, Government revenues must not be reduced. Until inflation has been stopped there should be no cut in taxes that is not offset by additions at another point in our tax structure.

Certain adjustments should be made within our existing tax structure that will not affect total receipts, yet will adjust the tax burden so that those least able to pay will have their burden lessened by the transfer of a portion of it to those best able to pay.

Many of our families today are suffering hardship because of the high cost of living. At the same time profits of corporations reached an all-time record in 1947. Corporate profits totaled $17,000,000,000 after taxes. This compared with $12,500,000,000 in 1946, the previous high year.

Wants Higher Corporate Taxes

Because of this extraordinarily high level of profits, corporations can well afford to carry a larger share of the tax load at this time.

During this period in which the high cost of living is bearing down on so many of our families, tax adjustments should be made to ease their burden. The low-income group particularly is being pressed very hard. To this group a tax adjustment would result in a saving that could be used to buy the necessities of life.

I recommend therefore that, effective Jan. 1, 1948, a cost of living tax credit be extended to our people consisting of a credit of $40 to each individual taxpayer and an additional credit of $40 for each dependent. Thus the income tax of a man with a wife and two children would be reduced $160. The credit would be extended to all taxpayers, but it would be particularly helpful to those in the low-income group.

It is estimated that such a tax credit would reduce the Federal revenue by $3,200,000,000. This reduction should be made up by increasing the tax on corporate profits in an amount that will produce this sum—with appropriate adjustment for small corporations.

This is the proper method of tax relief at this time. It gives relief to those who need it most without cutting the total tax revenue of the Government.

When the present danger of inflation has passed we should consider tax reduction based upon a revision of our entire tax structure.

When we have conquered inflation, we shall be in a position to move forward toward our chosen goal.

As we do so, let us keep ever before us our high purposes.

We are determined that every citizen of this nation shall have an equal right and an equal opportunity to grow in wisdom and in stature and to take his place in the control of his nation's destiny.

We are determined that the productive resources of the nation shall be used wisely and fully for the benefit of all.

We are determined that the democratic faith of our people and the strength of our resources shall contribute their full share to the attainment of enduring peace in the world.

It is our faith in human dignity that underlies these purposes. It is this faith that keeps us a strong and vital people.

This is a time to remind ourselves of these fundamentals. For today the whole world looks to us for leadership.

This is the hour to rededicate ourselves to the faith in mankind that makes us strong.

This is the hour to rededicate ourselves to the faith in God that gives us confidence as we face the challenge of the years ahead.

Detroit Edison Stock Oversubscribed

The First Boston Corp., as manager of the group that won 450,000 shares Detroit Edison Co. capital stock in a competitive sale Jan. 6, announced Jan. 7 that the offering has been heavily oversubscribed and the books closed.

The group bid $19.06 a share for the stock and reoffered it to the public at $20.50.

Immediately following the closing of the books on Jan. 7 the stock was quoted at $21.25 per share.

The seller of the shares at competitive sale was American Light & Traction Co.

Carl M. Trotte Sales Mgr. for Tellier & Co.

Tellier & Company, 42 Broadway, New York City, announce that Carl M. Trotte has become associated with them as Manager of the sales department. He was formerly with First Colony Corporation.

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.

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.

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.

● **Apple Valley Building & Development Co., Long Beach, Calif.**
Dec. 29 (letter of notification) 30,000 shares ($10 par), class A common. **Price** — $10 a share. **Underwriter** — Tripp Realty Co., Long Beach. To erect guest ranch cottages and allied expenditures.

Arizona Welding Equipment Co., Phoenix, Ariz.
Dec. 23 (letter of notification) $100,000 of 6% convertible sinking fund debentures and 2,000 shares of $1 par common. The debentures will be sold at $1,000 each and the common at $8.75 each. **Underwriters**—Pacific Coast Securities Co., San Francisco. To retire indebtedness and for working capital.

Armstrong Cork Co., Lancaster, Pa. (1/22)
Dec. 19 filed 88,179 shares (no par) $4 cumulative preferred. **Underwriters** — Smith, Barney & Co.; Kidder, Peabody & Co., and The First Boston Corp., New York. **Offering**—Offered to common stockholders of record Jan. 7 in ratio of one share for each 16 shares held. Rights expire 3 p.m. (EST) Jan. 21. Unsubscribed shares will be offered publicly. **Price**—102½. **Proceeds**—To finance expansion program.

● **Arrow Safety Device Co., Mt. Holly, N. Y. (1/13)**
Jan. 5 (letter of notification) 12,950 shares of common stock (no par). **Underwriting**—None. **Price**—$17.25 per share. Working capital.

● **Associated Cooperatives, Inc., Oakland, Calif.**
Dec. 31 (letter of notification) 25,000 shares ($10 par) 5% non-cumulative preferred. **Price**—$10 a share. No underwriting. For construction of new warehouse in Los Angeles and for working capital.

● **Beam (James B.) Distilling Co., Chicago**
Dec. 29 (letter of notification) 150,000 shares ($2 par) common. **Price**—$2 a share. No underwriting. For working capital.

● **Burwood Products Co., Traverse City, Mich.**
Dec. 29 (letter of notification) 2,000 shares ($50 par) preferred stock. **Price**—$50 a share. No underwriting. To reduce indebtedness and for working capital.

California Union Insurance Co., San Francisco
Nov. 28 filed 99,700 shares of common stock (par $10). **Underwriter**—None. **Price**—$25 a share. **Proceeds**—For working capital.

Cameron Aero Engine Corp. (1/12-16)
Dec. 29 (letter of notification) 101,000 shares of common stock (par $1), of which 85,000 shares will be sold to the public; 8,500 shares will be issued to underwriters as additional underwriting consideration and 7,500 shares will be issued to American Die & Tool Co. for investment in return for cancelling $15,000 open account for machine tools. **Price**—$2 per share. **Underwirter**—R. A. Keppler & Co., Inc., New York. To provide operating funds, etc.

● **Canyon Copper Co., Yuma Ariz.**
Dec. 26 (letter of notification) 290,000 shares of capital stock. **Price**—50 cents per share. Anticipate making arrangements for sale of stock through agent. For purchase of mining machinery and for development of mining claims.

Central Chemical Corp., Hagerstown, Md.
Dec. 29 filed 254,682 shares ($10 par) non cumulative 6% stock and 70,643 shares ($10 par) non-voting common Class B stock. **Underwriters**—To be sold through company officers and employees. **Offering** — To company stockholders, employees and customers. **Price**—At par. **Proceeds**—To retire indebtedness and for working capital.

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.

Clarvan Corp., Milwaukee, Wis.
Dec. 23 (letter of notification) 525 shares of 5% cumulative preferred ($100 par). Heronymus & Co., Sheboygan, Wis., is offering 90 shares on its own account. **Price**—$100 a share. For working capital.

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.

Dayton (Ohio) Power & Light Co.
Dec. 5 filed 170,000 shares ($7 par) common. **Underwriting**—The common shares will not be underwritten. **Offering**—The common shares will be offered for subscription by stockholders on the basis of one share for each nine shares held. **Price**—To be supplied by amendment. **Proceeds**—To finance construction program.

Dee Stores, Inc., Olean, N. Y. (1/12-16)
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.

De Walt, Inc., Lancaster, Pa. (1/19-23)
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.

● **Doman-Frasier Helicopters, Inc., New York (1/13)**
Jan. 6 (letter of notification) 10,000 shares of capital stock (par $1). **Price**—$1.50 per share. **Underwriting**—None. Operating expenses during completion and demonstration of test flight progress of corporation's rotorblade system for helicopters.

Domestic Credit Corp., Chicago
Dec. 29 filed 150,000 shares ($1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—$3.49 a share. **Proceeds** — Company did not state how proceeds will be used.

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. Postponed indefinitely.

Equity Fund, Inc., Seattle, Wash.
Dec. 29 filed 103,089 shares of common. **Underwriters**—Pacific Northwest Co., Seattle. Price based on market prices. **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.

Glass Fibers, Inc., Waterville, O.
Dec. 30 filed 343,000 shares ($1 par) common. **Underwriter**—Kebbon, McCormick & Co., Chicago. Price by amendment. **Proceeds**—To repay indebtedness and for working capital.

Gulf States Utilities Co. (1/8)
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.

Harshaw Chemical Co., Cleveland, O.
Dec. 26 filed 58,612 shares ($10 par) common. **Underwriters**—McDonald & Co., Cleveland. **Offering**—The shares initially will be offered for subscription by stockholders. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—To repay short-term bank indebtedness.

● **High Vacuum Processes, Inc., Phila. (1/12)**
Jan. 2 (letter of notification) 3,700 shares of non-cumulative preferred stock (par $25) and 18,500 shares of common stock (par 5¢). **Underwriter**—A. W. Smith & Co., Inc., Boston. **Price**—$25.25 per unit, consisting of one share of preferred and five shares of common. Purchase of laboratory equipment and facilities, working capital.

Illinois-Rockford Corp., Chicago
July 24 filed 120,000 shares ($1 par) common. **Underwriters**—Brailsford & Co., and Straus & Blosser, Chicago. **Price**—$9.25 a share. **Proceeds**—The shares are being sold by four stockholders and represent part of the stock the sellers will receive in exchange for their holdings of four furniture companies to be merged with the registrant. The merging companies are Toccoa Manufacturing Co. and Stickley Brothers, Inc., both Illinois corporations, and the Luce Corp. and Stickley Bros. Institutional Furniture Co., both Michigan corporations. Indefinitely postponed.

Inter County Telephone & Telegraph Co., Fort Myers, Fla.
Dec. 24 (letter of notification) 4,000 shares of 5% cumulative preferred stock. **Price**—$25 a share. **Underwriter**—Florida Securities Corp., St. Petersburg, Fla. For property improvements.

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.

Iowa Power & Light Co. (2/2)
Dec. 22 filed $6,000,000 first mortgage bonds, series due 1973. **Underwriting**—To be determined by competitive

NEW ISSUE CALENDAR

January 8, 1948
Delaware Lackawanna & Western RR., Noon ---- Equip. Trust Ctfs.
Gulf States Utilities Co. ---- Common
January 12, 1948
Cameron Aero Engine Corp. ---- Common
Dee Stores, Inc. ---- Common
High Vacuum Processes, Inc. ---- Pfd. and Com.
Old Poindexter Distillery, Inc. ---- Preferred
January 13, 1948
Arrow Safety Device Co. ---- Common
Doman-Frazier Helicopters Inc. ---- Common
Joy Manufacturing Co. ---- Common
January 14, 1948
Southwestern Gas & Electric Co. ---- Bonds
Washington Gas Light Co. ---- Common
January 16, 1948
Northeastern Water Co. ---- Bonds
January 19, 1948
De Walt, Inc. ---- Common
Kores Carbon Paper & Ribbons Mfg. Corp. ---- Stocks
St. Louis-San Francisco Ry. ---- Equip. Trust Ctfs.
January 20, 1948
Potomac Edison Co. ---- Bonds
Potomac Electric Power Co. ---- Bonds
January 21, 1948
Southern California Edison Co. ---- Bonds
January 22, 1948
Armstrong Cork Co. ---- Preferred
January 26, 1948
Baltimore & Ohio RR. ---- Equip. Trust Ctfs.
Kaiser-Frazer Corp. ---- Common
February 2, 1948
Iowa Power & Light Co. ---- Bonds

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.

● **Jay Goodwin Industries Inc., Denver, Colo.**
Dec. 30 (letter of notification) 246 shares (no par) common on behalf of J. L. Goodwin, President of the company. **Price**—$100 a share. No underwriting.

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. (1/13)
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.

● **Kaiser-Frazer Corp. (1/26-30)**
Jan. 6 filed 1,500,000 shares ($1 par) common. **Underwriters**—Otis & Co., Cleveland; First California Co., San Francisco, and Allen & Co., New York. **Price**—By amendment. **Proceeds**—To purchase machinery and tools to increase production of automobiles from current rate of 950 per day to 1,500 per day.

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.

Kentucky Water Service Co., Louisville, Ky.
Dec. 23 (letter of notification) 10,000 shares ($25 par) 6% cumulative preferred. **Price**—$26.50 a share. **Underwriters**—The Bankers Bond Co. and Smart & Wagner, both of Louisville, Ky. To pay for acquisition of water properties.

● **Kores Carbon Paper & Ribbons Mfg. Corp., N. Y. (1/17)**
Jan. 5 (letter of notification) 490 shares of first preferred stock (no par), 1,500 shares of second preferred stock (no par) and 2,100 shares of common stock (no par). **Price**—First and second preferred, $100 per share; common, $5 per share. **Underwriters**—None. Acquisition of and payment for equipment and raw materials, etc.

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.

● **Liberty Discount Co., Inc., Bremen, Ind.**
Dec. 30 (letter of notification) $300,000 ($100 par) class A common. **Price**—$100 a share. No underwriting. For working capital.

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.

McClanahan Oil Co., Grand Rapids, Mich.
Dec. 30 filed 260,000 shares ($1 par) capital stock. **Underwriters**—None. **Offering**—Shares will be exchanged for $1 par stock of Great Lakes Chemical Corp. on the basis of one share of McClanahan common for each two shares of Great Lakes common. Offer will expire March 15, 1948.

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.

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.

Market Basket, Pasadena, Calif.
Dec. 30 filed 27,788 shares (50c par) common. **Underwriters**—None. **Offering**—Shares are to be issued upon exercise of common stock purchase warrants issued in July, 1945. **Price**—Two shares per warrant at $6 a share. **Proceeds**—For additional working capital.

● **Martin Phosphate Mining Co., Butte, Mont.**
Dec. 26 (letter of notification) 50,000 shares class A stock and options for a like amount of stock. **Price**—$1 per share of class A stock. No underwriting. For test and development work.

● **Mohawk Wire Co., Syracuse, N. Y.**
Dec. 23 (letter of notification) not over 1,100 shares of common stock (par $10). **Underwriting**—None. **Price**—$45 per share. To reduce debt and improve 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.

New York Telephone Co.
Dec. 30 filed $60,000,000 30-year refunding mortgage bonds, Series E. **Underwriters**—To be determined by competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Morgan Stanley & Co. **Price**—To be determined by competitive bidding. **Proceeds** — To finance construction program.

Northeast Airlines, Inc., Boston, Mass.
Dec. 24 filed 83,333 shares (no par) $1 cumulative convertible preferred. **Underwriter**—Atlas Corp., owner of 100,000 shares of the registrant's common stock, has agreed to purchase all shares not subscribed for by other stockholders. **Offering**—The shares will be offered for subscription to common stockholders on the basis of one share for each six common shares held. Price by amendment. **Proceeds**—To pay off indebtedness.

Northeastern Water Co. (1/16)
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.

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 & Co.; Blyth & Co.; W. C. Langley & Co., and Glore, Forgan & Co. (jointly). **Price**—By amendment. **Proceeds**—To be used for construction.

Old Poindexter Distillery, Inc. (1/12)
Mar. 31 filed 50,000 shares ($20 par) 5% convertible cumulative preferred and 125,000 shares ($1 par) common into which the preferred is convertible. **Underwriters**—F. S. Yantis & Co., and H. M. Byllesby & Co., both of Chicago. **Price**—Par. **Proceeds**—To be added to working capital.

Potomac Edison Co., Hagerstown, Md. (1/20)
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.; W. C. Langley & Co., and The First Boston Corp. (jointly); Blyth & Co., Inc.; Harriman Ripley & Co.; Shields & Co. **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 bids to be opened Jan. 20.

Potomac Electric Power Co. (1/20)
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.; Kuhn, Loeb & Co., and Blyth & Co., Inc. (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. Expected bids will be opened Jan. 20.

Public Service Co. of New Hampshire
Nov. 25 filed 139,739 shares of common (par $10). **Underwriters**—To be determined by competitive bidding. **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. **Proceeds**—To pay off loans and for construction purposes.

● **Raleigh Red Lake Mines, Ltd., Toronto, Can.**
Jan. 7 filed 460,000 shares of common stock. **Underwriter**—Mark Daniels & Co., Toronto, Canada. **Price**—25 cents a share in Canadian funds. **Proceeds**—For exploration and development of mining property. **Business**—Mining business.

● **Rockbridge Broadcasting Corp., Lexington, Va.**
Jan. 2 (letter of notification) 350 shares of preferred and 300 shares of common. **Price** — $100 a preferred share and $50 a common share. No underwriting. To construct radio broadcasting station in Rockbridge County, Va.

South Carolina Electric & Gas Co.
Dec. 2 filed 80,858 shares ($50 par) cumulative convertible preferred and 404,293 shares ($4.50 par) common for sale, and 687,293 shares reserved for conversion of preferred. **Underwriter**—Kidder, Peabody & Co., New York. **Offering**—Shares initially will be offered for subscription by company's common stockholders, the preferred on a 1-for-10 basis and the common on a 1-for-2 basis. Unsubscribed shares will be offered publicly. Price by amendment. **Proceeds**—Proceeds together with other funds will be used to purchase all of the outstanding common of South Carolina Power Co. from the Commonwealth & Southern Corp.

Southern California Edison Co. (1/21)
Dec. 30 filed $40,000,000 25-year first and refunding mortgage bonds, series A. **Underwriters**—To be determined through competitive bidding. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Blyth & Co., Inc. **Proceeds**—To retire $22,000,000 of bank loans and to reimburse treasury; for construction of additional power facilities. Expected Jan. 21.

Southwestern Gas & Electric Co. (1/14)
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.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To finance construction program. Expected about Jan. 14.

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.

● **Steel City Supply & Equipment Co., Pueblo, Colo.**
Jan. 2 (letter of notification) 6,000 shares of stock. **Price**—$10 a share. No underwriting. To construct buildings and for operating capital.

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.

Washington (D. C.) Gas Light Co. (1/14)
Nov. 7 filed 35,000 shares (no par) common. **Offering**—Shares are offered for subscription by common stockholders of record Dec. 26 on the basis of one share for each five held. Subscription warrants will expire Jan. 13, 1948. **Price**—$20 per share. **Dealer-Manager**—Company has arranged with a group of security dealers to manage the solicitation of stockholders' subscriptions. Heading this group are The First Boston Corp.; Alex. Brown & Sons; Auchincloss, Parker & Redpath; Johnston, Lemonn & Co.; Folger, Nolan, Inc.; Goodwyn & Olds; Mackall & Coe; Ferris & Co.; Robinson, Rohnbaugh & Lukens, and Robert C. Jones & Co. **Proceeds**—To be added to general funds for current construction program.

Wisconsin Power & Light Co., Madison, Wis.
Dec. 29 filed $3,000,000 30-year first mortgage bonds, Series B, and 30,000 shares ($100 par) 4½% cumulative preferred stock. **Underwriters**—Only the bonds will be underwritten under competitive bidding terms. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Glore, Forgan & Co. and Harriman Ripley & Co. (jointly); W. C. Langley & Co., White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc.; The First Boston Corp.; Shields & Co. **Offering**—Bonds will be offered publicly while stock will be offered to holders of 4½% preferred. Price by amendment. **Proceeds**—To pay bank indebtedness and for construction costs.

Prospective Offerings

● **Baltimore & Ohio RR. (1/26)**
Company plans to issue invitations for bids to be received on Jan. 26 for $4,000,000 in 1-to-10 year certifi-

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cates. The proceeds from this offering will finance up to 80% of the cost of 1,200 70-ton open-top steel hopper cars to be built by Pullman Standard Car Manufacturing Co. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Central RR. of Pennsylvania**

The Central RR. Co. of N. J. and Central RR. of Pa. have asked the ICC for permission to issue $1,950,000 of Central RR. of Pa. equipment trust certificates to be known as series A. Probable bidders: Halsey, Stuart & Co. Inc.; Harris, Hall & Co. (Inc.).

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.

● **Empire District Electric Co.**

Jan. 5 company has filed an application with Missouri P. S. Commission to issue $4,000,000 1st mtge. 3½% bonds of 1978. Proceeds for expansion. Probable bidders include The First Boston Corp.; Halsey, Stuart & Co. Inc.; Lehman Brothers; Shields & Co.

● **Illinois Central RR.**

Reported that directors on Jan. 15 will consider in addition to the matter of a preferred stock dividend, plans for dealing with 1950-55 maturities of mortgage debt aggregating more than $100,000,000. Probable bidders include Kuhn, Loeb & Co.

● **St. Louis-San Francisco Ry. (1/19)**

Company has issued an invitation for bids to be received Jan. 19 on $8,840,000 in 1-to-10 year equipment trust certificates. Bidders may submit alternate proposals for $8,280,000 in 1-to-15 year certificates. The 1-to-10 year certificates would constitute an 80% loan and the 1-to-15 year certificates a 75% loan. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

Let Life Insurance Companies Satisfy Our Capital Needs!

(Continued from page 2)

enough investments to go around, but rather, is there enough capital available? The McGraw-Hill Department of Economics recently made a synopsis of an 857-page report of the Twentieth Century Fund, which was published in May of 1947. It was entitled, "America's Needs and Resources from 1950 through 1960."

Let me just take the liberty of reading an excerpt from that: "Analysis of our present capital needs lends little support to the idea prevalent during the nineteen thirties that we had reached economic maturity so there was no way to invest as much as we had in earlier decades. No one has ever made an estimate of how much it would cost to modernize our industrial plant, which is valued at around $200 billion at prewar prices. If as much as a third of it needs to be replaced or rehabilitated around $100 billion, at current prices, of additional investment will be required."

I think the reason no one ever made an estimate is they didn't have the temerity to make it. "In addition, huge amounts of money need to be invested in housing and public works to raise the services provided merely to adequate levels. The Fund estimates that the cost of a 15-year program to modernize our city streets and rural highways would run to $40 billion. To bring the nation's housing up to minimum standards of health and decency by 1960 would cost $115 billion. To conserve our natural resources and develop our water power would cost $27 billion over a 15-year period."

These are staggering figures. There seems to be little question—"that needs exist for all the capital investment we can make for a long time to come. The behavior of investments in the past strongly suggests that the problem is not one of lack of needs but one of finding ways to add to our capital, in an orderly fashion."

I would like you to note, particularly, the next sentence: "Capital has followed the boom and bust route in the past. What is wanted is a high but steady rate of investment."

That is the McGraw-Hill estimate. Let me quote an excerpt from another capital analysis, somewhat closer to home; the Lionel D. Edie organization, in July of 1947, made a study entitled "Capital Requirements of Private Industry." They predicated it on a gross national product in 1950 of around $200 billion per annum; then, with characteristic caution, took a slight discount and said on the basis of a gross national product of $194 billion annually, private business expenditures on new construction and durable equipment should amount to $21 billion per annum.

Let's analyze that in comparison with the not-so-far past: from 1925 to 1929, such expenditures were from $9 to $12 billion per annum—and always keep in mind that $21 billion figure; we will revert to it quite often during this discussion—from 1931 to 1940, such expenditures never reached $9 billion per annum. In 1941, they were $11 billion four hundred million. In 1946, they were $17 billion, four hundred million, but the first quarter of 1947 indicated that these expenditures would be, at the rate indicated above, namely $21 billion per annum.

That isn't all to come from new investments, obviously. If $21 billion is required annually, about $14½ billion per annum should be generated from undistributed profits and reserves. That leaves about $6½ billion to be raised in capital markets.

Estimate Confirmed by IBA

There is another way of looking at that. The Investment Bankers Association, Committee on Industrial Securities weighed it from quite a different standpoint and arrived at almost the same figure. Now, raising that amount of money is a difficult enterprise. People often do things the hard way, sometimes unwittingly.

I am reminded of the story of the gentleman who overlooked his wife's birthday. It was an important birthday and he was very emotionally moved by the fact that up until about the proverbial 61st second he had not found her a present. He knew that she wanted a particular grandfather clock and, being a devoted husband, he would go to any length to satisfy her wish. He shopped along Third Avenue and finally found one absolutely the apple of her eye, he was certain. The clerk said, "This is a thousand dollars," and he whipped out a roll of bills, paid the clerk, and said: "Send it right over. We only live five blocks away." The clerk answered: "This is a very high type store and we deliver only once a week. The next delivery will be on next Thursday." The man said: "Well, it has to be over there today." He reasoned with him, but to no avail. Finally he said: "Well, at least give me a hand to get it out to the curb. Maybe I can get a taxi to take it." He stopped taxis, but no amount of money would induce the drivers to show any interest. Therefore, being a devoted husband and rather well built, he hoisted the clock up on his back and started walking up Third Avenue with it. On the corner, a drunk came out of a saloon and barged into him, knocking him over. There he was, lying on the sidewalk, with the clock on top of him. "Why can't you look where you're going?" he called out, in an angry tone of voice. The drunk leaned over him and said: "If you want to know what time it is, why don't you cary a wrist watch, like other people?"

So sometimes people do things the hard way, unwittingly. So much for actual capital requirements. I think these studies fairly well indicate there are enormous capital requirements needed annually.

The Means for Supplying Capital

Now the next obvious question, and the one that we listed earlier, was: "What are the present actual and future probable means for supplying such needed capital under the present methods and laws?"—and I stress the word "laws" because I will revert to that. There has been considerable study of that. I would like to contrast that a bit, if I may, with the 1925-1929 era, to which we adverted earlier. From 1925 to 1929, industry required $2,200,000,000 of capital funds per annum, while the savings were about $4,008,000,000 annually from the higher income brackets. That is, those over $10,000, whereas now, with annual industry requirements of about $6,500,000,000 there is only about $1,200,000,000 of annual savings available, according to the Lionel Edie stimate.

I want to say we have looked for other estimates along that line. There are some that range considerably higher. But, in all fairness, I want to say those that range higher do not seem to me to be any more authentically formulated, so I am taking the only one that appeared in actual print recently. While you may say that the lower estimate fits into the Lionel Edie discussion more aptly than some of the higher figures, even Thomas Moore and Lennie Rooks in Lalla Rookh, the Veiled Prophet said: "That prophet ill sustains his holy call, who finds not heavens to suit the tastes of all."

However, that estimate is fairly well substantiated by some other figures which have the imprimatur, if I may allude to it, of the SEC—because recently in a study called "Volume and Composition of Individual Savings from April Through June of 1947"—and also, if a plug may be put in for Herbert Hall and Morgan Stanley—and I want to put in one for Kuhn-Loeb—there was one the other day carrying it through July and September, and we have those figures. The liquid savings of this country increased enormously during the war. In 1940, the liquid savings were $4,100,000,000.

SEC Release of Oct. 3, 1947, re "Volume and Composition of **Individuals'** Saving April-June 1947" shows: in billions of $

	1940	1941	1942	1943	1944	1945	1946	1947 Jan. Mar.	1947 Apr. June	1947 July Sept
*Liquid Saving:	4.1	10.6	29.1	38.3	40.2	36,9	14.5	.8	1.8	2.9
of which Currency & Bk. Deposits	2.9	4.9	10.9	16.0	17.0	19.0	12.2	—1.9	1.0	
Private Insurance	1.8	2.1	2.5	2.8	3.2	3.5	3.2	.8	.7	
U. S. Savgs. Bonds	.9	2.8	8.0	11.1	11.8	6.9	.9	.9	.4	
Other U. S. Govt. Securities	— .4	.8	1.9	2.7	3.6	3.4	.2	1.0	† .2	
Corporate & Other (non-Governmt. or Municipal)	— .5	— .5	.3	— .4	— .7	— .7	0	— .2	— .1	

*Gross saving excluding purchases of homes, automobiles and other durable consumers' goods. †Does not include armed forces leave bonds amounting to $400 million.

In 1941, $10,600,000,000. In 1942 they rose to $29,100,000,000. In 1943, to $38,300,000,000. In 1944 they reached the astronomical heights of $40,200,000,000. They declined the following year to $36,900,000,000, still a high figure. Declined to $14,500,000,000 in 1946.

Reduced Savings in 1947

Let me call your attention to what has happened so far in 1947. For the first three months they were a paltry $800,000,000. April to June, $1,800,000,000. July to September, $2,900,000,000. Now let me show you a figure that has really increased enormously. The amount that goes to private insurance has risen enormously. In 1940, $1,800,000,000. In 1941, it went up. It reached the zenith for the recent present in 1945, when $3,500,000,000 went into the insurance companies. It is going at about that rate, and the growth of insurance companies' assets reflects that precisely, because the assets of life insurance companies are growing at approximately the $3½ billion per annum figure year by year.

Growth of Insurance Company Assets

We are all conversant with the enormous growth of life insurance company assets, but I think it can be brought to your attention a little more dramatically by citing a few figures. At the end of 1920 the total assets of mutual life insurance companies were $7,300,000,000. By 1930 they had reached $18,900,000,000. By 1940 they were $30,800,000,000. Look what happened during the war years: 1944, they were $41,000,000,000. In 1945 they were $44,800,000,000. In 1946, $48,000,000,000, and at the end of December, 1947, the end of last year, they were $51,500,000,000. There is your $3½ billion almost constant annual growth. That is where a great deal of the savings of the country are going.

The mutual savings banks reflect a similar picture. Their growth in deposits has been somewhere in the neighborhood of a billion dollars per annum. In 1939 they were $10,500,000,000. At the end of 1946 they were $16,870,000,000 and at the end of 1947, according to Earl B. Schwulst, Vice-President of the Bowery Savings Bank, and President of the Mutual Savings Bank Association, they were just under $18 billion.

Growth in Depositors

The other significant figure is that the number of depositors has grown enormously. Their depositor accounts have increased a 1½ million since V-J Day. I don't say that represents individuals because, naturally, some people may have more than one account, in various savings banks, but the number of individuals accounts has risen 1½ million since V-J Day. But the deposits have gone up about a billion and the total number of depositors, that is, not accounts, is about 18½ million. That is an awful lot of money in certain places where it is not available for the type of capital that we have planned to discuss here today.

Economic and Social Implications

That leads us, obviously, into the next important question: What are the economic and social implications of not meeting capital requirements along sound financial lines? I think that is the crux of the question. It is not alone the economics of it; it involves the social implications of it. The present laws with regard to the investments of funds for insurance companies and savings banks are contributing at least somewhat, I think, to unsound corporate structures because if this vast reservoir of savings is tied up in certain quarters where its investment is restricted along narrow lines, obviously they must temper the wind of the shorn lamb, and corporate structures are affected. Let me read to you what others think of present financial requirements and the unsoundness of corporate structures due, to an extent, I'll admit, to tax laws—we'll discuss them by and by—but due also, I think, to the legal straitjacket in which large purveyors of capital find themselves.

The National City Bank, not a very radical organization, in its "Review" of November of 1947, under the heading "Deficiency of Savings," said: "In the present juncture, the supply of new savings out of current incomes of individuals is seriously deficient, in relationship to the demands for capital. For example, the individual investor has come close to disappearing as the source of new capital for private business. Estimates of the SEC indicate that individuals in all of 1946 added nothing net to their holdings of corporate stocks and bonds. The same is true for the first half of 1947."

The reason I characterized the National City Bank as not being particularly radical is that I did use the word "radical" in suggesting that some of the changes that I might advert to later would not appear radical and, also, if ever there was a euphemism, it is their observation that the SEC study shows that individuals added nothing net to their holdings of capital stocks and bonds, because I can tell you they added less than that. This shows that individual holdings of securities not alone did not increase during the war years, but decreased at the rate of about a half billion dollars a year through the war years. They decreased by $700 million in 1945. They were just even in 1946. For the first quarter of 1947 they declined by $200 million, and for the second quarter by $100 million, so I don't think the National City Bank overstated the case. Resuming quotation from National City Bank "Review": "The individual savings that take place today in largest volume are either institutionalized savings, reflected in accumulations of insurance and pension funds, or savings in anticipation of consumption.

The Missing Link

"These funds are not available for equity investments and common stocks. The absence of substantial individual saving for taking risks of ownership is a serious missing link in the structure of sound financing of postwar prosperity. Without them, the pressure is on the corporation to sell bonds and to go further into debt to the banks and to the institutional investor."

I read that with particular emphasis because I think it is so directly applicable to the point that I have endeavored to make, that financial structures are being distorted, I believe, and unsoundly distored, because of the shortage of equity capital. Let me read to you, if I may, what the Special Tax Study Committee of the House Ways and Means Committee said, under the Chairmanship of Roswell MacGill, the distinguished tax expert of Cravath, De Gersdorff, Swaine and Wood; and Governor Frank Carlson of Kansas. The reason I indicated to you the joint chairmanship is that I think it represents such an interesting cross-section of opinion when you get a distinguished tax lawyer and the Governor of an agrarian State to agree on such a subject. I think that is news.

That report stated: "The equity market is starved and even the strongest corporation finds it impossible to raise additional funds through offerings of share capital except on terms so costly in many cases as to necessitate deferment of plans." I think I can divert for a moment by saying when they talk about the costliness of additional capital, that really strikes home; and based on some of our experiences as underwriters of such offerings, I think some of us wish they had deferred the plans before they were underwritten.

Depleted Corporate Working Capital

"Many corporations have depleted working capital because of heavy increases in the cost of inventories and badly needed additional equity money, which is largely unavailable today." That is a report of a special committee of a Congressional Committee.

A great many people will say, "This is all very well for you investment bankers, investment advisors, analysts, to champion changes in life insurance investment laws. How do you think this will strike the life insurance companies charged with the responsibility of safeguarding the savings of millions who are insured by them, and who must look to safeguarding the future of generations yet unborn." Let me read you what Mr. Stahrl Edmunds, the Economic Analyst of the Northwestern National Life Insurance Co., said in an article entitled "Outlets for Life Insurance Investments," in the "Harvard Business Review," the summer of 1947 number. He said, in part: "Because the national economy has arrived at a stage of advanced and intensive industrialization, a relatively greater proportion of equity capital is required for the development of new commercial and industrial enterprises. At the same time, life insurance companies still retain their traditional status as lenders, rather than providers of equity capital, even though their capacity for capital accumulation has grown to be one of the foremost in the economy. These two developments are mutually incompatible and, if not adjusted, may very well have disastrous consequences for the economy and life insurance alike."

I want to be perfectly fair to Mr. Edmunds' article. Elsewhere in that article, which some of you may have seen in the "Harvard Review," he did make the point that there may be certain political implications in life insurance companies owning too significant a portion of the equity of certain companies. I cite that not because I am in agreement with it, but merely that I think it is obviously unfair to quote a portion of a person's article which may happen to fit in with the point one is endeavoring to make without adding the additional coloring which Mr. Edmund's article carried with it. I cite it also because I wanted to pay a personal compliment to Mr. Ben Feldman, the head of our Statistical organization, who pointed out a great many of these citations.

Needed Changes

That leaves the question, "What changes would aid in meeting capital requirements along sound financial lines?" Obviously, the panacea that is most often suggested, especially in this quarter, is tax reduction, to permit greater savings of capital, especially in the upper brackets. I question whether that is economically sound or sociologically fair at this juncture in our history. I question whether it is economically sound to reduce taxes in the face of a national debt of approximately $257 billion. I question whether it is sociologically fair to have so huge a debt outstanding for any longer period than is absolutely inevitable, because all it means is that we are saddling that debt further and further on coming generations. I think it is much more advisable to maintain your tax level as high as it possibly can be, and I guess it is that now, curtail government expenditure insofar as you can, and reduce the debt as expeditiously as humanly possible.

There is another panacea sometimes suggested, toward meeting this capital situation and that is pay out less in dividends. Thereby the corporations would have more of their earnings available for future capital requirements.

The reason I think this is a rather questionable panacea is that if you pay less in dividends, obviously, you go further toward making less popular equity investments and therefore you will make it less attractive for such as can to purvey this additional equity capital. In addition, dividends, just like interest, represent merely hire of money and if you don't pay rent, you know what happens to your quarters. If you don't pay rent for funds, I doubt if you will get them loaned out, or purveyed in the form of equity.

Turn to Life Companies!

Therefore, the only other possible solution I see is to amend the laws regulating life insurance companies' investments. Permit a certain percentage of their assets to be invested along codified lines. I don't by any means say put it all in common stocks. I don't say put it in common stocks of every company, but just the same as there are certain very well reasoned areas within which life insurance companies are permitted to invest now, in the form of bonds, notes, debentures and preferred stocks, so too it would seem to me that it would be sound from the angles which I have endeavored to adduce to permit them to invest a portion of their assets in common stocks of sound enterprises. And let me emphasize, this added investment medium would merely be permissive, surely not mandatory. I might say, in passing, it might even be wise to do that in the case of savings banks.

I think there is one further facet of this question. A great many people may say a suggestion of this nature is radical. They may say it is a new departure. I submit that it really doesn't represent any actual change. It isn't an actual departure from present realities, and I don't make that assertion lightly.

First of all, many comprehensive studies have shown that portfolios invested entirely in fixed obligations do not fare as well as portfolios invested partially in fixed obligations and partially in equities. The reason is so obvious that I hesitate almost to point it out to so well-informed an audience as this, but it is perfectly patent if you invest in a broad cross-section of bonded indebtedness, fixed obligations, and your appraisal or your guess is wrong on two or three or four or whatever percentage you choose, the balance of those investments can't possibly make up for that loss. If you invest a portion in equities your may guess wrong on the equities, but if your guess or appraisal is wrong with regard to some of those equities it is reasonable to expect and apparently it has been shown that the loss on some will be compensated, in many cases more than compensated, by the increase in the others. That can only happen with regard to equities, not with regard to bonds, because the most one could expect to get from fixed obligations is their payment at maturity, or prior redemption. Many trust funds have been using that system.

I need hardly point out to this audience that I am directing our attention to the laws of New York State, because many other states including Massachusetts, Connecticut and New Jersey permit life insurance companies to invest a portion of their funds in equities along certain lines.

What are the life insurance companies of New York State doing even now? Let's use a word often used around our circles, let's be realistic about this. I submit that right this minute the life insurance companies of this State are actually investors in equity. They may not realize it, and I am not suggesting for a moment that they are in any slightest degree in letter or in spirit breaching the very precise laws governing their investments, but—they are actually investors in equities.

Life Insurance Companies Are Already Equity Investors

Let me cite to you a few examples where I think life insurance companies are to some extent equity investors—and I applaud them for it because I reiterate that I think it is economically sound and sociologically desirable. Where, as they do, they build whole housing developments, which I repeat is most helpful to all concerned, it seems to me a portion of the investment represents equity. Where they loan a percentage of the cost of any project or building which is larger than the usual percentage of the cost or usual valuation of such project or building—based on well calculated and well reasoned potential earnings of such projects or buildings—I submit they are to some extent tantamount to investing in equities.

So if the insurance companies are already in reality the purveyers of all or part of the equity and all of the funded debt of project or building, why not own the whole operation. Then at least in the palmier years they would have available sufficient of the profits out of such operations to build a cushion, if you will, amortize against the leaner years when some of those earnings may not be quite as satisfactory as they now appear, and I am not saying this in any Cassandra-like way.

Therefore, if the life insurance companies are, in effect, making loans, a portion of which makes them, in effect, owners of equity capital, why not legalize it and open to the sorely needing capital market another avenue to which it may turn, a very important avenue through which it can obtain this very much needed equity capital.

For all of the reasons that I have endeavored to adduce, sociological and economic, and, I think, above all, for practical reasons, in the long run your and my invested savings—that is what the insurance companies and savings banks represent—will be better protected and more soundly used by legalizing the investment of some portion in equities along well reasoned, codified lines, similar to the standards governing the other investments of these well trusted guardians of a large and growing part of the nations savings.

I would not ever attempt to change a word of the bible but I would suggest in financial circles at least it may be well to say, "In days of prosperity, consider," and that is why I appreciate this opportunity to consider with you whether it wouldn't be desirable to change or to consider changes in the laws governing investment of the assets of insurance companies.

Our Reporter's Report

Outcome of the sale by American Light & Traction Co. of a block of 450,000 shares of its holdings of Detroit Edison Co., common stock was looked upon in investment banking circles, as a "good omen" for the start of the New Year.

The overall operation was one of those that served to bear out the contention of bankers who hold that securities can be sold if the quality is there and the price is right.

Two groups sought the issue after a third had dissolved and withdrawn from the race after reportedly reaching the conclusion that the utility's earnings might taper off a bit hence.

The successful group, incidentally, headed by a New York firm and boasting not a single Detroit house, outran a second group which had more than a liberal sprinkling of firms of that city in its list.

The purchasers paid the seller $19.06 a share for the stock and reoffered at $20.50 a share. Potential orders, or indications of intentions to buy, were sufficient, within 15 minutes of the fixing of the reoffering price to assure complete distribution of the issue upon formal reoffering.

Bankers handling the business were especially well pleased with the outcome particularly in view of the fact that American Light & Traction still has approximately another million shares of the stock to dispose of.

$40,000,000 Issue Set

Having received the approval of the California Public Utilities Commission, Southern California Edison Company is expected to call soon for bids for its projected issue of $40,000,000 of new series A first mortgage bonds with a 25-year maturity.

The Commission agreed to a company request to shorten the period between notice of sale and opening of the bids to six days.

Meanwhile the company has gone into registration with the Securities and Exchange Commission to cover the flotation which will provide for the repayment of $22,000,000 of bank loans and to cover expenditures already made for the acquisition of properties and for improvements to facilities.

Kaiser-Frazer Stock

Preparing to raise additional capital needed for expansion of its producing facilities Kaiser-Frazer Corp. has registered an issue of 1,500,000 shares of new capital stock with the SEC for public offering.

The underwriting group will be nationwide in scope judging from the fact that of the three firms which head it one is a New York house, another is domiciled in Cleveland and the third on the West Coast.

The company plans to spend about $7,000,000 on facilities, inventories and tools and another $5,000,000 will be made available to its suppliers to finance their expansion.

Bankers will have the opportunity of bidding for a total of about $22,000,000 in new public utility bonds next week, consisting of two issues.

Since this is the type and size of offering which the underwriting fraternity really likes, it seems certain that competition will be keen.

The issues up for bids, unless there is a change in the schedule, include Southwestern Gas & Electric Co. with $7,000,000 of first mortgage 30-year bonds on Wednesday and Potomac Electric Power Co., with $15,000,000 of first mortgage bonds, 35-year maturity, on the same day.

Southwestern Bell.

Market conditions at the time doubtless will settle the question of whether Southwestern Bell Telephone Co., will seek to sell the entire amount of its contemplated $100,000,000 of new debentures in one swoop or split it up into one or more deals.

Just now, however, underwriters lean to the view that the company will seek a single operation. But the deal is not imminent, and is hardly expected before early April, so the company will have ample time to get the feel of the market.

Groups headed by the two firms which have vied steadily for telephone business since the advent of competitive bidding will be in the field.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

What you are now seeing in effect is Chief Buyer Harry S. Truman for Democrats, Inc., laying in most of his 1948 stock of political merchandise. For in the annual message to the opening of Congress, and the forthcoming Economic and Budget messages, Mr. Truman must stock up the goods which will sell or not sell. These will determine whether his management will be continued by the stockholders when they review the management's affairs in November.

Republicans, Inc., the competing shop across the street, unfortunately is without central purchasing. Each departmental manager, the House or the Senate department, or even the head man at each counter, tries to decide what he will sell. Thus there is the spectacle of Speaker Martin of the House department asking for a tax cut immediately and Senator Taft saying, "no, no, let's wait."

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For Mr. Truman, the business is mostly made or broken in these three messages. True, he can run in a special now and then. He can even offer some new baubles for the Democratic national platform next summer. On the whole, however, his final "record" is made with what he asks for now.

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Republicans also for the most part will make their own sales record between now and July. Obviously, however, they have a little more time leeway than the Opposition. They also have a convention next summer in which to stock up with the latest in political merchandise. And they also have to select a Presidential candidate, who will peddle his own stuff.

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Of the three messages, the two most important are the State of the Union and Budget messages. The economic Report is a kind of new-fangled invention which will be "on order" from the mail catalog department only when the President or the Congress reduce it to the drawing board of specific legislative proposals. In the annual and budget messages one will read to see where Mr. Truman stands on pending issues, and what new issues he may have added.

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Congress's new provision for a mandatory wheat carryover of 150 million bushels isn't going to cramp the Department of Agriculture very much in feeding Europe. The particular provision carries an escape clause. It permits the government to cut below 150 million bushels if, by spring, wheat crop prospects look pretty good. This is about what the Administration would do, anyway. After the fuss about the $3 wheat the Administration is too scared anyway to risk meeting the 520 million all-grain export goal if it looks like a short crop.

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That banks may be getting choosy about loans in the light of the scare to saddle the secondary reserve upon them was shown privately by an unexpected source. RFC's business, which has been limping along behind the lending parade, is picking up. Many of the customers with term loans are asking the RFC to please take over since some banks don't want to string along. It's a small trend thus far, but indicative. The secondary reserve idea, sponsored by Reserve Board Chairman, Eccles, is now a dying duck. Only Dr. Truman can save it, and maybe he can't and won't.

Senators concerned with extending the RFC's life beyond June are predicting that the extension will be made "with further curtailment of RFC's lending power." There is now doubt about that curtailment. It is about as difficult to define for RFC what is desirable and undesirable commercial business in the public interest, as it is to define with particulars what are good and bad loans for commercial banks in the present inflationary era. If RFC were only a private corporation, its stock would be a good long shot buy right now. Some of the gentlemen on Capitol Hill think they can wave the legislative wand, create a brand new corporation complete with staff, techniques and red tape, ready to go to work by June on long-term foreign aid. The longshot is that they may find themselves playing through RFC in fact or in disguise, as well as through the Export-Import bank.

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A very real threat of limited war between Russia and the United States on Greek soil has been averted or at least postponed. That, according to a source which is competent even though it must be unidentified, is the significance in the Balkan news of the last several days.

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Here was the Russian plan: The Markos of "rebel government" was to establish itself on Greek soil. The town of Konitsa was selected as the seat of government. This was an ideal rebel capital, because it was close to the Albanian source of "volunteers" for the rebel government and to Russian munitions via Albania. It was also convenient because a rebel general if necessary could flee conveniently to Albania without even waiting to put on his pants.

With a putative government established on Greek soil the satelite governments then would recognize Markos. The Red hirelings would not be embarrassed further by American planes now reporting troop and munitions movements to the rebels, but would shoot them, When the rebellion succeeded in its fartheraway, real objective, the taking of the port of Kavalla to be used as a Russian commercial and naval base on the Aegean, then Moscow itself would recognize the rebel regime—and move into the premises.

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In the meantime the United States would have been confronted with the necessity of backing up the Athens government to prevent this. It might have sufficed to give abundant material aid. On the other hand, the U. S. might have had to send some troops "to guard supplies and port facilities." Maybe also some American GI's would have to be dressed up in Confederate uniforms and become volunteers for the Greek Army.

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As a matter of fact, this is the kind of war—if any—which officials expect to develop between Russia and the U. S. It need not be a full scale, billions of dollars and millions of men affair. It will be a jostling of Reds out of real estate they attempt to swipe here and there.

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What went wrong with the Reds' plans was that the "rebels" did not hold Konitsa. After all its pretty thin trying to recognize a supposed rebel government which even isn't in possession of a corner of the real property of the government it allegedly is rebelling against. Then Britain backed up the U. S. with strong warnings to the satellites not to recognize Markos. Subsequently the Marines were dispatched for a dress front for the U. S. stand.

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So now it looks like the Reds haven't got a camouflaged vehicle in which they can ride for a strong attack on the Athens government. And it looks like the U. S. is clear of the threat of a limited war, at least for the time being.

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Red Russia figures directly in the tentative decision, which may be confirmed next week in the Budget message, to build up the number of military aircraft. The theory is that the Russians actually are afraid of the atomic bomb. It is the one kind of U. S. military power which could be brought to bear quickly, assuming the availability of sufficient aircraft. Aircraft the President would buy. Then the Russians really would have the fear they now pretend to have, but don't really have, of the atomic bomb, so long as there are not many planes to carry them.

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Sentiment is building up in Congress in favor of the Byrd bill, which would combine all appropriations into a single supply measure. What is behind the increasing interest in this proposition is the awkward requirement of the Legislative Reorganization Act that Congress should attempt by Feb. 15 to frame the limits of expenditures and revenues. This has directed Congressional attention to the subject of budgeting, even if the Reorganization Act falls far short of giving Congress the machinery for budget making.

At present the details of appropriations are actually settled for the most part by the Appropriations subcommittees. When a subcommittee has drafted its recommendations for supply for a particular Federal agency, it submits the bill to the full committee. The full committee obviously is unfamiliar with the details. It makes changes in total allowances or for a few big items, but the run of details holds as proposed by the subcommittee. Under the Byrd bill the subcommittees would continue to decide the mass of details. The advantage of this plan, however is that decision on all big items of supply would be held in abeyance until they were all in. They would all be decided at once, and in relation to each other and total spendings. This would work in a small way toward budgeting.

While there is interest in this proposal, the shortness of the time available for the session makes it doubtful if it can be adopted this year. It will, however, be advanced by the thinking about it, toward enactment in another session.

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Affairs of the Home Loan Bank Board are likely to remain in a turmoil until well into this year. The turmoil will end when (1) the membership of the board has been completed and confirmed by the Senate, and (2) when and if the Board gets members who can work reasonably well among themselves. When John H. Fahey resigned as Chairman, Nathaniel Dyke, Jr., was scheduled to take over and start a program aimed at expanding membership in the Federal Savings and Loan Insurance Corp., and boosting the savings and loan business generally. Then the White House failed to name Dyke, and appointed instead as Chairman, William K. Divers. The latter was an aide to Raymond Foley, head of the Administration housing brain trust. Eyebrows will be raised in Congress over this "threat to the independence" of the savings and loan system.

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Believe it or not, the proposals of the Administration that the U. S. should encourage foreign food production was made without an idea of what should be done. Then the Senate got this thing tied on to the the Republican "anti-inflation" bill. Now the Department of Agriculture is trying to figure out what to do with it. Special brains have been assigned to work out plans. There will be no "parity" for Argentine corn. But it could be used to buy a big chunk of the Argentine corn crop, by example. Whether it will so be used will depend upon Congress, for this provision is one of those things that must first be submitted to Congress.

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Here is how "excessive speculation" could be attacked under the Republican "anti-inflation" bill for "voluntary agreements." The organized exchanges would be called in to draft an agreement curbing speculation on terms agreeable to the White House, the Attorney General, and the Department of Agriculture.

Thanks, Senator!

"As far as I can discover, much less than half of the sum asked (in the 'Marshall Plan') is for relief or for food or for fuel.

"Most of it is to help build up European industry, a kind of five-year plan like Stalin's, or a European TVA.

* * *

Robert A. Taft

"Undoubtedly there are many situations where we can help and only we can help. Where we have a surplus, I believe we should be liberal in providing aid wherever we can see that such aid will have a direct tendency to help these peoples to solve their own problems.

"But in the long run, the question of whether France, for instance, goes Communist will depend, 90%, on the wishes of her own people and on the policies of her own Government.

* * *

"If it were proved to be necessary to extend aid to Europe in the volume proposed, then we must recognize that our people have to pay the price both in taxes and increased prices."—Senator Robert A. Taft.

All these things badly needed to be said. We are glad the Senator again has taken up the cudgels in a good cause.