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No Magic Formula to Cure Inflation, Says George Whitney

President of J. P. Morgan & Co. Inc. tells shareholders legislative measures will only aggravate problem with further distortions and black markets. Says only true remedy is greater enterprise and greater production, with more saving and less spending by government and public. Sees drastic deflation more dangerous than inflation.

In his annual statement to stockholders, George Whitney, president of J. P. Morgan & Co. Inc., warned against legislation to directly control inflation, saying such devices as wage and price controls, allocation of commodities in short supply, consumer rationing and further control over bank credit would only lead to further distortions and black markets. He also warned that drastic deflation measures are likely to be more harmful and less subject to control than inflation. In the section of his statement dealing with these problems, he stated:

George Whitney

"The great international problem is restoration in the war-torn countries of the world. Even with the most liberal interpretation, it

(Continued on page 36)

Is Soundness of the Dollar Affected?

By WALTER E. SPAHR*

Professor of Economics, New York University

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

Dr. Spahr traces declining purchasing power of dollar and its effects. Holds maladjustments from inflation eventually hit all groups. Proposes return to gold coin standard as inflation safeguard, and characterizes our monetary system as circulating "dishonorable and dishonored promises to pay." Lays much of inflation to defective currency system and advocates reduced government spending and removal of curbs on interest rates.

Currency depreciation in terms of goods and services is pronounced in this country, and it has been relatively rapid since 1940. The general cost of living at the end of 1947, as compared with the average for 1940, had risen some 65%. This means that at the end of 1947 the consumers' dollars, in general, would buy only 61% as much as in 1940, that it required $1.65 to buy what $1.00 would buy in 1940, and that the consumers' dollars had declined 39% in purchasing power between 1940 and 1947.

Walter E. Spahr

A study by a Congressman of typical food prices in Washington, D. C., revealed that it required $2.56 to buy in November, 1947, what cost $1.00 in March, 1939 — in other words, that the consumers' dollars, in so far as those food items were concerned, had declined 61% during that period and that each dollar could purchase only what 39 cents would buy in March, 1939.

In terms of wholesale commod-

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*An address by Dr. Spahr at meeting of the Mortgage Bankers Association of America, New York City, Jan. 28, 1948.

Government Bond Support Vital!

By ALLAN SPROUL*

President, Federal Reserve Bank of New York

Mr. Sproul, in reporting on banking and credit developments, discusses Federal Reserve policy in relation to support of government bond prices. Asserts withdrawal of Federal support might bring a "bottomless market," followed by more serious business collapse than inflation can produce. Warns against deflation attempts by creating "a little depression," but advocates changes in present "outmoded" bank reserve pattern. Says Federal Reserve can do good job with present powers, and opposes increasing gold reserve requirements of Reserve Banks and sterilization of gold imports.

In my capacity as sometime reporter on banking and credit developments there are two or three matters concerning which it might be useful to say a few words. First, I know you are all interested in Government securities and that most of your investment portfolios still contain a substantial amount of these securities. The Federal Reserve Banks, as you know, also have an interest in the government security market, and their portfolio consists entirely of government securities. For a long time, and as late as the middle of last year, our concern for orderly conditions in the government security market was directed toward damping a tendency of prices of government bonds to rise and yields to decline,

Allan Sproul

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*An address by Mr. Sproul at the Mid-Winter Meeting of the New York State Bankers Association, New York City, Jan. 26, 1948.

EDITORIAL

As We See It

World Politics in the Raw

In the battle of words which constitute at least a part of the so-called cold war now being waged, the Administration at Washington opened a barrage last week of documents taken from the captured German files. These papers have to do with Russo-German relations from 1939, just prior to the outbreak of World War II, to the attack on Russia by Hitler's legions in early summer of 1941. To many the facts revealed appear to have been extremely shocking. To us these records merely exhibit a sordid tale, the broad outlines of which any informed observer could scarcely have failed to guess long ago. Why any one should be surprised at anything in any of them is quite beyond us.

But their publication at this time should serve a useful purpose. These documents now available to every one the world over may or may not effectively accomplish the evident objective sought in making them public—i. e., to take the punch out of the propagandistic efforts of Russia to convince the world (including, perhaps, especially Russians) that "the West," under the leadership of Britain and the United States, is bent upon class aggression and imperialism. They

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Causes of the Abnormal Capital Market

By HANS A. WIDENMANN*

Partner, Carl M. Loeb, Rhoades & Co.
Members of New York Stock Exchange

Asserting investment market has been cut to fraction of normal, Mr. Widenmann lays cause to double taxation of dividends; unfair capital gains taxes; excessive income taxes, together with severe margin requirements and SEC regulations. Attacks Administration's easy money policy as an "anti-equity philosophy." Urges amendment of Securities and Exchange Acts as aid in revitalization of the equity capital markets to accommodate the large demand for industrial venture capital. Scores President's new tax revision proposals.

The paradox of the present situation is that we have been enjoying a tremendous prosperity and that at the same time the country has been afraid it cannot last—that a recession was ahead because the economy was out of balance, and that the good corporate earnings were therefore apt to be transitory. As far as the stock market is concerned, this has been the prevailing atmosphere ever since May, 1946.

Hans A. Widenmann

In retrospect the market has been wrong on this because the recession in business which the market supposedly anticipated has not materialized even today. In a broader sense, the market has merely been reflecting the fact that new equity money requirements are running in excess of the savings of the people and that as far as previously built up liquid funds are concerned, they remained restrained by the existing and prospective deterrents to capital investment and have been going into the market in quantities barely sufficient to absorb foreign selling, estate liquidation and such private placements as have taken place. This is still the situation and the impediments to investment and to the freedom of the market place are a market factor, just as much as the widely spread feeling that maybe we are in a position where our prosperity is never going to be reflected in stock prices and therefore, since we are already at physical capacity, the market is not going to get anywhere and the next major move is going to be down. In this kind of an atmosphere it is obviously not going to be easy to float any sizable volume of new equity issues, and yet the capital requirements of American industry are enormous. In the satisfaction of these requirements lies hope—the only hope of a continuation of the high level of business activity and employment in the United States on which in turn is pinned the hope for peace in the world. So here we are faced with a dilemma; behind a failure to solve it lies the threat of a resumption of insidious government spending to supply the funds to keep the economy going, for a recession such as would be brought about by a failure to supply the capital privately would presently be found to be socially and politically intolerable. In the return of wholesale government planning which would go hand in hand with a resumption of government spending, the American enterprise system would be threatened, and so

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*An address by Mr. Widenmann given before the Conference on Finance of the American Management Association, New York City, Jan. 15, 1948.

What's Ahead in Government Bond Market?

By JOHN H. GRIER*

Vice-President, First National Bank, Chicago

After reviewing prewar and postwar fiscal policies with reference to interest rates and price supports of government bonds, Mr. Grier expresses view that Federal Reserve System has ability to support price levels at par or any other level. Holds there may be doubts of wisdom of this policy, and it might prove desirable to withdraw supports. Sees difficult factor in possible redemption of $51 billion savings bonds. Advises banks not to get "top-heavy" in long-term issues, and warns substantial redemptions of National Debt may lower bank reserves.

A discussion of the probable outlook for the Government bond market should properly be preceded by a review of the market and the factors influencing it over the past several years. Beginning in the early '30's the influx of gold coupled with deficit financing through commercial banks resulted in a steady expansion of bank deposits and reserves, thereby forcing interest rates to an abnormally low level. This trend was sharply accelerated with our entrance into the war in December, 1941, as at that time the objectives of both the Treasury Department and the Federal Reserve System became to finance the war at the lowest possible interest cost, to take such steps as might be essential to maintain an orderly government bond market and to provide the banking system with the reserves necessary to enable that system to absorb such offerings as were not purchased by individuals and other investors. These objectives were fully accomplished as is evidenced by the fact that on our total debt, which as of Dec. 31, 1945, amounted to $278,600,000,000, the average interest cost was approximately 1.965%, as compared with 4.196% in August, 1919, at which time we reached the peak of World War I debt. The computed annual interest rate on our present national debt of about $253 billion is 2.144%.

John H. Grier

The Postwar Fiscal Policy

Following the successful conclusion of the war, the objectives of the Treasury Department and Federal Reserve System naturally became management of our huge debt, and a fiscal policy designed to prevent to the fullest possible extent undue inflation of commodity prices and a decrease in the purchasing power of the dollar, conditions naturally resulting from over-monetization of the debt. Had we been successful in financing a larger percentage of our war expenditure through taxes or direct borrowing from sources other than commercial banks, we would not in all probability have been confronted with a situation as unfavorable as that currently existing. Unfortunately, however, we did not do so but raised a substantial portion of the necessary funds through the banking system.

As of Dec. 31, 1945, a few months after the ending of the war, we find that the deposits of all banks in the country to-

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*An address by Mr. Grier before the mid-Winter Conference of the Wisconsin Bankers Association, Milwaukee, Wisc., Jan. 16, 1948.

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SEC Abuse of Small Dealers Is Self-Made

Securities Acts have no affirmative provision requiring annual filing of financial reports by broker-dealers. Requirement was effected by SEC through its rule-making power under Rule X-17A-5. Argued that if Commission can inaugurate the filing it has power to accord these records confidential treatment. Failure to do so contravenes public interest.

There has been widespread approval and support of our position that financial statements filed by brokers and dealers pursuant to a rule promulgated by the Securities and Exchange Commission should receive confidential treatment at the hands of the Securities and Exchange Commission.

We have received a number of communications establishing that our editorial views on the subject have been called to the attention of members of the Congress and also to the attention of the SEC by our readers who, in each instance, approved those views.

Particularly, we condemn making available this information for the purpose of stimulating the circulation campaign of a financial magazine.

We were pleased by the action taken by the Maine Dealers Association. It called the attention of the Securities and Exchange Commission to our editorial of Dec. 11 on this subject and said, "We feel that this protest in the 'Chronicle' succinctly contains the objections that we, as an association of dealers, have to the publication in any magazine of the capitalization of dealers. We do not feel that information of this nature should be used commercially."

What has the SEC done about all this?

In response to communications addressed to it by our readers the Commission called attention to Rule X-17A-5, and then drew the following conclusions. We quote:

> "In general, all applications and reports required to be filed by specific provisions of the Acts administered by this Commission and the rules and regulations thereunder are public records. The obvious purpose of requiring brokers and dealers to file reports is not only to aid us in the enforcement of the Act but also to afford investors the opportunity to ascertain the financial responsibility of the firms with which they do business."

> "Since, except as otherwise provided, these reports are public records, you will appreciate that we cannot refuse the publisher of a magazine access to them any more than we can refuse any other persons the right to examine them. Moreover, we have no power to approve or disapprove, or in any way to restrict, the use which anyone may desire to make of the information obtained from our public records."

Are these financial reports of brokers and dealers public records, the use of which may neither be approved, disapproved, or restricted?

The very rule to which the Commission calls attention, to wit: X-17A-5, refers to the subject of confidential treatment under its Sub-division 2 which cites Section 24(b):

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

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Problems and Opportunities of Aviation

By RALPH S. DAMON*

President, American Airlines

Recalling commercial aviation goes back but two decades, Mr. Damon points out its failure from profits standpoint is analagous to situation of other new forms of transportation. Says problem is not success of industry, but whether companies in commercial aviation participate in this success. Lays industry's losses to oversupply of equipment and over-expansion of routes, and holds 15% transportation tax hampers air travel patronage. Concludes outlook is not gloomy, and industry hopes to lower break-even point and increase profit opportunities.

Air transportation is the concern of everybody in the United States. Schoolboys and housewives depend upon it for the quick transportation of mail. Business and pleasure travelers depend upon it to travel from city to city. Shippers require it for speedy transportation of parts and materials. Retailers have come to expect overnight deliveries of many items. And every citizen has a stake in the airline industry as a vital part of our national defense system. But as bankers you men have a special interest in the air transportation system. Your financial participation has been not an insignificant factor in the growth of the airlines, and it is evident that your help and continued understanding of the industry's problems and outlook will be needed for a long time to come.

Ralph S. Damon

Therefore, I hope we can delve briefly into the industry's history tonight, review some facts, examine some problems and arrive at a few conclusions that will help up to understand its problems and opportunities.

Growth of Commercial Aviation

Commercial aviation is still youthful—barely twenty years old —and still growing. From $80,000,000 of assets ten years ago it has risen to some $600,000,000 today. It is an expanding industry whose gross income ten years ago was $37,000 000 and last year was $550,000,000. In both its branches, domestic and international, it consists of nineteen certificated trunk airlines and sixteen feeder airlines serving 473 communities within the United States and 229 communities in other parts of the world. And an additional 184 U. S. cities are approved for service but not yet being served.

It is a fortunate industry in that it has had the youth and vigor and appeal to permit it to grow so much and so fast. Its failure to make money in spite of these qualities is reminiscent of most early forms of transportation. History shows that most of our canals, toll highways, railroads, and their respective carrier companies had to face their days of reckoning. But history shows too that no basic new form of transportation in the United States has failed. Companies and individuals may have failed, but each new transportation medium has gained public acceptance, has broadened its markets and has succeeded.

The question, then, is not whether air transportation will succeed, but whether the companies and individuals in commercial aviation at any particular time will participate in its success. A new form of transportation succeeds when it has its own unique utility. The big utility of air transport is its saving of time. Will the public accept air transportation in great enough quantity and in time to make the present enterprises sound and successful? If we do a good job it will, for the American people are noted for accepting readily a better devise or a better service, whether it is transportation, radio, electricity, telephones or motion pictures.

World War II dramatized on a large scale the job that air transportation had been doing on a smaller scale in prewar years. In supplying global fronts with phenomenal speed and efficiency the air transport services seemed to accomplish the impossible. The consequence was that flying reached a tremendous degree of acceptance on the part of the public during the war years. As the war drew to a close, we in the scheduled flying business overestimated our ready-built market. The boom we anticipated was only partially achieved in the first two postwar years. This was partly due to the inability—unforeseen by many of us in the industry—of the fixed airway facilities to handle a big traffic increase. Airway aids were inadequate; air traffic control bogged down; passenger terminals were too small. The public, therefore, was abused and mishandled. Passengers often wasted time trying to fly, when they had chosen flying to save time. They became discouraged and stayed away from airplanes in remarkable numbers.

Too Much Equipment

In our war-generated enthusiasm most airlines announced the purchase of too much equipment and have been going through the disheartening process of cutting back on those commitments. And while the air transportation industry has continued to grow in an orderly and healthy manner, various companies over-reached themselves and have had to step backward to let business catch up. So I would list the biggest problem of air transport that of learning how to make money with the business at hand. We have got to keep selling the growth of that business in an orderly manner, rather than have each company overburden itself with equipment and expense to handle a volume of traffic that does not yet exist.

Unlike some older forms of transportation air transport has shown a healthy and fairly steady growth since its inception. It grew during the depression of the early 30's, when other businesses were subsiding, and even going into receivership; and it has grown since V-J Day. In 1947, 13,200,000 passengers traveled on the domestic airlines and 1,400,000 on the international airlines. The international increase over 1946 was 35%. Domestically this increase was only 8%. But it was accomplished at a time when railroad and bus travel declined. Figures for the full year are not available. But in the first half of 1947, Pullman passenger miles dropped an estimated 45.5%, coach 36.5% and bus 4.7%. In this period air passenger miles increased 10.15%.

In spite of traffic and revenue increases, the industry as a whole went deeply into the red in 1947.

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*An address by Mr. Damon before the Mid-Winter Conference of the New York State Bankers Association, New York City, Jan. 26, 1948.

Monopoly Controls and Keynes' Theories in Prospect

Economists Discuss These and Other Issues

By MAX J. WASSERMAN*

Economist, in reviewing recent Annual Meeting of American Economic Association at Chicago, notes decline in importance of government economists with fading of "New Deal." Analyzes papers dealing with American Aid to Europe; Economic Stabilization; Working of Taft-Hartley Law; Monopoly and Competition; Patents; Business Concentration; and Keynesian Doctrines.

The economic theories of Lord Keynes and public policy towards monopolies and concentrations of economic power were the two principal themes of the Sixtieth Annual Meeting of the American Economic Association held in Chicago, Dec. 28-31. Meeting with the economists were the Econometric Society, the Economic History Association and the American Marketing Association.

Max Wasserman

If this meeting can be regarded as representative, we can look forward in the coming years to a growing development of purchasing power economics and a new drive against monopolies, trusts and the concentration of economic power.

Economic history reveals that the work of economists today often becomes the future economic policy of the country. Therefore, the meeting this year was of interest to American business in attempting to forecast future events, especially in view of the fact that the authority and influence of our economists has grown steadily through the New Deal and war years.

Decline in Importance of Government Economists

A contrast with the Annual Meetings of the Roosevelt period was the decline in the attendance and influence of Federal economists. Out of approximately one hundred members presenting or discussing papers, but nine were from the Federal Government. This is due, in part, to curtailed Federal budgets which prevent government economists from attendings the meetings at government expense; to the departure from the Federal service of many of the abler, more imaginative and harder hitting economists; the desire of many present day Federal employees for anonymity.

The exodus of many top economists from the government redounds to the advantage of business and the universities, both of which, and especially the latter, displayed a renewed vigor at the meeting. The consequences of this shift may prove far reaching both to the future of government planning and assistance to business and to the quality of teaching and research in universities. Above all, it will increase the lag between economic discovery and the application of these discoveries to the long-range and day to day work of the Federal Government. It may also mean that our children will leave the universities economically less naive that you and I did.

The program itself this year reflected the return to ascendancy in economic thought of the academic, as contrasted with the government, economist. Nonetheless, the program itself did not lack luster and the attending members were treated to more than one brilliant paper. One of these, presented by Professor Paul H. Douglas, President of the American Economic Association during the past year, who has now returned to the University of Chicago after serving in the Marines with conspicuous distinction, represented twenty years of reasearch on the laws of production.

Professor Douglas and his associates have verified for a long period in American economic history and for certain British dominions and colonies, the theory of marginal productivity. Briefly this theory, discovered by the economists of the English Classical School, maintains that the wages of labor and the interest on capital tend to conform to the output of the last or marginal unit utilized. In general, as the quantity of either labor or capital increases relatively to the other, its earnings tend to decline.

This extremely able presentation, also, indicated the possibility that the production of American factories in the period 1889-1919 may have been expanded beyond the point of maximum efficiency with reference to the plant investment. Professor Douglas' paper shows that by ingenuity and diligent work the laws of economics can, in some instances, be scientifically established.

Unfortunately, Professor Douglas is apparently no partisan of the dictum of the Historical School, that there are no economic laws which are universal in both time and place. His paper conveyed the impression that the laws of economics are universal. This point of view, I believe, runs counter to certain readily available facts.

Those laws of economics which

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*The author is an economist on the staff of the Office of International Trade, U. S. Department of Commerce, and Visiting Professor of Economics at Howard University. The opinions expressed in this article are those of the author and do not necessarily reflect the views of any Federal Agency.

The State of Trade and Industry

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

A moderate increase was noted in overall industrial output the past week with manufacturing operations generally scheduled at near-peak levels.

Substantial order backlogs gave promise of keeping industry busy for some time to come and the state of employment and payrolls in keeping with high production held steady and high. Hudson Motor Car Co. experienced some labor trouble during the week, but aside from this, very few labor-mangement disputes occurred. With respect to the supply of most raw materials, they proved generally adequate for current production needs.

Returning to the matter of order backlogs, the January monthly letter on economic conditions of the National City Bank of New York has the following to say:

"Any inquiry into the outlook for 1948 should start with recognition of the momentum under which business is moving. The carryover of unfilled orders into 1948 is huge, and most industries seem to have before them an accumulated demand for all they can make for a considerable time to come. Premium prices for second-hand offerings of steel, which many buyers willingly pay rather than wait their turn at the mills, demonstrate the strength of the steel demand. In automobiles the position is the same. Recent awards of contracts for new construction have been unseasonably high, and in conjunction with the housing needs indicate that another big building year is in sight.

"The public utilities are in the midst of an expansion program which is necessary to meet the demand for service and to restore a safe margin of reserve capacity, and the oil industry is in a similar position. The railroads urgently need equipment. Farmers urgently need machinery and have the means to buy it. On top of all this is the demand from abroad and the strong likelihood that the export surplus, while probably smaller than in 1947, will continue huge."

"It is hardly conceivable," states the "Letter," "that a general state of activity which is so strongly supported by demand for producers' goods at home and abroad can change much in the near future, for even if this demand should drop, the effects on production, employment and incomes would lag by a considerable time. The fear that price and income disparities would end the boom, through loss of purchasing power by groups whose incomes have risen less than prices, appears to have subsided somewhat. These disparities can be expected to make trouble when the situation is ready to turn for other causes. But on the showing of the past year the boom can run on despite them. The lesson of 1947 is that confidence in the maintenance of consumer expenditures at high levels is justified as long as sustained activity in durable goods and exports holds up the income totals."

Papermill operations were scheduled last week at a very high level and demand for paper and paper products remained large. The moderate decline of unfilled orders for paperboard was partly attributed to a decrease in new orders. However, the production of paperboard rose nearly 9% to 193,150 from 177,964 tons.

Manufacturers of clothing reported a sufficient volume of orders to maintain high production for several months. The output of men's clothing was slightly below that of a week ago, but production at hosiery mills was steady and high with some producers reporting 24-hour work schedules.

Inclement weather in many sections of the country discouraged some shoppers, but stimulated the demand for heavy clothing and rubber footwear. A fractional rise in retail volume occurred during the week. While dollar volume was moderately above that of the corresponding week a year ago, unit volume was somewhat below. Basement departments continued to attract considerable attention as consumers sought low and medium-priced goods.

There was also a slight rise in wholesale volume with total dollar volume moderately exceeding that of the like week in 1947. Retailers were generally reluctant to make long-term commitments and some resistance to high prices continued to be evident.

Retail Buying in January Remains Brisk

The continued high consumer demand for many goods including men's apparel, home furnishings and electrical appliances sustained retail volume at a very high level during the first half of January. Mark-down sales were not as numerous as a year ago and price reductions generally were small. The record Christmas buying of the previous month reduced retail inventories considerably and the usual year-end clearance sales were limited largely to single items or small groups of goods.

Railroad Revenues Show Increase for December

Railroad operating revenues of 85 Class I railroads in December, 1947, increased 24.1% above the same month in 1946, reflecting the interim increase of 8.6% in freight rates, made effective in October

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Observations . . . .

By A. WILFRED MAY

Is Anything "The Matter" With the Market?

For many months now in inner stock market circles as well as among investors generally, the plaint has been voiced, "WHAT IS THE MATTER WITH THE MARKET?"—on the ground that its persistent dullness and decline are inconsistent with the prevalent obviously bullish business and economic elements, and that they can be justified only by a full-sized Depression.

A. Wilfred May

To the writer this prevalent reaction seems not only to beg the question that the market is behaving illogically; but also, and of greater significance, to take it for granted that the market should always act in accordance with some basic traditional fallacies.

One of these fallacies is Wall Street's insistence on evaluating individual stocks, industries, and the market as a whole, on the basis of short-term outside factors even when such factors have been in the past proved to be cyclical. The "investment" as well as the speculative community still refuses to adopt the real investment attitude of evaluating the present price of a stock as the capitalization of earnings-and-income to be reasonably expected over the life of the investment.

Instead a large part of the financial world still concentrates on forecasting the outside economic or industrial conditions, under the bland assumption that somehow the price of "the market," or individual securities, will automatically follow their course with pluses or minuses—irrespective of how temporary such conditions may be, and without any thought whatever as to the amount of realistic investment return that can be expected.

Betting-on-the-News and Market Distortion

It is this betting on short-term events, investing in news rather than in values, which gets to a *reductio ad absurdum* of long established companies halving or doubling their market prices within 24-month periods; and brings about bull market fever of buying stocks at *any* price, if only the news be good enough.

This is a sort of wholesaler-to-retailer technique wherein the buyer assumes that some less well-informed "sucker" will later take the stock off his hands at higher prices after better business has arrived; or conversely, a seller hopes that coming so-called "bearish" news will cause the more slowly-informed later to sell it back to him at a too-low price—that is, below its permanent investment value.

Thus it has become axiomatic, if fallaciously so, that "the market" will go up and down with the news—perhaps ahead of it as "a barometer," perhaps on occasion like a registering "thermometer." But the correlation with events of relatively short-term effect is maintained throughout; a sort of glamorous medium for betting on the future course of events ranging from the oncoming of war to the rate of steel production.

The Market's Perversity Toward the Boom

Thus it has come about that those who, with great insight, correctly foresaw the 1946-47 economic situation of unprecedented peacetime industrial activity and resulting profits in the corporate till, nevertheless are amazed as well as annoyed to find themselves now out on a limb and out-of-pocket, triumphant in their *business* predictions, but with the *market* price structure fallen away instead of raised "in reflection of the boom."

Now the writer is not expressing any opinion on whether the market will rise or fall from these levels (nor does he as an investor know or care); but is merely offering the thought that the market's

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Oscar Stass Now With Barclay Investment Co.

CHICAGO, ILL. — Oscar Stass has become associated with Barclay Investment Co., 39 South LaSalle Street. He was formerly with John J. O'Brien & Co. and Wayne Hummer & Co.

Because of his connections in Chicago with various investment concerns, extending over a 25-year span, Mr. Stass is well-known on LaSalle Street.

Richard R. Schlichter has also joined the firm's staff.

Redemption of City of Brisbane Bonds

Holders of 30-year sinking fund 5% gold bonds, due March 1, 195?, of the City of Brisbane are being notified that $94,000 principal amount of these bonds have been drawn by lot for redemption on March 1, 1948 at 100%. The bonds will be redeemed at the head office of The National City Bank of New York.

Fanger With Geo. Eustis

(Special to THE FINANCIAL CHRONICLE)

CINCINNATI, OHIO—John C. Fanger has become associated with Geo. Eustis & Co., 18 East Fourth Street, members of the Cincinnati Stock Exchange. In the past he was with Don D. Kuemmerling, Merrill Lynch, Pierce, Fenner & Beane, and Westheimer & Co.

Charles L. Uhlhorn Joins Schweickhardt, Landry Staff

(Special to THE FINANCIAL CHRONICLE)

NEW ORLEANS, LA.—Charles L. Uhlhorn is now associated with Schweickhardt Landry & Co., Hibernia Building.

Donald M. Gally With A. G. Becker Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Donald M. Gally has become associated with A. G. Becker & Co., 120 South La Salle Street. For many years Mr. Gally has been manager of the investment department of the Central Trust Co. of Cincinnati. Prior thereto he was with Dominick & Dominick.

Inflation, a Product of New Deal Blundering

By JOHN W. HANES*

President, Wachovia Bank & Trust Co., Winston-Salem, N. C.
Former President, American Bankers Association

Prominent banker lays present economic ills and inflationary pressures to New Deal policies dating back 15 years. Lists steps taken since 1932 which have expanded unduly government activities and added greatly to government expenditures, thus creating cumulative inflation forces. Attacks President Truman's tax proposals as accelerating dearth of investment capital and says proposed additional government controls would handicap functioning of free enterprise. Holds government "managed" currency an illusion, and scores abandonment of gold standard.

Never has there been a time, either in your lifetime or mine, when so many difficult problems confronted the American people. Never has there been a time when there was greater confusion and more uncertainty as to the course we should pursue, both in dealing with grave international problems and with domestic questions.

John W. Hanes

It is disconcerting, to say the least, to learn from a recent Gallup Poll that only four people out of ten know what the Marshall Plan is about, and that only one out of ten can even begin to define what the Plan is.

Of one thing I am certain. It is now the plain duty of each and every one of us to study the implications of these grave problems and to take a hand in their solution. I am happy to come to Rochester as a part of this process of discussion and to think out loud with you—as it were—and do my part to bring the fiscal aspects of our national financial problem into clear focus.

The situation is much too grave to approach these problems in a partisan spirit. One of the difficulties we now face is that we must try and find solutions in a year like 1948, when political considerations take the limelight. Both Republicans and Democrats alike are too inclined to deal in personalities and not in principles. The result is that we lose sight of the basic factors in the problem itself. It has been said that we are in the midst of a cold war; it is unfortunate that it has to be fought in the midst of a hot political campaign.

Difficulties Due to Past Mistakes

The key to the difficulties of our present fiscal situation lies far in the past. We are confronted with the consequences which have arisen from reckless and loose management of our fiscal policies for 15 years. Both before the war and during the war we utilized every device to escape unpleasant reality and to postpone the grim results which were bound to be the certain aftermath of such a course.

From 1933 down to the present day we have been temporizing with inexorable facts. We have passed one law after another, seeking political solutions for problems economic in their origin. With the fears engendered by the 1929 deflation dominating public psychology, we began a series of experiments designed to spread "public purchasing power." To raise prices by creating artificial scarcities. To take, if you will, quarts out of pint bottles—all in the vain hope that government, somehow, could defy the laws of economics.

I would like to cite some of

(Continued on page 51)

*An address by Mr. Hanes before the Rochester Chamber of Commerce, Rochester, N. Y., Jan. 26, 1948.

Letter to the Editor:

Answers Friedman on Military Training

Col. Sol Paul Fink holds proposal for universal military training is phony propaganda and will not contribute to defense. Says Swiss plan is ineffective.

Editor, "Commercial & Financial Chronicle":

It is very interesting to notice that Mr. Elisha M. Friedman, in his article in the "Chronicle" of Jan. 15, points out why we need UMT by elaborating about other "NOT WE" who commit acts of aggression, break pledges re: boundaries, employ fifth columns, depose existing governments, destroy free elections, shoot and hang their opposition leaders. This by the others, "NOT WE."

Col. S. P. Fink

Well, don't look now, but every one of the nations you would accuse of doing these things, you know, the others, "not we" have or had UMT in peacetime. They called it by other names. They didn't seem to get security by having UMT, and look at us, more secure than any of them and, we never even had a UMT to protect us.

Now, Mr. Friedman, why mix up your argument with pacifists? A red (pardon me) herring perhaps? Most of those who like myself oppose UMT are strong for national defense, but, it's got to be realistic, not hogwash. We who oppose UMT are not pacifists; it is you who are the unconscious victim of the pacifists. Of course, we want to be strong, but UMT doesn't contribute a damn thing to that strength. If anything, it weakens us and it's a half-baked program, serves no real national security purpose; it's un-American by tradition and Fascist under present-day standards.

It cannot fill the manpower shortages now existing in the army because it's not part of the army.

It would take from the army 25,000 officers and 102,000 enlisted men to carry out the UMT program (Army figures), thus draining away more manpower from the already short army.

The period and type of training is totally inadequate as the Army has testified, but they are willing to take anything as a compromise and to get the principle of conscription to be part of our national pattern.

The contemplated program of training is one that in wartime was given in 8 to 13 weeks and this was quite an efficient program.

Even if in five years 4,000,000 men went through the program and an emergency or war arose you could not call 1,000,000, not alone 4,000,000, men to active duty at once (the way the propaganda says you could) because we couldn't even house our present army if they were all to be returned to the United States without launching a big camp building program.

As for equipping them with modern weapons and equipment aside from rifles which organized units would need—well, your pilot plants could expand, but it would take a long time to get enough production.

As for using these men; the organization work of assigning them to established reserve units or to newly organized units would itself take months before they could actually start to train as units.

Even if they were all ready within 24 hours to fight, completely trained and equipped, how are you expecting to transport them and their supplies and how long will that take.

All this hullabaloo about UMT is phony propaganda, will provide people like you with a false sense of security and do our country irreparable harm.

Now for the Swiss argument. If any of the warring nations wanted to take over Switzerland, she would have fallen 1, 2, 3. Her men patrolling bridges, etc., etc., with their spitball weapons, could not defend the country 10 minutes.

Switzerland happens to be very conveniently located to provide a neutral passageway between all European combatants. She served a definite purpose for all sides, just as she sells munitions to any side that can come and get them and pay for them. Her interest, for instance, in the last war was conveniently neutral and profitable and perhaps if she had the vaunted strength you give her because of UMT she would have had the courage to do right instead of trucking with the Nazis, the Fascists, the Communists and anybody else who had money or valuables to deposit with her for safekeeping or to buy from her. Switzerland is a republic, but I am afraid that spiritually and militarily the Swiss were not only unprepared but unprincipled as well.

I do not want to take up the positive approach to national security other than to say that what we need is a striking force in being that can really reach out and strike back in a matter of hours, not months. Nor do I want to take up the new concepts developing out of atomic warfare, etc.

S. P. FINK.

1182 Broadway,
New York, N. Y.
Jan. 16, 1948.

Editor's Note—Colonel Fink has informed the "Chronicle" that he will shortly send along an article elaborating on his reasons for opposing compulsory military training in peacetime.

From Washington Ahead of the News

By CARLISLE BARGERON

Just about the most futile stuff which one is likely to read in the newspapers these days has to do with meetings of the House and Senate appropriations leaders to discuss how much they should try to cut the President's budget and their statements of what they hope to accomplish and the comment of the editors as to whether they will be able to accomplish it or not.

Carlisle Bargeron

Under the circumstances, nothing can be more meaningless than whether they succeed in cutting the budget five billions or 50 cents. In the end we are going to find government expenditures more than the budget, not less.

The country is in a spending mood and nobody has caught the gay spirit more than the Bureaucrats.

Consider the blandness with which "Cap" Krug comes forward with a request for a $9 billion program to make oil out of shale and coal. We are experiencing a fuel shortage. People are quite annoyed about it. So why not spend $9 billion to set up a synthetic fuel industry?

Only a few days previously, a Presidential committee, which I have previously mentioned, reported unblushingly, quite as if it meant nothing at all, that $15 billion additional, above present military outlays, should be appropriated for military aviation.

Senator Wherry, a Republican stalwart, was telling a group of close friends the other day, that he was just about prepared to throw up the sponge. Expenditures proposed by Republican programs alone, for health, education, housing, will run into the billions, he pointed out.

The expenditure involved in the pending St. Lawrence Project, would run over a billion before the story is finally told, yet it is doubtful if this alone is a serious consideration of the Senate.

The only expenditure which seems really to have provoked the man in the street is that which is being made to satisfy a Truman whim, the erection of a balcony on the south side of the White House. This expenditure doesn't have so many ciphers on it so the man in the street can comprehend it.

Incidentally, the Republicans have just increased the retirement benefits of government employees. Both Truman and Altmeyer, the Social Security head, are pressing for increased old age and survivors payments and the "extension" of social security coverage.

Last spring and summer, this writer worked with the House Appropriations Committee trying to effect economies in the government. The House did a right courageous job, notwithstanding that the press nowhere seemed to be in favor of economy. They were for it as a general term, but they pounced on practically everything the House did.

The Senate, under pressure, put so much of the House reductions back in the bill, and there was so much maneuvering with methods of bookkeeping that no man could say just how the President's budget was reduced. Anyway, when you total up the fiscal year's expenditures you find that regardless of what was done to the budget by Congress, more was spent that Truman had originally asked for.

This year, just as last, the House committee has some 30 accountants, researchers and the like, loaned by Chambers of Commerce, by industries and the like, again honeycombing the government bureaus trying to save money. It must be disheartening to these fellows to see the results.

A penny saved here is offset by an outbreak of spending elsewhere.

Now on the synthetic fuel industry for which "Cap" Krug has asked for a little pocket change, it so happens that the coal industry moved in this direction more than a year ago.

Pittsburgh Consolidation, out in Pittsburgh, has the construction of a pilot plant to extract oil and gas from coal well underway and it is my understanding that they expect to be in production before the year is out. They've budgeted several hundred millions for the work.

Unquestionably the coal industry is quite alive to the possibilities. But it would be much better to have some bureaucratic meddling. Undoubtedly, "Cap's" great fuel project would be government controlled.

Aldrich Looks for Higher Interest Rates

At meeting of stockholders of Chase National Bank, the Chairman states recent increase in reserve requirements will tend to accelerate upward movement in bank lending rates.

In response to a question put to him at the annual meeting of the stockholders of the Chase National Bank on Jan. 27, Winthrop W. Aldrich, Chairman of the Board of Directors, expressed the view that the upward trend of interest rates charged by commercial banks will be accelerated by the recent action of the Federal Reserve Board in lifting the cash reserve against deposits of member banks in New York and Chicago from 20 to 22%.

W. W. Aldrich

"Generally speaking," Mr. Aldrich remarked, "the trend of interest rates is upward," and the step of the Reserve Board to increase requirements to 22%, from 20%, "will tend to increase the upward movement." Mr. Aldrich also expressed himself as "substantially in agreement" with the higher reserve requirement.

In reply to another question, Mr. Aldrich stated "The Chase National Bank has not adopted any minimum rate for loans. The bank's policy is to set the rate at the time a loan is made," and added, "I don't think we want to be concerned with the fixing of any minimum rate."

Mr. Aldrich estimated that business loans averaged 1.97% and loans on securities were at about 1.25%.

Gold Standard as Government Spending Check

By HON. HOWARD BUFFETT*

U. S. Congressman from Nebraska

Asserting only way currency deterioration can be battled is by restoring control over public purse, Congressman Buffett argues citizen's right to own gold is only possible effective offset to inflationary pressure, as this will enable those who supply public treasury to fix limits on its outgo. Says a currency redeemable in gold on demand is right on which all our freedoms ultimately rest. Furnishes statement of increase in government payroll.

Before coming to Congress in 1943, I spent 16 years investing other people's money, and I was then and am now a disciple of the capitalistic system. That results in being rather lonesome at times in Washington. I assume that there is general agreement here on the existence of highly inflationary factors in our economy. Also I assume that there is general agreement on the paramount importance of ending deterioration of our currency.

Howard Buffett

It will be my endeavor to show why a return to the gold coin standard is politically the only possible method of ending monetary deterioration. I came to this conclusion the hard way. During my years in Congress, I have examined many proposals calculated to bring soundness into the nation's fiscal affairs.

You are familiar with many of those proposals: That a fixed amount of revenue be used each year for debt reduction; that legislation be adopted prohibiting Congress from appropriating more than anticipated revenues; that 10% of revenues be set aside for debt reduction, etc. These proposals all have a fatal weakness, the nature of which this discussion may make clear.

The only way currency deterioration in America can be halted is by restoring control over the public purse to the producers of wealth. The only effective weapon for that control is the right to own gold by the citizenry at large.

Parallel Between Business and Politics

There is a parallel between business and politics that may help you visualize the political aspects of this problem.

In business a concern is organized to make profits. If it does not make profits, it goes out of business. If you were to take a product to a businessman and say, this item is splendid for the customer, but you will have to sell it without profit, and the loss may be so large that it will put you out of business—why, you would get short consideration by the corporation official. Business must have profits.

In politics votes have about the same vital importance that profits do in business. That situation is far from ideal, but it exists, probably because generally no one gives up power willingly.

And so because those gaining public office usually endeavor to make a career of office-holding, votes have the same importance to them that profits do to a man in business.

Perhaps right now you are saying to yourself, "That's just what I have always thought. The politicians are thinking of votes when they ought to think about the welfare of the country. What we need is a Congress with some 'guts.' If we elected a Congress with intestinal fortitude, it would stop the spending all right!"

I went to Washington with exactly that belief. I would still like to hold it, but I am afraid that when the power of the people to exercise control over the public purse by the gold redemption right was ended, the Congress was deprived of the strength from the people essential to the maintenance of a sound currency.

Suppose you had an economy-minded Congress right today, and that for 1948 it would cut drastically all large-scale spending, which is mostly made up of national defense demands, the Marshall Plan, the veterans, etc.—do you think that a majority of those so voting would be re-elected—or would you see many new faces come in, much further to the Left, politically and financially, than the present membership? I won't try to answer that question directly, but I hope that this discussion may give you some idea about it.

You recently heard the President's message, or at least you heard about it. It almost made Harry Hopkins in memory look like Old Scrooge himself. Truman's "pie-in-the-sky" State of the Union message was probably perfectly logical under a managed currency system. So far as he is concerned, his continuance in public office depends upon the purchase of sufficient political allegiance. And as that goal requires more dilution of the currency, probably he can persuade himself that the Republicans would do the same thing if they had the chance. And he might be right about it at that!

So you are counting on Congress to stop ruinous inflation, but Congress is no longer strengthened by the bulwark that compelled orthodox financial methods prior to 1933. That force was the right of the American citizen to have currency redeemed in gold.

Congress is constantly at the mercy of minority groups seeking free benefits from the public treasury. The power of these blocs stems out of the fact that their-bloc-votes can represent the balance of power in almost any Congressional district.

No Effective Restraints on Issuing New Money

With no effective restraints operating on the issuance of new money, the way has been opened for these minority groups to play one party against the other, and even play the Executive Branch against the Legislative.

Despite much general discussion, little factual data has been revealed about the growth of these pressures for spending and handouts. And in passing, please note that we are only discussing domestic pressures—not the overseas alien governments who declare they will go "Communist" tomorrow morning if Uncle Sam takes them off his free support list. A book could be written on that aspect of our current plight.

On June 30, 1932, there were 2,196,151 people receiving regular monthly checks from the Federal Treasury. On June 30, 1947, this number had increased to a total of 14,416,393 persons. This 14½ million figure does not include a couple of million receiving either temporary unemployment benefits or soil conservation benefit payments. However, about two million G.I.'s are included who are going to college or getting on-the-job training.

Leaving them out, the payroll list is about 12½ million or 600% of what it was in 1932. At two votes per payrollee, this monthly outgo could account for 25 million votes.

Besides these 14½ million voters who receive a direct check each month from the public treasury, there are the beneficiaries of temporary payments and also a large number of State, county, and local employees who have a direct financial interest in Federal subsidies and grants-in-aid to State and local governments. There is no way of estimating the number of school teachers, county and State employees, etc., in this category. Beyond those on the regular Federal payroll, there are the multitudinous groups regularly promoting special benefit legislation.

Nothing occurs more frequently in political oratory than the promise to achieve "a drastic reduction in unnecessary governmental expenditures." The difficulty comes when the action is attempted. To every beneficiary, Federal spending is his bread and butter, and he usually can and will spend full time if necessary to maintain his governmental meal ticket. Dollar payments to individuals by the government are estimated at over 21 billions for the next fiscal year.

On the other side of Congress is the taxpayer who foots the bills. Unlike the tax-eater, he cannot spend full time to get Federal expenses reduced. The office-holder in the middle generally responds to whichever element puts the strongest pressure on him. Actually perhaps he must do so.

Why have I detailed this pressure group problem at length? Simply because it gets at the core of this problem—the inability of Congress to effectively stabilize

(Continued on page 38)

*Remarks by Congressman Buffett at panel session of National Industrial Conference Board, New York City, Jan. 22, 1948.

Public Utility Securities

North American Company

Harold H. Young, utility analyst of Eastman, Dillon & Company, has prepared an interesting eight-page analysis of North American Company. In compliance with the Holding Company Act of 1935, the company in 1947 divested itself of its entire interest in Cleveland Electric Illuminating through a stock offering to its own stockholders, and by several dividend distributions disposed of most of its interest in Potomac Electric and Wisconsin Electric. However, it still retains full control of the largest system subsidiary, Union Electric of Missouri. The stock of this company, Mr. Young estimates, is worth about as much as North American stock is now selling for, despite the fact that North American retains substantial other assets.

While North American has had a conservative and successful record of managing and financing its subsidiaries since incorporation in 1890, it was compelled by the requirements of the Utility Holding Company Act to divest itself of certain operating subsidiaries, merely because they were scattered geographically.

But North American, in addition to its directly-controlled operating subsidiaries (now reduced to Union Electric), also controlled two utility holding companies, as well as an important coal company and some other interests. The holding companies were Washington Railway & Electric and North American Light & Power. The former was dissolved late last year, leaving North American with a substantial interest in Potomac Electric (now distributed) and Capital Traction. North American Light & Power, after some years of litigation, now appears to be close to dissolution; while the final plan has just been appealed to a higher Federal court (with respect to the amount assigned to public holders of the common stock), it appears to be stipulated that the plan can be put into effect, with some assets escrowed or reserved to satisfy any additional assignment which the courts might allow to the common.

Subject to any such reserve (plus the distribution under the plan), North American could take over the remaining assets, which include two wholly-owned subsidiaries, the important Kansas Power & Light and the much smaller Missouri Power & Light. It might also acquire a substantial block of Illinois Power, but it seems possible that this might initially be segregated pending a final court decision on the North American Light & Power plan. A smaller property to be acquired from Light & Power is Central Terminal Company, owner of a warehouse in St. Louis.

The fact that Union Electric, Kansas Power & Light and Missouri Power & Light are in the same general area suggests (according to Mr. Young) "the possibility of the creation of an integrated system, leaving North American Company as a one-degree holding company for these properties. However, we mention this only as a possibility because at this stage the plans of the company have not crystallized and no program has been presented for the consideration of the SEC."

What is the "break-up value" of North American's entire portfolio, assuming of course that the company is broken up? Mr. Young estimates $26.50 a share. In arriving at this figure he capitalizes Union Electric (well over half the total portfolio value) at about 14 times earnings, with a modest amount of market seasoning assumed. This would make the stock worth nearly $135 million. The relatively small holdings of other utility stocks (Potomac Electric Power, Wisconsin Electric Power preferred and common, Pacific Gas & Electric and Capital Transit) have a total market value of close to $17 million.

Appraising the stock of West Kentucky Coal, fully owned by North American, is somewhat more of a problem. The company operates three fully-mechanized coal mines, two large strip mines and several smaller ones. Mr. Young remarks: "Production costs are definitely below average and as the low cost mines have benefited most from price increases, earnings of this company have been favorably affected. Properties include some coal seams which are thicker than average and permit larger production per man. The company ranked 19th in the bituminous coalmining industry in amount of coal produced for 1946 compared with 27th position in 1945 and 40th position in 1944." In the early part of 1946 a North American official valued the company's stock at $12 million and Mr. Young thinks that with current earnings approaching $3 million the appraised value might be raised to $16 million.

Mr. Young values Kansas Power & Light on a 6½% yield basis and Missouri on a 7% basis, arriving at values of $29 million and $4.7 million respectively (about nine times earnings). Central Terminal was valued at $3 million, the lower figure named by the SEC. Including Illinois Power at its market value, the total holdings which may be acquired from North American Light & Power (assuming that the pending plan is consummated) are thus valued at slightly over $42 million.

North American Company's miscellaneous assets include an investment trust, the large office building at 60 Broadway (New York), and a substantial amount of cash assets (after allowance for debts); Mr. Young values these items at over $17 million. Adding together the five items—Union Electric, the marketable utility securities, West Kentucky Coal, the equity in the North American Light & Power Company holdings, and the cash and miscellaneous assets—we arrive at a total of over $227 million or about $26.50 a share.

On a pro forma basis North American Company is currently earning about $1.85 a share, but this does not include the full equity in minority stock earnings. With the corporate income running in excess of $1 a share (estimated, and without any return from North America L. & P. holdings) Mr. Young thinks that the company may continue to pay $1 a share (the recent quarterly cash dividend rate).

John N. Faust Now With Kidder, Peabody & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John N. Faust has become associated with Kidder, Peabody & Co., 135 South La Salle Street. He was formerly with Blair & Co. In the past he was with Fred W. Fairman & Co., Doyle, O'Connor & Co. and the First Boston Corp.

John N. Faust

With Wilson, McMaster

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—James R. Burgess, Jr. and William A. Daniel are now with Wilson, McMaster & Co., 134 South LaSalle Street.

COMING EVENTS

In Investment Field

Feb. 3, 1948 (Chicago, Ill.)
Mid-Winter Dinner of the Bond Traders Club of Chicago at the La Salle Hotel.

Feb. 4, 1948 (Chicago, Ill.)
National Committee of National Security Traders Association meeting.

Feb. 5, 1948 (Kansas City, Mo.)
Bond Traders Club of Kansas City annual dinner at the Hotel Meuhlebach.

Feb. 6, 1948 (St. Louis, Mo.)
Security Traders Club of St Louis annual dinner at the Chase Hotel.

Feb. 12-14, 1948 (Atlanta, Ga.)
Meeting of Board of Governors of Association of Stock Exchange Firms.

Feb. 13, 1948 (Boston, Mass.)
Boston Securities Traders Association 24th Annual Winter Dinner at the Hotel Somerset.

Feb. 20, 1948 (Milwaukee, Wis.)
Milwaukee Bond Club annual winter party at the Milwaukee Athletic Club.

Feb. 27, 1948 (Philadelphia, Pa.)
Investment Traders Association of Philadelphia Twenty-fourth Annual Mid-Winter Dinner at the Benjamin Franklin 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.

Dealer-Broker Investment Recommendations and Literature

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

Dallas Banks—Statistical data on the four largest Dallas banks—Rauscher, Pierce & Co., Mercantile Bank Building, Dallas 1, Tex.

"Local Notes"—Current data on Kentucky investments—The Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville 2, Kentucky.

New York City Bank Stocks—Operating Earnings and Ratios of 20 Stocks—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

100 Common Stocks With Unbroken Dividend Record—Tabulation of stocks with unbroken dividend record of 10 years or more listed on the New York Stock Exchange—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

1948 Outlook for Manufacturers of Roofing, Wallboard, Insulation, and Allied Building Materials—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York 19, N. Y.—Paper—$1.50 (75¢ to public libraries and non-profit institutions).

Open End Investment Trusts—An opinion—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

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

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

Year End Prices & High & Low Bids for 1947 Over-the-Counter Market—As compiled by District No. 13, National Association of Securities Dealers, Inc., 111 Broadway, New York 6, N. Y.

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Amalgamated Sugar — New Analysis—Edward L. Burton & Co., 160 South Main Street, Salt Lake City 1, Utah.

American Water Works & Electric—Analysis—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

Central Coal & Coke Corp.—Late data—Comstock & Co., 231 South La Salle Street, Chicago 4, Illinois.

Central Illinois Public Service—Memorandum—J. G. White & Co., 37 Wall Street, New York 5, N. Y.

Central & South West Corp.—Memorandum in current issue of "Public Utility Stock Guide"—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

Curtiss-Wright "A"—Memorandum—Newburger & Co., 1342 Walnut Street, Philadelphia 7, Pa.

Allen B. DuMont Laboratories—Circular—Ward & Co., 120 Broadway, New York 5, N. Y.

Electrol, Inc.—Analysis of manufacturer of hydraulic control equipment for aviation and industrial uses—Seligman, Lubetkin & Co., Inc., 41 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.**

Walter Kidde & Co.—Investment appraisal and review—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is a re-appraisal of the **Pepsi Cola Co.**

Kingwood Oil Co.—Special survey—Peter Morgan & Co., 31 Nassau Street, New York 5, N. Y.

Nekoosa-Edwards Paper Co.—New memorandum—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

New England Public Service Co.—Analysis—Ira Haupt & Co., 111 Broadway, New York 6, N. Y.

Pickering Lumber Corp.—Analysis—Strauss Bros., Inc., 32 Broadway, New York 4, N. Y., and Board of Trade Building, 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.**

Reading Tube Corp.—Circular—Aetna Securities Corp., 111 Broadway, New York 6, N. Y.

Shepard Niles Crane & Hoist—Report—Troster, Currie & Summers, 74 Trinity Place, New York 6, N. Y.

Wilford Rowe Joins Bell & Farrell Staff

(Special to THE FINANCIAL CHRONICLE)

MADISON, WIS.—Wilford F. Rowe has become associated with Bell & Farrell, Inc., 119 Monona Avenue, members of the Chicago Stock Exchange. In the past he was with Raymond J. Plunkett and prior thereto conducted his own investment business in Wausau.

With Cannell, French, Copp

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Robert H. Bingham has been added to the staff of Cannell, French & Copp, 49 Federal Street.

With Hanrahan & Co.

(Special to THE FINANCIAL CHRONICLE)

WORCESTER, MASS.—Edward B. Sawyer is now affiliated with Hanrahan & Co., 332 Main Street, members of the Boston Stock Exchange.

With Chiles, Huey Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB.—John C. Schutz is now connected with Chiles, Huey Co., Omaha National Bank Building.

With Murphey Favre, Inc.

(Special to THE FINANCIAL CHRONICLE)

WALLA WALLA, WASH.—John R. Woiblet has joined the staff of Murphey Favre, Inc., Spokane and Eastern Building, Spokane, Wash.

Business and Finance Speaks After the Turn of the Year

[EDITOR'S NOTE: The accompanying statements on the outlook for trade, industry and finance during 1948 were received too late for publication in our ANNUAL REVIEW NUMBER of Thursday, Jan. 22, in which issue there appeared, starting on page 18, several hundred of equivalent comments.]

K. S. ADAMS

President, Phillips Petroleum Company

With continued growth in demand for its products, the petroleum industry faces tremendous tasks in 1948. It has had neither the time nor the materials to erase the deficits in field development and in construction work of all kinds which accumulated during the war. Likewise, the price increases of last year have been prevented by steel shortages from effecting the increases in production which they normally would have. Prices this year will give greater incentive, and the promise of some improvement in the flow of essential materials will provide the means for meeting new record demand for products.

K. S. Adams

Both production and earnings of the industry will reach all-time highs this year. However, a large part of income will accrue from the production of reserves and the use of facilities acquired at far below present replacement costs. When the current costs of new production and plants are reflected against income, present prices will provide only a fair return on capital. Charges for depreciation and depletion now fall so far short of replacement costs that the matter of providing funds for the expansion necessary to meet growing demands will be a matter of major concern for all units of the industry in 1948.

Projects now under construction or planned for the near future will largely overcome in 1948 the transportation problems which have been responsible for the shortages in product distribution which have occurred in parts of the country this winter. With the completion of new transportation facilities, full utilization of available raw materials will be possible for the first time since the beginning of the war.

Relatively free from hampering restrictions, the oil industry has done a commendable job in the postwar period in providing a supply of products now more than 35% higher than in 1941. Continued freedom to operate according to tried American principles of free enterprise will be the best assurance that the public can have of abundant petroleum products at reasonable prices.

LOWELL R. BURCH

President, The New York Air Brake Company

It is well known that even in this country there is a shortage of transportation facilities, although it is not as acute here as in some other parts of the world.

L. R. Burch

The business on our books and the outlook for demand for our product this year would seem to be limited only by the ability of the industry as a whole and ourselves in particular, to secure raw materials. Many of the worst shortages occur in the industries from which we must draw our supplies and, consequently, the deliveries are to a large extent beyond our control.

Orders on our books and in sight are equal to our facilities for almost a year ahead. Therefore, unless there is some unavoidable and unforeseen cataclysm, we are faced with an extremely active and, we hope, profitable year in 1948.

ORVILLE S. CAESAR

President, The Greyhound Corporation

If, as many economists prophesy, employment and wages continue at high levels during 1948, there is every reason to believe that passenger traffic on Greyhound buses will equal, if not exceed, the record peaks established during the past two years.

Orville S. Caesar

The 1947 passenger count of more than 200 million on Greyhound Lines is four times what it was in 1940. Most of Greyhound's gain in passenger volume resulted from the great expansion of travel demands during the war years — demands that brought about almost equally great expansion of our services. But until now, because of shortages and wartime restrictions, we have been unable to improve our facilities rapidly enough to keep pace with the gain in the number of passengers.

Not until last summer were we able to put any substantial number of new buses on the highways or to get under way on many other phases of our plans to advance the standards of Greyhound service. However, before this year is ended, delivery will have been completed on 2,000 new Silversides coaches which represent an investment of approximately $55 million. Hundreds of other buses are being completely rebuilt and restyled. Very soon the newest and most modern coaches, embodying recent developments for comfort and luxury in highway travel will comprise nearly half of Greyhound's nation-wide fleet.

This year will also see further progress in our program for the construction and modernization of stations. Building restrictions and inflated costs may slow this work temporarily, yet many millions of passengers will experience improved accommodations in hundreds of depots.

The pride we feel in this improvement of facilities is matched by our pride in the fact that intercity bus fares are still at the low level maintained for the past several years. This, we believe, is as important in the overall economic picture as the front page news of voluntary price reductions announced by large corporations. It is difficult to think of another service or commodity which has been in constant supply at the same low price through all the war years and during the present inflationary period. When all other costs are rising, a growing number of travelers recognize and appreciate the real savings that can be made in bus travel.

We know, of course, that the maintenance of low fares, in face of higher operating and wage costs, is possible only because traffic remains almost at wartime levels and because of the fuller utilization of equipment and facilities. Despite this, our figures show that our break-even point on operations is much higher now than pre-war. How long a favorable balance can be maintained is anybody's guess. Nevertheless, the record of Greyhound, beginning with the humble start of its predecessor companies thirty-odd years ago, is one of continuing growth. Because of this and because our fleet of buses is now the finest in the history of Greyhound, we are confident, in view of the present business outlook, that 1948 will provide even greater opportunities for the development of our service to the nation.

J. H. CARMICHAEL

President, Capital Airlines

During the past few months the air transport industry has entered a stage in its development which might well be called a leveling-off period. The postwar span of mass travel has somewhat subsided, Americans have reached a degree of permanency in their jobs and domiciles and the general restlessness created by the war is being gradually dissipated. As a consequence, the airlines—and transportation in general—find themselves returned to a relatively normal condition from which point a sound, steady growth can be expected. Certainly, the problems now facing the aviation industry are entirely different in nature from the difficulties experienced in the past.

To understand fully air transport's direction of progress in the future, it is necessary to digress momentarily to review the industry's immediate past. Airlines did not unwittingly or intentionally over-expand during the postwar era, as many critics are quick to point out. The end of the war brought a sudden period of readjustment for a large part of the population. Travel was essential to the majority in order to settle down to normal living.

At this time, air travel had come into its own. War priorities had been removed, and people who never before had been inside an airplane kept reservation offices busy 24 hours a day demanding airplane space. Conscientiously, the airlines made every effort to accommodate the deluge of requests for seats. Equipment was purchased. Facilities were enlarged—new facilities were added. Personnel complements were increased to cope with the situation. Everything possible was done to meet this new demand.

When the rush was over—September 1946 may be picked as an approximate date the decline in traffic set in—the airlines suddenly found themselves without the huge volume of traffic that had beset them since VJ-Day. While other industries operated at top speed in order to offset shortages, the airlines moved at a steady pace. The logical expansion which had taken place to accommodate the vast increases in traffic soon was termed "over-expansion." An untimely reduction of passenger fares affected over-all revenues. Expenses rose meteorically whereas income declined. Inevitable losses ensued during the time most airlines were required to make a second adjustment—a return to pre-war conditions in the midst of an inflationary economy.

Insufficient equipment and facilities made it impossible to handle every demand for space during the period immediately following the war, leading many inexperienced travelers to feel that the airlines generally were incapable of operating on a large scale. Overlooked was the fact that other transportation media were encountering similar difficulties. Other industries were failing to provide consumers with their products in accordance with demands. As if to accelerate these difficulties, a series of airplane accidents received widespread publicity, discouraging many would-be travelers.

The recovery for airlines is to be a slow process requiring patience and determination.

Now stabilized as a result of the elimination of many expenses, the introduction of streamlined operating methods and efficient control of performance in every phase, the airlines are equipped to enter the New Year with an economic program of operation.

Many airlines have tightened belts and are now prepared to show a more profitable operation despite rising costs. Capital Airlines believes that traffic must be generated by appealing to larger groups of people. Air travel can no longer be considered a luxury for a select few but must be made available to every one. Its acceptance by the public as a practicable mode of transportation is essential to the success of commercial aviation.

Specifically, Capital Airlines has formulated its 1948 program on these premises. New sales techniques, improved passenger handling facilities and increased services have been adopted by Capital to attract a larger group of travelers. Combined air-steamship vacation tours on a time-payment plan are being introduced.

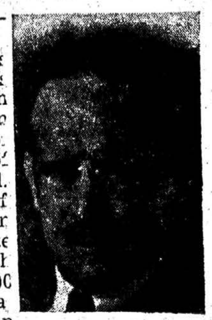
Add to this the fact that passenger fares are generally still lower than in 1941, despite a recent 10% increase, and it is safe to predict that a continued trend toward air travel may be expected. As new devices are adapted—such as the Instrument Landing System which Capital and many airlines are now using—the rigid standards of safety pursued by all scheduled airlines will be greatly strengthened.

As traffic grows, the airlines will grow—cautiously but with the single purpose of providing safe, dependable and comfortable transportation to the traveling public.

CAMILLE DREYFUS

Chairman, Celanese Corporation of America

I believe a continued high level of demand and a further appreciation of sales volume can be confidently expected during 1948 in the chemical fiber industry. Such an appraisal seems a sound conclusion on the basis of the situation prevailing for virtually all of 1947, during which demand far exceeded supply.



Dr. Camille Dreyfus

There will be substantial increases in plant capacity in the 12 months ahead of this which, together with the expectation of a normal gain in productive efficiency, should be of some help in bringing the supply of chemical fibers closer to the demand. For its part, Celanese Corporation of America has now under construction at Rock Hill, S. C., a new acetate filament yarn-producing plant with an initial capacity of 50,000,000 pounds annually. It is expected that this unit will come into production some time in the third quarter of the year.

One of the sobering influences in the entire chemical fiber industry is the wood pulp situation. For some time now a tight supply situation has existed, with a drastic effect on the price situation, and there is little prospect of any great betterment of the condition.

Celanese Corporation of America has plans under way for the building of a wood pulp mill in British Columbia to supply a part of the cellulose requirements for its textile and plastic operations.

Production of all types of rayon last year crossed the 950,000,000-pound mark, a new high record for all time and the 10th consecutive year to register an increase over the immediately preceding year, with the acetate section of the industry reporting the greater proportion of gain.

WALTER D. FULLER

President, The Curtis Publishing Company

The two factors that loom most importantly on the horizon of the magazine publishing industry in 1948 tend to stabilize the outlook for the immediate future.

Advertising volume continuing relatively high will counterbalance the almost certain rise in production costs.

Walter D. Fuller

Our research tells us that the national market will continue active and that manufacturers and merchants will recognize new sales opportunities. I believe that national magazines will continue as the leading media for reaching this profitable market.

With respect to rising production costs there is an uncertainty that causes us some concern. There is every reason to believe that the peak is still not in sight and that through 1948 the trend will continue steadily higher. The sharp increase of last year left the industry with many problems; if costs should continue in that cycle even a relatively small shrinkage in revenue would harm the industry.

However, there is no cause for pessimism. One sore problem over the past few years has yielded a solution to those who worked so hard to resolve it. The supply of book paper, so scarce during the war years and immediately after, should be much nearer requirements in 1948. New equipment coming into service makes this possible.

Another bright promise for magazine publishers is that the demand of a growing reading public will continue at a higher, though possibly more selective, level.

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What Lies Ahead for Business?

By BENJAMIN H. GORDON*
Chief, New York Regional Staff, U. S. Department of Commerce

Commerce Department official gives factual data of business progress during last year and states momentum of high level of activity reasonably assures continued advances in current year. Enumerates indicators of high levels in production, credit, retail trade and building construction. Sees certain goods in greater supply and better situation in construction materials.

Proper discussion of what businessmen may reasonably expect to look forward to this year must take into consideration the momentum of the business activity of the past year. It was a year of tremendous activity. Gross national production during the latter part of the year rose to an annual rate of over $237 billion, with the annual production reaching $231 billion, a record never before achieved in this country. This represents a gain of about 15% in dollar volume and an estimated 7% in physical unit volume over the excellent business year of 1946. As was to be expected with this record production, civilian employment exceeded 58 million, with a minimum of unemployment.

Benj. H. Gordon

Personal incomes in 1947 approximated $197 billion, up about 11% from the 1946 figure of $177 billion. So insistent was consumer demand for goods and services, however, that consumers spent larger fractions of their higher incomes than in 1946. Personal savings dropped from $15 billion or just over 9% of disposable personal income in 1946, to about $11 billion or just over 6% of disposable personal income in 1947.

Pressures of Credit Expansion

Additional demand pressures stemmed from the expansion of bank credit as the volume of commercial and industrial loans, reported by member banks rose by a fourth, from $11.4 billion at the end of 1946. Consumer credit was also up more than one-third during the year, reaching a new peak of$13.3 billion. Inventories at the manufacturing level rose to about $23.7 billion at the end of the year, representing approximately a 20% increase over the corresponding period in 1946, and marking a record high inventory point.

Inventories of most wholesale and retail lines at the beginning of the year, were in their normal condition, although many retail stocks showed signs of more than normal post-Christmas depletions, particularly in nationally-branded merchandise. Prices, as we all know, increased substantially during the year and were largely responsible for the record-breaking dollar-volume of retail sales which totalled $118 billion, a rise of $18 billion over 1946. Prices of industrial products were up almost a fourth; prices of farm products were more than a fifth higher, and foods about 30% over 1946. Incidently, New York City was reported to have had the third highest living cost of major cities in the country, with the cost of living of a typically moderate-income family (including two young children) estimated at $3,200, of which $1,100 was spent for food.

So much for the 1947 record. As of 1948, while our Department does not attempt to forecast business conditions. Indications point to another good year in almost every American industry, assuming that there will be no serious international upsets nor serious domestic labor management difficulties. In New York State and New Jersey particularly, which is the territory covered by the New York Regional Office of the Department, the outlook based on reports which we have received, and from personal interviews which I have had with many of the important manufacturers, wholesalers and retailers, is favorable.

Indicators of High Level Production

Traditional business indicators also lead to the opinion that the immediate outlook is for continuing high levels of production and of retail trade. Our huge outlays for capital equipment estimated at $4.1 billion during the first quarter of 1948 for American business exclusive of agriculture, the large unsatisfied demand for consumer food, substantial increases in home construction as well as our large prospective foreign trade contribute to the basis of optimism. Large personal incomes and expanding credit both from business and consumer sources may be expected to see business activity in high gear. As you know, earnest efforts are being made to prevent excessive inflation and there is every likelihood that with proper support these will succeed.

In view of the carryover of huge orders in the durable goods lines and the increasing demand for many of the non-durables and the greater availability of materials, as well as expanded production facilities, it is possible that production in many lines may exceed the record-breaking figures of 1947.

Steel, for instance, in which there has developed a strong "gray market," due to heavy demand far in advance of current supply, will probably continue to be in short supply, despite an increase in ingot production of about 1,000,000 tons during the year. Availability of scrap iron, coke and transportation will be the determining factors in further increased production. Passenger car production in 1948 should exceed last year's output of 3,500,000 by 1,500,000. Truck production also should reach 1,200,000, an increase of about 20% over last year. Farm machinery production should exceed substantially last year's figures, with record-breaking output.

Electrical appliances, the output of which last year equalled the 1941 peak, will be in "free supply" this year according to trade sources. Production of radio and television sets will probably equal last year's volume of 17 million units. The outlook in the Textile and Apparel field is distinctly favorable in most lines. Production level in the textile industry is currently higher than in any prewar year. The demand, as shown at the various apparel-trade openings which have been held since the first of the year, is heavy, with many mills refusing to accept additional orders for 1948.

Favorable Retail Dollar-Sales

The outlook for large retail dollar volume sales is favorable, but merchants report that high operating costs and mounting prices, resulting in consumer resistance, may cut profits. While recent trends in the New York Region indicates some early declines in the rate of sales increase for department stores, a moderate increase in sales during the first half of 1948 seems probable. This will come in large part from higher prices and not from greater number of unit sales. Merchants do not consider this a healthy sign. Rapid turn-over, restricted forward buying and more stringent cost controls is the policy followed by the more conservative retailers. It is anticipated by some retailers that an increased share of consumer spending may be diverted from dry goods to housing and durable products and food this year.

New Construction

You are, of course, vitally interested in construction; home building has had a spectacular rise since the slow start of last spring. The outlook for new construction this year continues encouraging. A joint estimate by the Department of Commerce and the Department of Labor indicates that total new construction in the country will probably reach $15.2 billion in 1948 as compared with an estimated $12.7 billion in 1947. Of the 1948 total about $11.3 billion will be financed privately, as compared with $9.7 billion in 1947. These figures are predicted on the assumption that no serious economic recession will take place during 1948; that construction costs will rise only moderately above current levels, and that construction of a total of 950,000 privately-financed family-dwelling units will be started during 1948.

As to housing costs, our Construction Division points out that, while costs have "reached new high and hence might be expected to exert a retarding influence, market strength, arising chiefly from the still severe housing shortage, will more than counterbalance in 1948 the forces working toward decline." Of this huge building program, private residential building (exclusive of farm buildings) will make up the largest share estimated at $6 billion as compared with $4.8 billion in 1947, a prospective increase of 25%. You may be interested in the following comparative figures on other types of private construction (1947 figures are actual for the first 10 months of the year and estimated for the last two months).

Private Non-Residential Buildings
(In Millions of Dollars)

	1947	*1948
Industrial	1,695	1,350
Warehoue office and loft buildings	260	275
Stores, restaurants and garages	620	850
Other non-residential buildings	590	775
Farm construction	450	500
Public utility	1,315	1,625
TOTALS	4,930	5,375

*Estimated.

The probable increase in Commercial buildings, as well as churches, theatres, hospitals and the like, will be largely offset by a substantial decrease in industrial buildings.

It is estimated that public construction will reach $3,825 million in 1948, as compared with $2,935 in 1947. You will be interested to learn that public residential construction is expected to drop from $175 million last year to $100 million in 1948.

Total new construction activity in the U. S. increased from $2,901 million in the second quarter of 1947 to $3,662 million in the third

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*An address by Mr. Gordon at the Annual Meeting of the Council of Insurance for Savings Associations of New York State, New York City, Jan. 23, 1948.

Our Monetary and Credit Problems

By M. S. SZYMCZAK*
Member, Board of Governors, Federal Reserve System

Federal Reserve Board Governor, in analyzing present monetary and credit problems, points out central banking and fiscal policies have lost much of power over money supply and can do little, under present authority, to stem inflationary forces. Supports recommendation for additional special reserves for commercial banks as check on monetary and credit expansion, and upholds restrictions on consumer credits and credit in securities market. Also hints there should also be curbs on mortgage credit.

Since the days when I was active in the operations of building and loan associations, many changes have taken place—changes in the number and size and activities of building and loan associations, and changes in the operation of our economy and the organization of our society.

M. S. Szymczak

The problems which confront the central banking authorities with which I have been associated are also reflected in the problems with which you have to cope.

In 1914 the United States was a debtor nation; a substantial part of national development had been and was being financed abroad. We were in the process of shifting from a predominantly agricultural nation to a predominantly industrial and urban nation. Our conventional patterns of finance drew no distinction between the fiscal position of government and that of individuals and businesses

There were about 6,600 organizations of the type we think of as building and loan or savings and loan associations, as compared with about 6,000 today. These associations, through the thrift and saving of their members, had accumulated total assets of $1,360 million, as compared with about $11 billion today. At the same time, there were about 26,000 commercial banks with total deposits of about $17 billion compared with about 14,000 banks today with deposits of $140 billion. The Federal debt was only $1 billion. Today it is $254 billion.

Our pre-World War I economy was a composite of regional economies. Perhaps the heart of our central banking problem at that stage of the country's development was to reconcile the monetary and credit needs of major regions and to maintain a balance between these needs. It was largely with this end in view that the Federal Reserve System was established. At that time there did not seem to be any necessity for separate provision to balance special needs of the various regions for mortgage credit.

When the Federal Reserve Act was revised substantially two decades later, between 1933 and 1935, the nation had become a great creditor country internationally and a great industrial economy domestically. Our monetary and credit problem had changed from the problem of distributing funds among regions—which had been solved fairly well—to the problem of controlling the total supply of money and equating this supply to various national uses. In addition, the economy had gone through a great war, two great "booms," and two great "busts." The war, the "booms," and the "busts" were national in ramification. While regional differences in economic organization still existed, the reality of regional interdependence was a more fully demonstrated fact than ever before in our history. During these two decades there were indications that traditional methods of mortgage financing were not completely adequate. We had the notable failure of traditional mortgage financing methods in the Florida "boom" and crash.

Our great "bust" of 1929 had been particularly severe and its aftermath was widespread bankruptcy, unemployment and poverty. The economy's critical problem of that period was "idle men, idle machines, idle money." It was determined to solve the problem on a national basis. Fiscal policy and central banking policy became, more directly than formerly, the instruments of national economic policy. Many new agencies were created to complement these two major instruments of national policy. In mortgage credit, the Federal Home Loan Bank System was given the form we know today, and provision was made for chartering Federal savings and loan associations. The Home Owners' Loan Corporation was formed to take over "slow" mortgages and strengthen lending institutions, and the Federal Savings and Loan Insurance Corporation was established to insure share accounts in building and loan and savings and loan associations. At the same time, under the Federal Housing Administration, the program of mortgage insurance was inaugurated, and this program made use of much of the experience with mortgage credit which had been acquired by building and loan associations in their many decades of operation.

A New Period

Once more we find ourselves in a new period. We have again gone through a great and devastating war. The war has changed our position in international affairs, and we find ourselves overwhelmingly a creditor.

The balance of power between capital and labor is different from what it was in 1914 or 1935, and is still changing. The relationship between creditor and debtor has also changed, in important part because better financial arrangements and techniques have been worked out. Banks make one kind of arrangement with farmers for the repayment of loans and a different kind of arrangement with manufacturing concerns, each arrangement calculated to fit the operations of the borrowers. Relatively little mortgage credit is extended today for the short periods of one, three, or five years which used to be "conventional." Most mortgage lenders have adopted the practice of writing long-term amortized loans which building and loan associations were pioneering in 1914.

The Government is no longer merely another borrower in the market. It is by far the largest borrower. The Federal debt accounts for nearly three-fifths of the entire indebtedness of the country, and interest on the debt is a major item in the Federal budget, amounting to more than $5 billion a year. In this situation, special arrangements have had to be made for selling and managing the public debt. The Treasury and the Federal Reserve work closely together in issuing, retiring, and refunding the debt. This

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*An address by Gov. Szymczak at the Annual Stockholders Meeting, Federal Home Loan Bank of New York, New York City, Jan. 22, 1948.

Savers Now Under Triple Squeeze, New Study Finds

Committee on Public Debt Policy declares rising prices, high taxes and lower interest rates are severely penalizing savings. Calls for fiscal policies to encourage savings and risk capital.

Declaring that Government fiscal and monetary policies growing out of the depression and the war have tended to discourage savings, needed now for economic progress both at home and abroad, the Committee on Public Debt Policy in a study of "Our National Debt and Our Savings," made public Jan. 28, recommends the adoption of three remedies. These, as outlined by the committee, which is headed by W. Randolph Burgess, Vice-Chairman of the National City Bank of New York, are fiscal and monetary policies which will check the inflationary expansion of the money supply; a revision of the Federal tax system to encourage saving and investment, as rapidly as is consistent with sound fiscal policy, and an unfreezing of the rigid wartime interest rate policy.


W. R. Burgess

Savers Hit Since 1930's

Policies pursued by the Government since the early thirties under pressure of the depression and the war have brought about a sharp reduction in the return savers receive, have fostered a rise of more than 60% in the cost of living since 1940, thus cutting the purchasing power of accumulated savings, and have reduced the ability of people to save by the imposition of high personal income taxes, coincident with rising prices, the Committee finds. It adds the warning that "savings are still sorely needed for further improvement of living standards."

The Committee voices approval of recent steps taken by Federal authorities away from the freezing of interest rates at excessively low wartime levels, asserting that these steps will give them greater freedom to combat inflation.

Responsibility of Tax System

Our Federal tax system, according to the committee, is in need of recasting, for in its present form it bears heavily upon the savings process and the willingness to go forward with risk investments. Discussing personal taxation, the Committee reports that tax rates have ascended to such steep heights as we ascend the income scale that the heaviest burden has been placed on just the individuals who normally would save and invest their funds in risky enterprise.

Attacking the theory that private investment outlets for savings are not likely to be large enough to absorb all the people's savings because American economy has reached its maturity, the Committee says: "Today, at least, the theory runs quite contrary to the facts of current demand. There is every indication that a large volume of private investment will be required in the next several years to fill the backlog of consumer and producer demand built up during the war, to satisfy housing needs, and to exploit new inventions.

"Beyond that time, in the face of the shattering scientific discoveries of the war period, there seem good grounds for confidence that private investment outlets will readily absorb our savings. We do not need an expanding frontier and a rapidly growing population to provide sufficient investment opportunities. Further development of our country intensively, and rising living standards for the people, can provide the basis for huge capital employment."

The rapid improvement in American living standards is attributed to the fact that both individuals and business concerns have saved and invested wisely a substantial part of their incomes. "Savings put to work," says the Committee, "provide the key to our steady march to higher planes of living."

The study finds that American savings are not only urgently needed in the United States but are "needed to provide funds for reconstruction and industrial development in other parts of the world. If we are to lay the basis for a lasting world peace, some of our savings should, when conditions are ripe, flow into foreign countries to assist in the restoration and development of their economies." Through the employment of our savings, if wisely invested, not only will foreign countries move to higher standards of living, but we shall also experience an improvement in our own living standards, and, more important, adds the Committee, "we shall help to guard against future wars and move in the direction of a peaceful world.

"The only way for any country on the globe to enjoy progress in living standards is through savings and investment. This is just as true of communist Russia or socialist Britain as it is of capitalist America. The very essence of the prewar five-year plans in Russia was the planned building of productive capacity at the expense of consumer goods. In this case, saving was forced on the Russian people by the central industrial planners, but it was saving nonetheless. Likewise, in Britain today, the people are being urged to be frugal in the interests of restoring and developing their industrial system. Thus, saving wisely employed is the universal way to progress in living standards."

Injury From Easy Money Policy

Emphasizing the adverse effect on savers of the Government's "easy money" policy, the study points out that "falling interest rates penalize the saver directly, regardless of the form his savings take. Declining returns on invested funds explain why savings banks have sharply reduced interest payments to their depositors. Lower interest earnings also explain in large measure why life insurance companies have been required to decrease their dividends to policyholders and to raise premiums substantially. Likewise, because of falling rate people are compelled to make larger contributions to purchase pensions and annuities."

The study, prepared jointly by Dr. James J. O'Leary, the Committee's director of research; Mrs. Eleanor S. Bagley, research associate of The Mutual Life Insurance Co. of New York, and Dr. Stephen M. Foster, economic adviser, New York Life Insurance Co., was reviewed in its various stages of preparation by the committee members and published with their approval. Its studies, designed to evolve a sound plan for management of the Federal debt, are financed by funds granted by the Maurice and Laura Falk Foundation of Pittsburgh.

Controls Affecting Investment Policies

By SIGURD R. WENDIN*

President, Heber-Fugin-Wendin, Inc., Detroit, Mich.

Mr. Wendin outlines existing and proposed controls and analyzes their effects on our financial and investment policies. Discusses anti-inflationary programs as proposed by ABA and the recent Anti-Inflation Act. Holds if proposed credit controls are rigidly interpreted, industry would slow down and deflation set in. Says we are "at a critical point," and councils investors pursue middle ground course, balanced between high grade bonds and common stocks.

At the start I would like to say that "control-itis" is a disease which will get worse, and will not be cured until politicians and government officials recognize at least a few of the economic facts of life. As long as the medicine is given without correcting the causes there will be demands for further controls regardless of whether business is good or bad.


Sigurd R. Wendin

The subject is primarily concerned with proposed rather than existing controls, and it is assumed everyone is familiar with many of the present controls, although it might be said that every government regulation and every law directly and indirectly is a form of control. Our primary interest today is a discussion of how our financial and investment policies will be modified by future events.

Since it is generally accepted that most of our difficulties arise because of the fiscal and commodity control policies of the government, we shall start by mentioning the three basic plans for credit control which are urged on banks by the Federal Reserve economists. These three basic plans are:

(1) A primary reserve plan which would shift short-term governments from commercial banks into reserve banks.

(2) A secondary reserve plan to permit, or in effect, force banks to hold very substantial amounts of short-term government securities. This is the plan proposed by Reserve Board Chairman Eccles in asking for new legislation on the subject.

(3) Limit the amount of long-term marketable bonds that any commercial bank could hold against its demand deposits.

The basic reasoning behind these proposals is to reduce the amount of funds available for bank credit. Taken by itself, any one of these proposals would be deflationary.

The Federal Reserve discount rate was raised from 1 to 1¼% on Jan. 11, and if the pressure on short-term interest rates continues further proposals to increase this rate may be expected, and would

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*A talk by Mr. Wendin before the National Affairs Section of the Economic Club of Detroit, Detroit, Mich., Jan. 14, 1948.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week — Insurance Stocks

Inflationary forces manifest their effects in every section of our complex economy, distorting the picture and perverting one's judgment. An example is found in the report of the National Board of Fire Underwriters which states that total fire losses in the United States in the year 1947 were the greatest in the nation's history, and amounted to $692,635,000.

True, this amount is the maximum dollar figure on record, but it is expressed in dollars which have steadily deteriorated in value and purchasing power for a number of years. This fact was pointed out recently at the Fire Department Instructor's Conference in Memphis by Horatio Bond, Chief Engineer of the National Fire Protection Association. If measured in terms of relative physical destruction, he stated, 1947 losses are less than 80% of the previous peak year of 1926.

It may be of interest to review the record of annual fire losses in the United States over the past 35 years, taking into account the changing value of the dollar and also the increase in population. The accompanying tabulation shows annual fire losses as reported and expressed in unadjusted dollars, and also in dollars adjusted to the 1935-39 average, as compiled by the U. S. Bureau of Labor Statistics. This adjusted dollar loss has been reduced to a per-capita figure, thus allowing also for the increase in population, which approximates 46% since 1913.

Year:	Total Fire Losses ($000)	Value of $ Annual Aver.	Adjusted Total Fire Losses ($000)	Population (000)	Loss Per Capita (Adj'd Basis) $
1913	203,764	141.4	288,122	95.950	3.00
1914	221,433	139.3	308,465	97,350	3.17
1915	172,033	137.9	237,234	98,700	2.40
1916	258,378	128.4	331,757	100,100	3.31
1917	289,535	109.2	316,172	101,500	3.11
1918	353,879	93.0	329,107	102,900	3.20
1919	320,540	80.3	257,394	104.300	2.47
1920	447,887	69.8	312,625	105,711	2.96
1921	495,406	78.3	387,903	107,400	3.61
1922	506,541	83.5	422,962	109.100	3.88
1923	535,373	82.0	439,006	110,800	3.96
1924	549,062	81.8	449,133	112,500	3.99
1925	559,418	79.7	445,856	114,200	3.90
1926	561,981	79.1	444,527	115,900	3.84
1927	472,934	80.6	381,185	117,600	3.24
1928	464,607	81.6	379,119	119.300	3.18
1929	459,446	81.6	374,908	121,000	3.10
1930	501,981	83.8	420,660	122,775	3.43
1931	451,644	92.0	415,522	123,650	3.36
1932	400,860	102.5	410,882	124,550	3.30
1933	271,453	108.2	293,712	125.450	2.34
1934	271,197	104.5	283,401	126,350	2.24
1935	235,263	101.9	239,733	127,250	1.88
1936	266,659	100.9	269,059	128,150	2.10
1937	254,959	97.4	248,330	129,050	1.92
1938	253,478	99.2	256,410	129,950	1.97
1939	275,102	100.6	276,753	130,850	2.12
1940	285,879	99.9	285,593	131,670	2.17
1941	303,895	95.2	289,308	132,520	2.18
1942	314,295	85.9	269,979	133,370	2.02
1943	330,275	81.0	307,990	134,220	2.29
1944	423,538	79.7	337,560	135,070	2.50
1945	455,329	77.9	354,701	136,250	2.60
1946	561,478	72.1	404,826	138,500	2.92
1947	692,635	*64.0	443,286	140,000	3.17

*Average, first seven months.

On the unadjusted dollar basis, 1947 fire losses of $692,635,000 were at an all-time peak, and exceeded 1946 losses by 23.4%. The previous peak on the unadjusted basis was in the year 1926, with a figure of $561,981,000: this compared with $561,478,000 reported 1946. Minimum losses were reported in 1915 and amounted to $172,033,000.

Adjusted losses, shown in column three, still point to 1915 as the year with minimum losses, but on the basis of the 1935-39 dollar these amounted to $237,234,000 vs. unadjusted losses of $172,033,000. The year of highest losses, on the adjusted basis, was 1924 and not 1947; the adjusted figure being $449,133,000 in 1924, and $443,286,000 in 1947.

When adjusted losses are expressed on a per capita basis, it is found that the year 1924 again was the year of maximum loss, with $3.99 per capita, while the year 1935 was the year of minimum per capita loss of $1.88.

It is interesting to observe that on this adjusted per capita basis there has been an irregular downward movement in national fire losses over the years, especially since 1932. Five-year average figures help to bring this out, as follows:

Period—	5-Year Aver.
1913-1917	$3.00
1918-1922	3.22
1923-1927	3.79
1928-1932	3.27
1933-1937	2.10
1938-1942	2.10
1943-1947	2.70
Annual average 35 years	2.88

Thus, despite abnormally high dollar losses during the war and postwar years, the long range effect of improved engineering in building construction and fire fighting is apparently being reflected in the loss statistics. But there is still lots to do, for the economic waste entailed is appallingly high, so say nothing of the tragic loss of human life.

NOTE: Population data is interpolated and exterpolated from the U. S. Census figures. Fire losses are as compiled and reported by the National Board of Fire Underwriters since 1916; prior thereto, "Journal of Commerce" figures are used. Value of the dollar is as computed by the U. S. Bureau of Labor Statistics.

World Bank Seeking New Lending Opportunities

Actively examining possibilities in Near East and South America, President McCloy reveals $480 million now available for additional lending. Bank reports first operating profit.

President John McCloy, in discussing the World Bank's outlook with reporters in New York on Jan. 22, revealed that officials of the institution are with on-the-spot observations closely looking into the possibilities for constructive lending operations in Africa and the Near East.

This is likewise being done in South America, where it is felt that some loans may be processed by next summer.

Questioned as to the future prices of the Institution's bonds Mr. McCloy asserted that the quotations on both outstanding and any new flotations would undoubtedly depend largely on the course of the entire bond market.

Profitable Current Operations Reported

The Bank reported that during the quarter ended Dec. 31, 1947, the operations of the Bank resulted in an excess of income over expenses for the first time in its history.

The income for the quarter was $4,513,694. Provision for special reserve was 648,231, and total expenses, $2,547,853, leaving a net excess of income over expenses of $1,317,610. This net income was sufficient to cover the deficit arising during the quarter ending Sept. 30, 1947, and thus income exceeded expenses for the entire 6-months period. During the quarter ending Sept. 30, 1947, the entire cost of $1,267,903 related to the issue of the Bank's bonds was charged to expense.

The deficit existing at the close of the fiscal year ending June 30, 1947 has been substantially reduced and is expected to be entirely eliminated before March 31, 1948.

The Bank's total income for the 6-months period amounted to $7,474,878. Provision for special reserve was $1,070,674, and expenses were $5,964,279, leaving a net excess of income over expenses of $439,925. (The special reserve is built up from the commission charges which, in addition to interest rates, the Bank makes on all of its loans.)

Total Loan Commitments $497,000,000

The total loan commitments at Dec. 31, 1947 amounted to $497,000,000, against which disbursements had been made in excess of $300,000,000. The borrowers, France, The Netherlands, Denmark and Luxembourg, may still withdraw approximately $197,000,000 under these loans in United States dollars or its equivalent in other currencies. During the past quarter, a disbursement was made in Belgian francs, out of Belgium's capital subscription, to the Grand-Duchy of Luxembourg amounting to the equivalent of approximately $300,000.

The Bank has funds on hand available for additional lending of approximately $480,000,000.

On Jan. 14, 1948, Finland became the 46th member of the Bank subscribing to 380 shares of capital stock. This brings the total stock subscriptions to $8,263,100,000.

The Bank's financial statements, issued today, include the balance sheet as of Dec. 31, 1947, statement of income and expenses for the six months ended Dec. 31, 1947, and a summary financial report on the status of loans.

Sidney B. Hook With Turner-Poindexter

LOS ANGELES, CALIF.—Sidney B. Hook has become associated with Turner-Poindexter & Co., 629 South Spring Street, members of the Los Angeles Stock Exchange, as manager of the municipal department. Mr. Hook formerly conducted his own investment business in Los Angeles and prior thereto was with Dean Witter & Co. and was a vice-president of First California Company.

Europe's Hope of Recovery

By JOHN J. McCLOY*

President, International Bank for Reconstruction and Development

World Bank executive, after reviewing adverse postwar economic developments in Europe, maintains recovery and reorganization is feasible if U. S. and European countries participating in Marshall Plan act with boldness, imagination and vigor. Says Europe is not moribund or hopelessly weak, and has physical capacity equal to prewar, but points out handicaps in recovery due to deficient food production and disruption in transport and international trade. Urges an European organization, whose director and staff should be independent and courageous, to carry out provisions of Marshall Plan. Promises World Bank cooperation.

One of the great issues of our day is now being debated in the halls of Congress. That issue is whether, through a reorganization of Europe, real progress can be made towards curing the basic disequilibrium of the world's economy. The problem is a great one, not only because of its scope and complexities, but because its roots go back at least to the beginning of our century.

John J. McCloy

From Waterloo to Sarajevo things had been pretty stable. The great powers had reached what appeared to be a steady balance. The world economy seemed firmly established and its continued expansion was accepted as inevitable. People at the turn of the century were accustomed to living with dignity and a certain sense of continuity.

Thereafter came the wars, rumors of war, migrations and depressions that have clouded our thoughts almost uninterruptedly up to the present.

The cracks in the old order first widened enough to be visible to the ordinary citizen during the First World War. Brooks Adams discerned them much earlier, as shown by his rather remarkable book, "America's Economic Supremacy," published in 1900; but few people possess the genius of a member of the Adams family and his insight received little attention. In any event, the "normalcy" that was restored for a few hectic years after that earlier War proved to be only a pale shadow of Victorian and Edwardian security.

On the international scene the change was most clearly evidenced in the relative decline of Western Europe as the center of world trade, military power, and political influence. England, which had given the world leadership in industry, trade and political thought for the better part of a century saw herself surpassed in productive power and financial resources, and during the war lost a good portion of the accumulated assets by which she had largely maintained her position. She began to draw heavily on her nest egg of foreign investments. Even more significant, in the first fights in Flanders and later in the awful quagmires of the Somme and Passchendaele she lost an irreplaceable generation of young men, which but for those slaughters would today be available to supplement the brains and character of her leaders.

France, one of the great continental balances, suffered even heavier human and material losses. And Germany which, under proper leadership, might have contributed so much to a sensible economic and political equilibrium in Central Europe, instead, as a result of the fatal misdirection of her indubitable talents, destroyed not only the prosperous stability of Europe as a whole but also the foundations of her own well-being.

Emergence of Russia

Concurrent with this draining off of energies and the disruption of trade in Western Europe, there has emerged, from a hitherto relatively undeveloped area of Europe, a new power, with large material and human resources, a strong sense of mission, and a fanatical devotion to a revolutionary ideology. Politically and militarily the Soviet Union has become a great world power and it seems certainly the most powerful single nation in Europe. Intensely concerned with her own development, she has associated with her own welfare the widest dissemination and stimulation of her social and economic philosophies combined with an attack on all others.

At the same time, the United States has also emerged as the other great world power—perhaps the greatest. Following an entirely different economic and political course from the Soviet Union, the United States has, in a century and a half, advanced from a wilderness with a fringe of 18th century civilization to become the greatest producing and exporting nation in the world. Her production achievements border on the phenomenal. Her political and economic concepts are perhaps the furthest removed of any nation from contemporary Soviet political or economic doctrine.

There are other areas on the globe which can, and soon will, play an increasingly important part in the reestablishment of economic equilibrium in the world, great undeveloped areas such as South America, Africa, the Middle East, Asia and India. But today, the most critical issues, both political and economic, derive directly from the fact that there exist these two great world powers, and that Europe outside of the Soviet Union, politically divided and economically disrupted, constitutes for the time being a power vacuum instead of a balancing force.

No wonder, then, that the thoughts and attention of policy makers have been concentrated largely on Europe. There is the stage on which is being played the great drama of today. And it is a drama which attracts the heart as well as the mind of America. Instinctive and traditional American generosity—no matter how labeled by distorted propaganda—is always aroused by the suffering of the hungry and the cold; the call upon that generosity is strong when it comes from Europe, from which so much of the American political and social system derives and to which the United States is bound by many ties of a common cultural heritage.

Postwar America

Due to the energies of her people and a series of fortunate circumstances, the United States emerged from the war with her productive plant and trade not only intact but greatly expanded,

(Continued on page 26)

*An address by Mr. McCloy before the First Annual Forecasting Conference of the Chamber of Commerce of Philadelphia, Phila., Pa., Jan. 15, 1948.

Need of Venture Capital for Defense

By NATHANIEL S. CHADWICK*

Vice-President, National Securities & Research Corp.

Mr. Chadwick contends government policy is hampering venture capital flow into industries and thereby impairing defense program. Points out private capital has in past provided sinews for defense, but says now we are faced with choice between philosophy of private capital and government capital in development of our natural resources. Attacks recent anti-trust suits and high taxes as curbing venture capital.

The President of the United States in his proposed budget has asked for appropriations which would amount to $11 billion for national defense. The Committee appointed by him to study aviation problems has more recently recommended that approximately another billion dollars be added to the budget program, all of the increase going for expenditures for air defense.

N. S. Chadwick

Almost simultaneously with the budget presentation, the President has requested price and allocation controls and other regulations which resemble a return of the war controls over coal, oil, steel and other goods. Other requests of the President are for a further socialization program all along the line.

Cabinet members Krug and Harriman made a statement, since under controversy, that there are only ten years of liquid petroleum reserves in the ground and recommended that a government program be inaugurated for research on obtaining petroleum from coal and shale. If these were merely straws in the wind, I would not consider them as serious implications of interference with our private capital system, but since the whole approach of the present administration has been and still is toward bureaucracy, federalization and government control of one thing after another, I think we should seriously consider such statements if we believe in the capitalistic system which we call the American Way.

It seems strange and somewhat inconsistent that the President and members of his Cabinet should advocate further nationalization of the industries of the country when in his State of the Union message the President invited private industry to expend $50 billion to improve and expand our production facilities over the next few years. In mentioning this amount of $50 billions, he included new businesses with new products which of course means the investment of venture capital.

Government Hampering Private Ventures

The leftists indicate that they will venture with government funds in place of our past procedure of using private funds. I ask you to recall the delays and hampering of industries to produce defense materials and war materials as a result of the interference and misdirection by this country's government in the early stages of the prewar defense program and when we were actually at war. The confusion was so pronounced that it put a new word in the dictionary; namely, "snafu." Since the war we have witnessed nothing but crises and confusion both at home and in our foreign relations.

At the beginning of 1947 the President and his political associates indicated that we would have a recession in business that year. Actually 1947 turned out to be the best business year in history. This year the Administration is warning about inflation and the excessive demand of the public for merchandise and is endeavoring to find some way through regulation to relieve the pressure of this demand.

Now if we, as recommended by the President, expand our industrial facilities in the amount of $50 billions over the next few years, there are only two ways that this expansion of private business can occur:

(1) Through the reinvestment of retained business earnings (which incidentally he wants to tax more heavily), and

(2) The investment of the savings of individuals.

It is from these two sources of investment that venture capital will be obtained for business.

Defenses Must Be Strong

I think we are all in hearty agreement that our defenses must be strong and that our businesses must expand over the years.

Our defenses are necessary because we must protect our great human, natural and financial resources. Any country that is as rich as we are and has so aggressive an enemy as Russia with its philosophy of Communism must build up its sinews of defense.

Similarly, any country that has such great resources as ours are, must find the capital means to expand them so that all of the American people will have a better status of living.

During the entire history of this country, venture capital from private capital sources has provided an astounding national defense as well as an almost fantastic betterment in our living standard compared with other peoples of the world. In fact this country has expanded industrially in the past 150 years more rapidly than has any other country in the world expanded in the past 5,000 years.

Private Venture Financing Before World Wars

In order to review the subject at hand — the need to increase venture capital in the defense program—we should lay before us the record of private venture financing before the past two world wars.

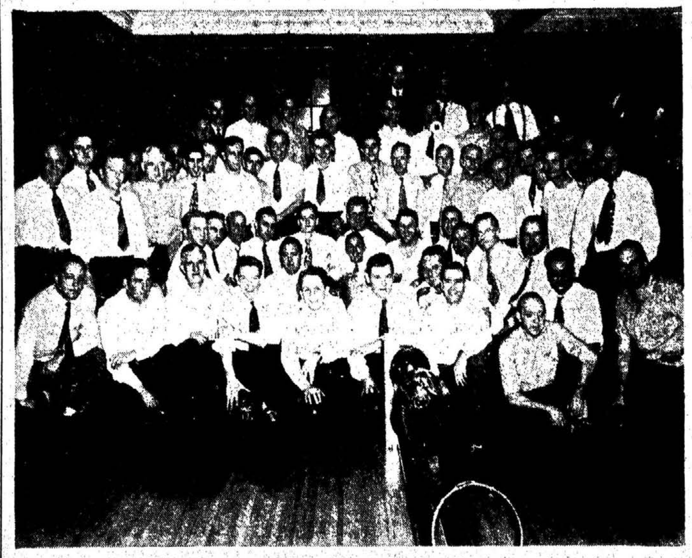
For example, in the period prior to World War I, a company was formed by venture capital. The name of this corporation stood high in the first World War production effort, and was indispensable in the Second World War. That company was the General Motors Corporation. Another outstanding example was of a company that had approached maturity from the venture stage and was extremely important, in fact indispensable, in the first World War, namely, United States Steel Corporation. You all know the part that great steel company played in the second World War. The aviation industry, just hatched prior to World War I, was also financed by private venture capital.

Indeed, there is no need for me to tell you of the corporations that started out as new enterprises fi-

(Continued on page 36)

*An address by Mr. Chadwick at the Forum of the Investors' League, Inc., Philadelphia, Pa., Jan. 29, 1948.

Detroit Brokers' Bowling League



STANDINGS: JAN. 7, 1948

Teams—	Captain	Games Won	Games Lost	Points
Andrew C. Reid & Co.	E. J. Miller	33	12	45
First of Michigan Corp.	C. Zuber	29	16	38
Paine, Webber, Jackson & Curtis	Kenneth Binkley	26	19	36
McDonald-Moore & Co.	Don Miller	26	19	35
Mercier, McDowell & Dolphyn	George Walker	25	20	34
Cray, McFawn & Co.	Ray Bernardi	24	21	34
Wm. C. Roney & Co.	Robt. Wallace	24	21	33
Smith, Hague & Co.	Bechtel	21	24	28
Wm. C. Roney & Co.	Howard Boos	20	25	25
Chas. A. Parcells & Co.	McPherson	19	26	25
Crouse & Company	Gregory Bader	17	23	24
Detroit Stock Exchange	Williams	19	26	23
C. G. McDonald & Co.	M. J. Stanko	17	28	22
Goodbody & Co.	Donald Creech	15	30	18

	Name	Pins
Team High—Three Games	Crouse & Co.	2,709
Second Team High—Three Games	Wm. C. Roney & Co.	2,602
Team High—One Game	Wm. C. Roney & Co.	940
Second Team High—One Game	Crouse & Co.	933
Individual High—Three Games	Fred Huber (Andrew G. Reid & Co.)	663
Second Individual High—Three Games	E. J. Miller (Andrew C. Reid & Co.)	652
Third Individual High—Three Games	Robert Wallace (Wm. C. Roney & Co.)	610
Individual High—One Game	Paul I. Moreland (Moreland & Co.)	253
Second Individual High—One Game	Sutherland (Cray, McFawn & Co.)	250
Third Individual High—One Game	Fred Huber (Andrew C. Reid & Co.)	244

"200" CLUB FOR THE NIGHT OF JAN. 7, 1948

Sutherland	250	Ray P. Bernardi	210
Robert Wallace	215	Carman	203
Clarence Horn	213	Meyer	202
C. G. McDonald	213	Don W. Miller	202
Bruggeman	200		

Railroad Securities

The way the railroad bond market has been acting for a period of many months it did not seem likely that any railroad would have to resort to a call for tenders practically regardless of how many of its bonds it wished to purchase. At times it has appeared as if there were virtually unlimited supplies of bonds of all descriptions available in the open market. A couple of years ago the tender operation was popular with quite a few roads, but at that time the whole market picture was considerably different than it is today. Not many roads have found it necessary to use this device to further their debt retirement programs for some time.

Perhaps heralding a new rash of such operations, two roads have recently called for tenders of their bonds. The more important of the two is that of Illinois Central. For a number of years this road has been engaged in an aggressive debt retirement policy, largely directed towards anticipating a formidable maturity schedule in the 1950-1955 period. Late in 1945 the company had called for tenders of bonds of the earlier maturities but this attempt was not outstandingly successful due to the high prices at which most of the bonds were presented. Later with the sharp deterioration in general market conditions, particularly noticeable in the case of second grade rail bonds, the company was able to continue with its debt program through open market purchases, which were largely made below par value.

The recent decision to once again try the tender method of debt retirement apparently indicates that it was becoming increasingly difficult, if not impossible, to make any additional sizable purchases in the open market. In the present instance the company has asked for tenders of all bonds maturing from 1950 to 1955, both inclusive, sufficient to exhaust $20 million of treasury cash. With the dual influence of the higher money rates now prevailing and the unstable condition of the second grade rail bond market, the present operation should at least be considerably more successful than that of late 1945. Sufficient tenders at reasonable prices to exhaust the entire $20 million appear as a reasonable expectation.

Indicative of the progress the road has already made, there was more than $108 million of non-equipment debt retired during the period 1941-1947, inclusive. This has reduced the total outstanding to $206,500,000. Success of the present operation will bring total retirements to roundly $128 million, a cut of close to 41% since the beginning of the war. The 1950-1955 maturities will be cut to approximately $85 million if the full amount authorized is used to acquire bonds. Moreover, with finances still strong and the earnings outlook good it is expected that this operation will not signal the end of debt retirement. All in all, it may now be confidently assumed that the road has virtually overcome the near term maturity problems.

Even more of a surprise than the action of Illinois Central was the announcement that directors of Chicago Great Western had decided to call for tenders of its income bonds. The amount of cash that would be utilized was not mentioned and will probably largely be determined by the prices at which large blocks of bonds are offered. As of the end of 1946 there were only $5,881,500 of the bonds outstanding, $296,700 having been retired previously. The bonds had been selling in the middle 50s but jumped above 60 following the announcement. Even at the higher price, however, the total market value of the issue is only about $3.6 million. In comparison net working capital is over $5 million.

One other development in the bond list was the report that Western Maryland was negotiating with certain large institutional holders of its 4s, 1952 to extend the maturity now instead of waiting until the due date. The proposal calls for increasing the coupon rate to 4¼% and extending the principal to 1972. The bonds are outstanding at $44,801,865 and it is reported that the company will go ahead with the extension if it is accepted by holders of $25 million. Settlement of the problem in this manner would exert a highly constructive influence on the road's credit standing.

Columbus Stock & Bond Club Elects Trustees

COLUMBUS, OHIO—The Columbus Stock & Bond Club has elected the following trustees: Leland Walters, Vercoe & Co.; John


Ralph Elam


Fred B. Paisley


Morgan Penn

S. Alden, The Ohio Co.; Harris Wood, Paine, Webber, Jackson & Curtis; and Ray O'Conner, Otis & Co.

In the 'Financial Chronicle" of Jan. 22, we reported the election of officers of the Association, Ralph G. Elam, Sweney, Cartwright & Co., being chosen President; Morgan C. Penn, Hayden-Miller & Co., Vice-President; and Fred B. Paisley, Freeman & Paisley, Inc., Secretary-Treasurer.

Reserve Board Sees New Curbs Needed to Combat Inflation

Leading article in January issue of "Federal Reserve Bulletin" says fiscal and monetary action to restrain further expansion of bank credit is a basic essential.

In the January issue of the "Federal Reserve Bulletin," there is a leading article, entitled "Demand, Production and Prices in 1947," which reviews the postwar inflationary pressures and concludes that further price rises may be expected unless new fiscal and monetary curbs are imposed. According to the article:

"The basic forces at home and abroad which contributed to rising prices and credit expansion in 1947 show unabated strength. Some have been accentuated by the inflationary rise in commodity markets in the second half of 1947 after a period of hesitation in the spring. In many instances prospective supplies of goods and plant capacities which would appear ample to meet market demands with a lower level of income seem inadequate to meet demands with incomes high and continuing to increase. Thus, although the physical volume of business inventory holdings increased somewhat further during 1947, although a large volume of new equipment was installed, and although dollar shortages led to many restrictions on imports from the United States, demand for goods and services continues to exceed supply. At the beginning of yet another year the country is confronted with the problem of preventing further inflationary developments and maintaining or increasing production and trade on a sustainable basis.

"The extent to which additional supplies can be relied upon to meet the problem is limited. The labor force is almost fully employed, at somewhat more than 40 hours a week, and ordinarily, except with special incentives such as those of wartime, the labor force increases at a rate of only about 1% a year. Increases in output per man-hour may be a more important factor contributing to increased output. There continue to be important shortages of capacity to meet current high demands, however, as in steel and petroleum. With the number of meat animals on farms and the supply of feed grains reduced, meat supplies are likely to be lower rather than higher. Supplies of goods from abroad can show little increase in the near future, and foreign demands are likely to be substantial, although below earlier peaks.

"Under such circumstances the importance of action to limit further increases in spending, and the amount of funds available for spending, is evident. Continued inflationary developments can lead only to severe reaction, unemployment, and financial loss later; and possible direct controls over distribution and prices are likely to be effective only if basic steps are taken to limit buying power.

"Any adequate program, it is true, must include a variety of measures designed to meet a variety of specific inflationary problems. One basic essential of any broad anti-inflationary program, however, is fiscal and monetary action to restrain the further expansion in the total volume of bank credit, since under present conditions any appreciable overall expansion can lead only to the further bidding up of prices."

Sees Bond Market Tied In with Fiscal Policy

Le Roy M. Piser, Assistant Vice-President of First Boston Corporation, says most important "unknown" in today's bond market is willingness of Federal Reserve to continue purchases of government securities and price paid. Says withdrawal of support of prices may cause business collapse and widespread cashing of savings bonds.

Developments in the bond market depend not only on what may be called the natural forces but also the policies followed by the Federal Reserve System and the Treasury, Leroy M. Pizer of The First Boston Corporation told the Municipal Forum of New York members at a luncheon meeting on Jan. 22 at the Lawyers Club, New York City. At the present time the so-called natural forces seem to point toward lower prices, Mr. Piser pointed out. The actions of the Federal Reserve System and the Treasury with respect to bond prices, however, provide a power that can in a large degree control the level of bond prices.


Le Roy M. Piser

The Treasury, Mr. Piser continued, could apply its cash surplus to the purchase of its bonds in the market instead of retiring short-term securities as they come due. This would provide, however, only a small fraction of the total power to support the bond market. Under present law with respect to gold reserve requirements, the Federal Reserve banks could increase their holdings by an additional $42 billion. This would add to the reserves of member banks and would permit member banks to purchase about $230 billion of government securities from other holders. This is far in excess of the holdings of these nonbank investors.

Although there is no question as to the Federal Reserve's power to control bond prices, the most important unknown in today's bond market is the willingness of the Federal to continue to purchase government securities and the price at which they would make these purchases. If the Federal continues to purchase government securities at the present support price, they will enable member banks to continue to make loans in large amount. As long as banks are willing to do this and as long as the Federal Reserve holds the basket, commodity prices may continue to rise.

Certain factors, however, may moderate the expansion of bank credit. These would include less willingness on the part of consumers, business, and state and local governments to continue to spend at a rapid rate or less willingness on their part to go even deeper into debt. In addition banks may be less willing to continue to make loans, because of the increasing risk as prices rise, because of the decline in their liquid position, and because of the drain that is made reserves by the Treasury cash surplus.

A lowering of the support prices would run the danger of increasing selling by present holders in order to liquidate before another possible drop in support prices. It would also run the danger of encouraging the cashing of savings bonds. Complete withdrawal of support of the market is inconceivable, because it would magnify the danger of widespread cashing of savings bonds and might well end ultimately in a collapse of business.

Mr. Piser was previously associated with the Federal Reserve Bank of New York, the Treasury Department and, for 12 years, the Board of Governors of the Federal Reserve System, serving in the capacity of Chief of the Government Securities Section.

NSTA Notes

BOND TRADERS' CLUB OF SEATTLE

At a meeting of the Bond Traders' Club of Seattle, held at the Washington Athletic Club on the 16th of January, 1948, the following were elected officers for the coming year:

John I. Rohde, President, John R. Lewis, Inc.; Richard H. Adams,


John I. Rohde


Richard H. Adams


Waldemar L. Stein

Vice-President, Conrad Bruce & Co.; W. L. Stein, Treasurer, Bramhall & Stein; Robert A. Nathane, Secretary, Merrill Lynch, Pierce Fenner & Beane.

The term of office for the above officers started as of the 16th of January, 1948, and will terminate as of the 31st of December, 1948.

Warns Credit Curbs Might Paralyze Output

John K. McKee, President of Continental Bank & Trust Company of New York, tells stockholders attempt to restrict ability to provide ample credit for sound purposes would be ineffectual in checking inflation.

In connection with the 77th Annual Meeting of Stockholders of Continental Bank & Trust Company of New York held on Jan. 21, John K. McKee, President of the Bank, made the following comments on the general business and economic situation: "The nation's production machine is geared for an output of unprecedented proportions in 1948. To operate this machine at capacity will require adequate labor raw materials and credit. The problem of producing on such a vast scale without creating further inflation constitutes a challenge to government, industry, and labor, but the objective can be accomplished if it is approached with courage, wisdom, and a real sense of responsibility by all concerned for the welfare of the country as a whole. Sound measures to combat a temporary inflationary trend are desirable, but hasty, experimental action, based on untried economic theories, could aggravate the present problem, or even produce a severe reaction in the form of a deflationary movement.


John K. McKee

"The nation's commercial banking system is as anxious as any other group to see a stable and healthy economy. But any attempt to restrict its ability to provide ample credit for sound, productive purposes would be completely ineffectual in checking inflation, especially while government lending, direct and indirect continues, and as long as the government retains and attempts to acquire additional broad powers over our economy. In fact, such action might paralyze our production machine, and its cumulative effects could set in motion a disastrous, deflationary trend."

With Walston, Hoffman

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Frank E. Smith is now with Walston, Hoffman & Goodwin, 265 Montgomery Street, members of the New York and San Francisco Stock Exchanges. He was formerly with Raggio, Reed & Co.

Joins Thomson & McKinnon

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL. — Anthony E. Palke, previously with Lamson Bros. & Co., is now associated with Thomson & McKinnon, 231 South La Salle Street.

Three With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CAL.—Terrence M. Dempsey, Gilbert F. Olson, and Carl Perry are now associated with Merrill Lynch, Pierce, Fenner & Beane, 301 Montgomery Street.

Louis J. Vetter Opens

(Special to THE FINANCIAL CHRONICLE)

SANTA BARBARA, CAL.—Louis J. Vetter has opened offices in La Arcada Building. In the past he was with C. E. Abbett & Co. and Investors Syndicate.

This is not an Offering Prospectus. The offer of this Capital Stock is made only by means of the Offering Prospectus. These securities, though registered, have not been approved or disapproved by the Securities and Exchange Commission, which does not pass on the merits of any registered securities.

NEW ISSUE January 29, 1948

2,269,050 Shares

Gulf Oil Corporation

Capital Stock

(Par Value $25)

Rights, evidenced by Subscription Warrants expiring 3 P.M., Eastern Standard Time, February 10, 1948, to subscribe for these shares at $51 per share (an aggregate of $115,721,550) on the basis of one new share for each four shares held were issued by the Corporation to its Stockholders of record at 3 P.M., Eastern Standard Time, January 27, 1948. After the expiration of the Warrants the Underwriters may publicly offer any unsold Capital Stock at a price or prices not yet determined. Issuance of Capital Stock upon the exercise of Warrants is not conditioned upon the sale of unsubscribed stock to the Underwriters.

The Subscription Warrants have been admitted to trading privileges on the New York Stock Exchange and the Capital Stock is listed on said Exchange.

The following is the Corporation's brief outline of certain information contained in the Offering Prospectus and is subject to the more detailed statements in the Offering Prospectus and the Registration Statement which include important information not outlined or indicated herein.

THE CORPORATION Gulf Oil Corporation, incorporated in Pennsylvania in 1922, and its domestic subsidiaries constitute an integrated unit in the petroleum industry, owning substantial reserves of crude petroleum which are located in Texas, Louisiana, Mississippi, California, Oklahoma, Kansas, New Mexico and in other states. A wholly owned subsidiary of the Corporation owns petroleum concessions in Venezuela and a wholly owned subsidiary has a 50% interest in Kuwait Oil Company Limited which owns a concession in Kuwait on the northwest corner of the Persian Gulf. DeGolyer and MacNaughton, oil experts, have given their opinion that reasonable estimates of reserves of crude oil and condensate of the Corporation and its subsidiaries, considered proved as of January 1, 1948, are 1,100,000,000 barrels in the United States and 575,000,000 barrels in Venezuela, and a reasonable estimate of the reserves applicable to the Corporation's interest in Kuwait Oil Company Limited, considered proved as of such date, is 5,138,000,000 barrels.

The Corporation and certain subsidiaries own crude oil refineries and natural gasoline plants, pipe lines, tank cars, tankers and other marine equipment and in addition have marketing outlets and equipment in thirty-one States and the District of Columbia in the United States and, through foreign subsidiaries, in many European and other countries.

CAPITALIZATION The outstanding funded debt of the Corporation at December 31, 1947 consisted of $84,000,000 of 1½% and 1¾% Notes payable to banks due in 1949, a $3,000,000 Installment Note, 2⅜%, due in 1948, held by a wholly-owned subsidiary, and a $100,000,000 Installment Note, 2½%, payable to an insurance company due in annual installments from 1953 to 1972, inclusive.

The Capital Stock of the Corporation consists solely of Capital Stock, par value $25, of which 12,000,000 shares are authorized and 11,345,250 shares will be outstanding after the sale of the 2,269,050 shares covered by the Offering Prospectus. The Capital Stock has one vote per share, has cumulative voting rights in the election of directors and is non-assessable.

EARNINGS The following summary of earnings of the Corporation and consolidated subsidiaries has been reviewed by Price, Waterhouse & Co., independent public accountants, and should be considered in conjunction with the summary of earnings and the financial statements together with the notes appended thereto in the Offering Prospectus.

Year Ended Dec. 31	Gross Operating Income	Costs, Operating and General Expenses, Including Depreciation and Depletion	Other Income	Income Deductions	Income Before Provision for Income Taxes	Income Taxes Federal	Income Taxes Other	Net Income
1937	$255,395,000	$227,437,000	$6,319,000	$6,565,000	$27,712,000	$1,309,000	$248,000	$26,155,000
1938	241,336,000	228,977,000	3,719,000	3,363,000	12,715,000	1,917,000	314,000	10,484,000
1939	254,846,000	240,288,000	3,974,000	3,964,000	14,568,000	1,894,000	141,000	12,533,000
1940	273,078,000	249,448,000	5,176,000	2,903,000	25,903,000	3,548,000	205,000	22,150,000
1941	337,800,000	294,211,000	4,784,000	6,064,000	42,309,000	8,232,000	508,000	33,569,000
1942	349,940,000	316,649,000	4,885,000	7,544,000	30,632,000	7,425,000	226,000	22,981,000
1943	405,565,000	360,695,000	7,672,000	9,468,000	43,074,000	12,797,000	694,000	29,583,000
1944	482,862,000	417,839,000	5,633,000	18,465,000	52,191,000	6,363,000	2,025,000	43,803,000
1945	504,693,000	441,786,000	6,132,000	17,782,000	51,257,000	2,000,000	6,053,000	43,204,000
1946	562,241,000	479,384,000	8,825,000	14,626,000	77,056,000	12,300,000	6,471,000	58,285,000
Nine Months Ended Sept. 30, 1947	561,500,000	468,195,000	6,619,000	13,548,000	86,376,000	13,800,000	6,864,000	65,712,000

DIVIDENDS The Corporation has paid dividends in each year since 1922 except in the years 1932 to 1935, inclusive, such dividends aggregating $2.75 per share in 1947. A quarterly dividend of 75¢ per share was paid January 2, 1948.

PURPOSE OF ISSUE The purpose of the issue is to raise additional capital funds to be added to the general funds of the Corporation. Included in the uses to which funds may be applied are the acquisition and development of production properties and the expansion of refining, transportation and marketing facilities.

UNDERWRITING While no firm commitment to purchase the unsubscribed shares has been made, the several Underwriters have agreed, subject to certain conditions, to purchase from the Corporation at $51 per share such of the shares of Capital Stock as are not purchased upon exercise of the Warrants. Thus the net cash proceeds to the Corporation from all the shares offered will be $115,721,550 before deducting expenses of the Corporation and underwriting commissions. The aggregate underwriting commissions will be $2,603,735. The Underwriters have no option to purchase less than all the unsubscribed shares. With respect to sales set forth above the Underwriters may realize profits or losses independent of the foregoing underwriting commissions.

Prior to the expiration of the Warrants, the Underwriters will offer Capital Stock, purchased or to be purchased by them, at an offering price which shall be no more than the last sale price of the Stock on the New York Stock Exchange in the last preceding 24-hour period nor less than $51 per share. The offering price may be varied each 24-hour period but, it is intended, shall not be varied within any such period except that it may be reduced. Such sales may include sales to dealers at the offering price less a concession of $1.00 per share or such other concession as may be determined as set forth in the Offering Prospectus. In connection with such offering reference is directed to "Arrangements Regarding Certain Warrants," in the Offering Prospectus for information regarding certain Warrants to be made available for purchase by the Underwriters.

In accordance with the foregoing the several Underwriters offer 1,213,443 shares of the Capital Stock at the price of

$59 per Share

subject to change without notice.

IN CONNECTION WITH THIS OFFERING, THE UNDERWRITERS MAY EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE CAPITAL STOCK AND SUBSCRIPTION WARRANTS OF THE CORPORATION AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH TRANSACTIONS MAY BE EFFECTED ON THE NEW YORK STOCK EXCHANGE AND IN RESPECT OF CAPITAL STOCK IN THE OVER-THE-COUNTER MARKET. ANY SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Further information, particularly financial information, is contained in the Registration Statement on file with the Commission, and in a more complete Prospectus which must be furnished to each purchaser and is obtainable from only such of the several Underwriters, including the undersigned, as may legally offer these securities in compliance with the securities laws of the respective States.

The First Boston Corporation

Blyth & Co., Inc. **Eastman, Dillon & Co.** **Glore, Forgan & Co.**

Goldman, Sachs & Co. **Harriman Ripley & Co.** Incorporated **Kidder, Peabody & Co.** **Lazard Frères & Co.**

Lehman Brothers **Merrill Lynch, Pierce, Fenner & Beane** **Smith, Barney & Co.**

Stone & Webster Securities Corporation **Union Securities Corporation**

Taxes—Their Influence On Venture Capital

By LAMMOT du PONT*

Formerly, Chairman of Board, E. I. du Pont de Nemours & Co.

Prominent industrialist explains effects of high taxes in causing shifts from investment in risk ventures to safe and riskless investments. Illustrates point by reference to odds that would be assumed by gambler in his operations; the greater these odds the less gambling. Concludes private enterprise cannot prosper as tax rates are too high, and though it is practically impossible to calculate maximum tax rate that does not stifle risk investment, he fixes it at 25%.

I am neither a tax expert nor economist. What I say is merely a statement of what seem to be relevant facts and appropriate deductions or reasonings therefrom, which, to me, seem sound and logical. Perhaps they will not so appeal to you. When I speak of taxes I refer to the graduated income taxes on personal incomes under the present scale of Federal taxes, running up to a maximum of 86½%. This, without including any state or other income taxes.

Photo by Wm. Shewell Ellis Studios
Lammot du Pont

When I speak of "venture" capital or "risk" capital, I mean capital invested in business enterprise in the hope and expectation of obtaining a more or less permanent income as distinguished from a capital gain, and when the possibilities of obtaining the expected income are quite uncertain and variable between wide limits. When making such investment there is always a good chance of missing the expected income, and also of not even getting back the capital. The enterprise may fail.

Interest capital is capital invested to secure rate of return expected by current interest rates at the time; the risk being small or nil, and the return of capital eventually being practically sure.

Obviously, the risk investor does not make a risky investment unless the expected rate of return is far greater than the mere interest rate; otherwise, there would be no justification for assuming the risk.

Now, consider an example:

An investor has an opportunity to invest $10,000 in a project which he thinks has an even chance of yielding him an income of $1,200 per annum (12%). The probability of a higher or a lower yield is about equal. If his top income tax bracket is 50%, his return after taxes, will be only 6% and he may very well say to himself: "I won't do it—I'll buy a mortgage or a seasoned common stock that will yield no more than that much, but will be practically free from risk."

If his top income tax bracket is 20%, he can figure on a yield after taxes, of 9.6% (that is 80% of 12%), and the investment will look good to him.

If his top bracket is 86½%, he can figure on a yield, after taxes, of only 1.62% (13½% of 12%) and he would consider himself a fool to make the investment instead of buying a tax-free bond, which will yield him 2% or even 3%.

You may wonder why I use in each case the top tax bracket of the investor, rather than the average rate of tax paid by him. The reason is, of course, clear. The investment the individual proposes to make is in addition to investments already made or held. The income from such new investment will, of course, be added to what he already has.

Now, consider another example:

When the Investor Takes a Chance

The opportunity looks like a long chance; it appears to have only one chance in 10 of working out; but if it does work out, it will yield 120% annually. The investor may properly figure that if he made hundreds or thousands of such investments of $10,000 each that 90% would fail and 10% would work out satisfactorily. That would mean that, on the average, the ventures would yield 1/10 of 120% or 12%, as in example one; hence the reasoning which I have attributed to the investor in example two and would be applicable to the investor in example one, as a result, he could not possibly justify the investment if he was in the 86½% top bracket.

The chances of a business venture being successful and the yield of earnings, if successful, cannot be calculated accurately, as I have assumed in these examples, yet the speculative investor must make a mental effort to approximately estimate the results—and he does, perhaps unconsciously, but there is another factor that comes in—an element of human nature. Men are natural gamblers—men all like to take a chance in hope of winning; and that human trait will cause an investor to take a chance even if he knows the odds are against him but not if the odds are heavily against him and if the amount at risk is large. I will come to the evidence of that later.

With millions of risk investors and millions of opportunities for risk investment—just consider that there are over 1,000 stocks listed on the stock exchanges and that any investor may buy any one or more of those stocks on any working day of the year, so that there are literally billions of opportunities for an individual investment in a year, without considering at all efforts in individual private enterprise.

You may think that purchase of a listed stock is not a real investment from the standpoint of the national economy, because someone must sell it to you, so that the transaction is merely a transfer from one hand to another, but the effect is the same as though it were a new investment, for he who gets your money must invest it himself. If he buys a listed stock, and millions of others do the same, they push up the market prices, and so reduce the yield, and continually press the investment of funds into other ventures that give better promise of yield.

Diminishing Returns and Tax Rates

With all the maze of investors, investment opportunities and the complication of thinking of individuals, it would seem impossible by calculation or by any sort of poll to even approximate the controlling figures of return—the exact point of diminishing return:

(Continued on page 39)

*An address by Mr. du Pont at the Forum of the Investors League, Inc., Philadelphia, Pa., Jan. 29, 1948.

Morgan Stanley Group Places Bendix Stock

Morgan Stanley & Co. headed a nationwide group of underwriters that on Jan. 27 offered publicly 399,990 shares of Bendix Aviation Corp. common stock, par value $5 a share, at $28 a share. The stock represents holdings of General Motors Corp. in Bendix Aviation. Bendix Aviation Corp. will receive no part of the proceeds from the sale. The issue was oversubscribed.

The 399,990 shares, which amount to 18.9% of the 2,117,453 outstanding common shares, are the remainder of 500,000 shares acquired by General Motors in 1929 when Bendix Aviation was organized as a Delaware corporation.

The decision by General Motors to dispose of all its holdings of Bendix Aviation common stock reflects the conclusion by General Motors that complete acquisition of Bendix Aviation, as considered from time to time since 1929, does not seem feasible. Bendix Aviation Corp. for many years has sold various of its products in substantial quantities to General Motors Corp. These commercial relationships have been on a business basis not affected by General Motors Corp. stock interest in Bendix Aviation Corp., and have been substantially similar to the commercial relationships between General Motors Corp. and other important parts suppliers.

Bendix Aviation is engaged principally in the manufacture and sale of various lines of automotive, aviation, radio, marine and sundry products, many of which are designed to be incorporated in the finished products of other manufacturers. Automotive sales accounted for about 38% of total volume in the year ended Sept. 30, 1947, aviation sales accounted for another 38%, with sundry products making up the remaining 24%. This contrasts with the 1935-1939 period when automotive sales comprised about 64% of the total, aviation about 31%, and other products only about 5%, and with the most active period of war production when aviation products accounted for approximately 82% of total sales. The corporation has 11 plants in the United States, the largest of which is in South Bend, Ind.

Bendix Aviation's outstanding capitalization is comprised solely of 2,117,453 shares of common stock. This stock is listed on the New York Stock Exchange and the Chicago Stock Exchange.

Caswell & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Thomas W. Ryan has become associated with Caswell & Co., 120 South La Salle Street. In the past he was with Foster & Marshall in Seattle.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

BLOOMINGTON, ILL.—Harold P. Gardner has become connected with Herrick, Waddell & Co., Inc., of New York.

Kidder, Peabody & Co. Adds

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL. — Helen K. Callahan has joined the staff of Kidder, Peabody & Co., 135 South La Salle Street.

With Merrill Lynch Co.

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL. — Robert A. Sigg is now with Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building.

The ERP—A New Adventure In Peace

By BERNARD M. BARUCH*

Former presidential adviser, though asserting European recovery program is in interest of world peace, holds it can be carried out only if European people are prepared to aid, and it is done well. Sees dual aspect in European crisis as it affects foreign and domestic policy, and recommends among other things: (1) U. S. buy all non-perishable foreign raw materials; (2) extension of President's tariff authority; (3) a political and economic union of European countries, guaranteed by U. S. and other nations; (4) European organization to liberate every productive resource; and (5) stabilization of currencies. Proposes also domestic reform policy, with lower food prices and an excess profits tax at 50% of war rate.

It is an honor to be asked to appear before this Committee whose distinguished Chairman and Vice-Chairman, as well as other of its members, have rendered such invaluable service to the nation over so many trying years. Yours is one the most momentous decisions in the history of America, indeed of the world. We—you—are writing what history may record as a fateful chapter in the awful story of the incredible follies of mankind which destroyed earlier civilizations—civilizations which seemed as sturdy as ours does now. Or—we are writing what may prove the beginning of a new adventure in peace, never before attained.

Bernard M. Baruch

Should we help Europe and the world recover? There is almost a unanimity of opinion, in which I join, that it is in our interest—in the interest of world peace—to do so.

Can it be done without wrecking ourselves? Yes, but only if the European peoples will help themselves and if the American people are prepared to do what needs to be done.

Do It—Or Don't

We cannot do a thing and not do it at the same time. If we are to undertake a European Recovery Program, let us do it well. Doing it well involves far more than merely appropriating money, however many billions. It means organizing the job soundly and administering it skillfully. It also means that each of us—not just the Treasury—must contribute what is required in moderation, self-restraint and, if necessary, sacrifice, so as to be sure to see it through.

Dual Nature of Crisis

By itself this legislation cannot bring peace. It is a beginning, not the end. If its objectives are to be realized, it must be accompanied by two further actions—we must stabilize America for peace; we must develop a global strategy for American peace-making.

This morning, I would like to address myself particularly to this dual aspect of the crisis we face—how inseparably joined are foreign and domestic policy, like Siamese twins.

All-Out Peace Drive

The foundations of economic stability in the world without which peace must continue to elude us—can be brought into existence inside of two years, through an all-out production drive here and in the rest of the world. If, from today until Dec. 31, 1949, we produced for peace as we produced for war—all-out—without interruptions, strikes, lockouts, or profit scrambling—mankind's whole lot and outlook would be magically lifted.

Work — Production — Thrift — they made America. They can now save the world. I would like less emphasis in this program on the mere giving of money and more on rewarding greater production.

What Is the Future Worth?

Although sorely wanted, bread alone is not what Europe needs. Europe must also have faith, something to believe in. Only the United States can fill the vacuum of hope and courage, which sucks men down. We must, above all, make the future worth working for. This requires a bold resolute, concerted attack against the clawing fears of inflation and of another war.

To this end, I reccommend:

(1) The United States stand ready to buy all non-perishable raw materials produced anywhere and by anyone in the world for the next five years, and which cannot find normal commercial markets: minerals, metals and ores, both crude and refined; jute; sisal; etc.; yes, even wool and cotton. Also up to 750,000 tons of crude rubber. This should be made part of the European recovery legislation.

(2) Extend the President's present tariff authority for the next three years.

(3) That the countries of Europe—as many as are willing—band themselves into a political, economic and defense union under the United Nations. This would include the lowering of trade barriers among them.

(4) That the United States, and such others as will join us, mutually guarantee the nations entering this union against aggression. By guarantee I mean a firm promise to go to war in joint defense if any of them are attacked.

(5) That the European nations organize to liberate and use every productive resource of the continent, with those of the the Ruhr regulated under priorities and international control so as to protect the peaceful interests of Germany's neighbors.

(6) Stabilize all European currencies and establish realistic rates of exchange.

(7) A two-year peace production drive in this country—to work for peace as we worked for war—where feasible, with longer hours and overtime; where not, to smash production bottlenecks.

(8) As part of this work-for-peace drive, an across-the-nation anti-inflation program to stabilize for peace, including:

(a) Reduction of major food and agricultural prices in exchange for guaranteeing farmers an assured price for their crops for the next three years, with ample soil conservation.

(b) In return for this rollback, stabilization of wages.

(c) Restoration of the excess profits tax by 50% of the cut

(Continued on page 31)

*Statement of Mr. Baruch before the Senate Committee on Foreign Relations, Washington, D. C., Jan. 19, 1948.

The Marshall Plan—Operation Rat Hole?

By HON. C. WAYLAND BROOKS*
U. S. Senator from Illinois

Senator Brooks attacks Marshall Plan as increasing average family tax burden by $500, as causing still higher prices and higher wages, and as leading to rationing, price controls and regimentation. Says unless European countries change their socialistic plans and programs and go to work to produce, aiding them will be an "Operation Rat Hole" and as result we will "follow them instead of lead them." Says taxpayers' money will not save Europe.

The so-called Marshall Plan was no plan at all. It was an idea expressed in a speech delivered by Secretary Marshall on June 5, 1947, at Harvard, suggesting that Western European nations get together, formulate a program to help themselves and tell the taxpayers of the United States how much they should supply to carry out their ideas.


Sen. C. W. Brooks

Foreign Secretary Ernest Bevin of Great Britain grabbed the idea with enthusiasm. His socialist government had just dissipated in one year almost all of the $3,750,000,000 (gift—called a loan) that was provided for five years' necessities.

He called together 16 nations in Paris and they presented us with their "program." They estimated the imports they wished to have for four years, then subtracted the exports that they thought they could ship and presented us the estimated bill for the difference. This bill amounted to $22 billion. The Truman experts present a figure of $17 billion, but that does not include the $800 million we must pay annually to feed the German population in the American zone, nor the $500 million we must pay annually to feed those in the British zone when we take over the British obligations there, nor does it include any money to be spent in China or Asia.

What It Means

This means several things:

(1) It means that each average American family would have to increase its already heavy tax payment by $500.

(2) It means higher prices for everything we buy in America, for these billions of dollars will find their way back to compete with the American taxpayers for wheat, food, scrap iron, farm machinery, fertilizer, transportation and mining equipment and many other articles and raw materials already in short supply.

(3) It means that higher prices and higher taxes will cause wage increases and still higher prices.

(4) It means greater shortages and rationing, price controls, and further allocation and regimentation.

The President has already asked for unlimited authority to re-establish rationing and price controls in "selective" forms. Make no mistake about it—when controls, rationing and price-fixing go on again in peacetime, they will never come off. We still live under the New Deal administration that has created and will create emergency after emergency that will call for ever greater government control of the lives of the free American citizens.

Under the Truman administration in 1947, we exported goods and services out of America at the rate of $19 billion. We imported into America goods and services at the rate of only $8 billion.

That excessive export of $11 billion has greatly increased the cost of our food, clothing and everything we had to buy in 1947.

Every time the government announced a large figure of export of wheat, the price of wheat went up. This affected the price of the whole food bill in America. It did the same with farm machinery which again increased the cost of food.

The American people have been and are still the most charitable people on earth. But we are only 7% of the world's people; we occupy only 7% of the earth's surface and in our bumper years we only produce 12% of the world's food supply. We are already carrying the largest national debt ever carried by any people in history. The average citizen is now working three days out of every ten to pay his taxes and working the other seven days to pay the ever-increasing cost of living. This means less every year for civic, charity or church contributions on the part of our average American citizen. This heavy burden is carried not only to support our own government, but to support socialist governments abroad who foster and follow policies of price-fixing, rationing, regulation, restrictions, unbalanced budgets and false values of currency.

How Plan Was Drafted

Not only did Secretary Marshall not draft the original plan. He did not draft the bill which was presented to Congress and the American people with his abrupt ultimatum that we "either undertake to meet the requirements of the problem or don't undertake it at all." The European Plan was drafted by 16 European countries and the bill was drafted by 14 government lawyers, representing as many different government bureaus.

If we turn $17 billion of American taxpayers' money over to the 16 European countries and 14 government bureaus, it will no doubt be dissipated the same as the $3.75 billion given to Great Britain to help subsidize their socialistic governmental practices.

I am not sure that any of the drafters of this legislation ever made any substantial contribution to the free enterprise system of production in America. Too often these government bureaus seem to enjoy the dissipation of American wealth and substance which gives rise to further governmental control and regulation by these bureaus themselves.

There is altogether too much talk today in America about needing a "third force" in Europe that is half way between the totalitarian system of Russia and the free enterprise system of America. These left-wing socialist sympathizers call this new "third force" the "democratic socialism."

To support such a system in Europe means constant contributions from the free enterprise system of America to make up the continuing yearly deficits of these European countries while they foster and follow policies and practices that will make it an endless and futile program. To follow this policy further means higher prices, constant scarcities, permanent controls, loss of liberty and bankruptcy for America.

America wants to help those who love liberty and those who will work to help themselves. Europe needs leadership in incentive to work and produce above all else.

We can help them, but any help we provide should be intelligently directed to produce food, coal, steel and transportation. These are the four basic products from which all other production will follow. Everything we provide will be gifts, for none of these nations can pay back any substantial amounts any more than they could pay back after the First World War. Nor can England ever repay the $3.75 billion of American taxpayers' money they spent in the last year.

Whatever we give them should be administered to create work and production by a separate organization manned by American experts now employed in American labor, agriculture and industry, and not be administered by political hangers-on in government departments or bureaus.

The State Department or the Military are neither equipped nor qualified to handle such a task. The State Department and our Military stood startled, stunned and confused when we were struck at Pearl Harbor. Then we called in the leaders and experts of American labor, agriculture and industry to produce the weapons, food and materials essential to bring our enemies to their knees. It was a major operation.

The problem of creating incentive, work and production in Western Europe is another major operation. Unless they change their socialistic plans and programs, unless they go to work and produce themselves, everything we provide for them will be "Operation Rat Hole." No matter what we give them it will mean higher prices, higher taxes and will lower the standard of living of the already over-taxed average citizen in America.

While we want to continue to be helpful and generous, we must not pile the mistake of tomorrow upon the mistake of yesterday. If we do, we shall be drawn down to the depths of despair of Europe, instead of helping her peoples to rise by their own hard work and intelligent production.

We must stop subsidizing socialist governments abroad, whether we call it charity, economic loans, political loans, an effort to stop communism or a guarantee of future peace.

The American taxpayers' money will not save Europe. Work and production are the only sound bulwark against the misery of communism.

We have no right to vote away the freedoms of the American people. We have no right to vote to export American money or goods in short supply, unless it is administered by patriotic American experts now engaged in American free enterprise, in labor, agriculture and industry, who can meet this challenge to lead and direct the plants and skilled workers of Europe to produce far more than they did before the war. This is the only hope of saving them. It is the only hope of getting them off the backs of the American taxpayers. It is the only hope of effectively suppressing communism. It is the only sure road to recovery and peace.

To blindly adopt the so-called Marshall plan and continue to subsidize socialist governments with bad politics and practices that make them too weak for war or peace is folly. It will surely mean that we will follow them instead of leading them. It will mean that we will lose our domestic freedom. It will mean that we will be bound by the chains of controls that will strangle and stifle our own production until we will be too weak to save them or ourselves.

*An address by Senator Brooks before the 293rd Regular Meeting of the National Industrial Conference Board, New York City, Jan. 22, 1948.

NASD District 8 Elects New Officers

CHICAGO, ILL.—At the first meeting of District Committee No. 8 of the National Association of Securities Dealers, Inc., in 1948, held on Friday, Jan. 15, at the Association offices in Chicago, Howard E. Buhse, Partner of Hornblower & Weeks, Chicago, was elected Chairman to succeed Paul E. Alm of Chicago. Milton A. Manley, Partner of M. A. Manley & Co., Detroit, was elected Vice-Chairman to succeed Duncan M. Rowles of Chicago. John F. Brady was reelected Secretary.

New members of the District Committee assuming office in 1948 are (terms three years):

William C. Gibson, W. C. Gibson & Co., Chicago Ill.; John M. Douglas, John M. Douglas & Company, Inc., Omaha, Neb.; Michael D. Dearth, McCrary, Dearth & Co., Inc., Des Moines, Iowa; Lee R. Ostrander, William Blair & Company, Chicago, Ill.; Frank L. Reissner, Indianapolis Bond and Share Corporation, Indianapolis, Indiana.

Mr. Dearth was elected to complete the unexpired portion of a term to expire January 1950.

The following have completed their terms on District Committee No. 8:

Paul E. Alm, C. L. Schmidt & Co., Inc., Chicago, Ill.; James F. McCloud, Kirkpatrick-Pettis Company, Omaha, Neb.; Duncan M. Rowles, Harris, Hall & Company, Chicago, Ill.; Cecil W. Weathers, City Securities Corporation, Indianapolis, Ind.

District No. 8 of the Association comprises the states of Illinois, Indiana, Iowa, Michigan, Nebraska and Wisconsin.

Mutual Funds

By HENRY HUNT

Primer on Mutual Funds

Despite the rapid growth of the mutual fund business in recent years, it is probably a fact that not one person in a hundred outside of the financial business has ever even heard of a mutual fund. Furthermore, even among people in the financial business, we doubt if more than one in 10 could give you a clear picture of what a mutual fund is. Just the other day we were talking to a partner of a Stock Exchange firm who has been doing business with one of the leading mutual fund sponsors for years and twice during our conversation he referred to the offerings of this sponsor as "fixed trusts." This situation is due in part to advertising restrictions placed on the business by the Investment Company Act of 1940. Hence, without wishing to appear presumptuous in a publication of this character, we are going to list a few elementary definitions and facts about mutual funds.

(1) A mutual fund, also known as an open-end or Boston type trust, may be defined as the pooling of capital by thousands of investors, both large and small, under the management of professional securities analysts.

(2) A mutual fund enables the average investor to obtain economically the same type of investment supervision as the man of wealth can secure from a large trust company or investment counsel firm.

(3) Unlike closed-end investment companies, leading mutual funds can always be liquidated at approximately asset value, or, additional shares can be purchased at asset value plus a distribution charge.

(4) The term mutual fund was adopted in the early '30s to get away from the stigma attached at that time to the name "investment trust."

(5) Mutual funds represent the third step in the evolution of the American investment company.

(6) The first step was the formation in the '20s of closed-end investment trusts, many of which suffered from management abuses as well as the shock of the market decline during the 1929-'32 break in stock prices.

(7) Fixed trusts, popular in 1930-'31-'32, proved that rigid restrictions do more harm than good.

(8) Although mutual funds trace their origin, if not their name, back to 1924, their greatest growth has been during the past decade.

(9) Today, mutual funds have some 670,000 shareholders and net assets of more than $1,400,000,000, as compared with assets of about $800,000,000 for closed-end trusts.

It is to be hoped that eventually, possibly through the National Association of Investment Companies, nation wide advertising campaigns will make the term "mutual funds" as familiar as "savings banks" to the American people.

'47 vs. '48

The following paragraphs are excerpts from **Calvin Bullock's** January issue of "Perspective":

"A year ago in discussing the outlook for **1947**, we noted that the greatest element of strength in the business picture lay in the extreme ease of credit. The same statement cannot be made today. The intervening 12 month period has witnessed a marked deterioration in our credit structure which has manifested itself in a drying up of the new capital market, and a serious decline in the price of high grade fixed income securities.

"Despite the record-breaking level of business activity prevailing at the year-end, there are too many potentially unfavorable factors to permit us to view the prospects for 1948 with equanimity. Among the more important factors contributing to the extraordinary level of business in 1947 were the export boom, the insatiable demand for consumer durable goods and the sustained high level of capital expenditures. It is improbable to expect these factors to continue to operate at their present pace during 1948.

"With respect to the stock market, we believe that 1948 will be another year in which selection will prove to be of more than usual importance. With regard to the market as a whole, we do not consider it vulnerable to any substantial decline, inasmuch as stocks by their extremely low price-earnings ratios are already discounting a substantial decline in corporate earnings. Moreover there are certain potentially constructive factors in the outlook such as a probable reduction in individual income taxes which will add to consumer purchasing power, and the strengthening factor of a stabilization of long-term interest rates. Nor despite the unfavorable factors outlined above, do we consider that a severe depression can occur in the face of a well sustained level of purchasing power and a substantial unsatisfied need for major capital goods—housing and automobiles. Rather we envisage on a broadening scale a readjustment albeit painful in certain cases, to more normal competitive conditions, provided that we do not tinker with large-scale deflationary credit measures."

New High for Genus Homo

According to **George Putnam's** "The Prudent Investor" "It all depends upon the period in which you studied your chemistry—but the material worth of the human body in recent years has ranged, according to chemists' figures, from approximately 63c to a prewar 98c. Not so today . . . inflation has really upped the price of what your favorite mystery story refers to as the corpus delicti. According to recent computations the postwar human body is now worth $31 . . . due to huge increases in the value of what previously were almost worthless chemicals."

Shades of Oscar Wilde

The following story was culled from the Nantucket "Inquirer and Mirror," the "largest" newspaper in the world. Believe it or not, opened up it is nearly four feet wide.

"A patronizing young lord was seated opposite a famous scientist at a dinner one evening not long ago. During a lull in the conversation, he adjusted his monocle, and leaned toward the scholar.

"'Aw y'know, Mr. Jones,' he drawled, 'I passed your house this mawning.'

"'Thank you,' said Jones, quietly. 'Thank you very much.'"

Notes:

National Securities & Research Corporation has substituted aircraft manufacturing stocks for household and office equipment issues in its Selected Groups Series.

If every shareholder of **Manhattan Bond Fund, Inc.** were to attend the annual meeting of shareholders of the Fund, over 600, or one out of every 25, would be present as a representative of an institution, corporation or other large organization or as trustee, guardian, or manager of an estate.

Wellington Fund showed a sharp increase in assets during the calendar year 1947, the year-end figure being $48,908,000, up 34% during the preceding 12 months.

Although the stock market as measured by the "Dow" was slightly lower on Dec. 31, 1947 than on March 31, 1937, $1,000 invested in **National Investors Corporation** on the latter date was worth $1,346 including payments from security profits at the 1947 year-end.

The French Franc Devalued

Rene Mayer, French Finance Minister, issues communique placing official rate of French franc at slightly more than 214 to dollar, compared with previous 119. Permits a free internal exchange rate with dollar and free gold market. Britain objected to move, but promises cooperation, and Camille Gutt, Managing Director of International Monetary Fund, releases statement deploring action as violation of France's pledges as member of that organization.

On Jan. 25, Rene Mayer, Finance Minister of the present French Government, issued a formal statement in which he announced the reduction in the official exchange rate of the franc from 119 to 214.392 to the dollar. The announcement was not a surprise, since devaluation had been under consideration for some time and only last week Sir Stafford Cripps, British Chancellor of the Exchequer, made a trip to Paris for the purpose of persuading the French Government from taking drastic action, such as might endanger the present international exchange position of the pound sterling. At the same time, Camille Gutt, Managing Director of the International Monetary Fund, of which France is a charter member, and from which it has received help, warned the French Government that a drastic devaluation of French currency, without authority from the Fund, was a violation of the Fund's statutes, adherence to which France had pledged itself.

Rene Mayer

A translation of the French communique (as reported by the Associated Press), together with the text of the Anglo-French statement on the devaluation and the statement of Mr. Gutt, of the International Monetary Fund, are given below in order:

French Communique on the Franc

The Government, at the time it took office, assigned itself the task of stabilizing the French economy. The result could be achieved only by putting into operation an over-all program consisting, in the domestic field, of combating inflation, and, in the foreign field, of provisions tending to adapt the value of the franc to international economic realities.

In having its fiscal and budgetary bills adopted by Parliament, the Government demonstrated its will to fulfill the first part of its program. It now remained to make the necessary arrangements in the foreign field.

In this regard, an adjustment of the exchange rates was manifestly necessary, to take account of the rise in French prices. The question was one of deciding whether it was better to proceed to a pure and simple devaluation of our currency, or, on the other hand, to have recourse to a more supple formula, better adapted to the circumstances.

In the present state of French economy, it appeared impossible to the Government to define a new exchange rate satisfactory for all transactions abroad, commercial or non-commercial.

In seeking prematurely to give such a definition of the franc it would have run the following risk: Either the devaluation would have been insufficient, and would not have achieved its purpose; or it would have been too great and would have inflicted an excessive rise in prices and impoverishment of the French economy.

It therefore is necessary to pass through a transition period during which at least part of the offers and bids of convertible assets can balance each other in a market where rates are established freely.

The Government's final aim, of course, is to return as quickly as possible to stability—but to a real and lasting stability, not to an artificially and purely apparent stability.

It knows that the policy it is following is the best means—considering the difficulties our economy is going through at the moment—of attaining this aim and, in consequence of aiding in the realization of the objectives adopted by the International Monetary Fund.

For arriving at these ends, the Government refers to the provisions that were inserted in the Bretton Woods Agreements for the transitional postwar period on behalf of member states whose territories were occupied.

The Government knows, furthermore, that it is not compromising or hindering through its action the efforts that other countries may make in the same direction while employing different means suitable to their own circumstances.

It regrets that the International Monetary Fund, although approving certain important parts of the plan, did not consider itself able to accept it in entirety.

The Government stands ready, through the adoption of technical provisions and coordinated procedures of control, to take into consideration the concern that is measures might cause to countries with convertible currency, and more especially to our neighbors in Europe.

The Government is convinced that in taking the stand it is adopting today, and in thus preparing the stabilization of French economy, it is making the best possible contribution to the reconstruction of Western Europe, in conformity with the report of the 16 nations.

Such were the circumstances in which the following decisions have been decreed:

(1) The rates at which the Exchange Stabilization Fund buys or sells moneys against francs are increased by a bonus starting Jan. 26, 1948. The bonus applies to all transactions and is uniform for all moneys. Its amount is established at 80% of the rates practiced hitherto.

The new franc rates thereby come out to 214.392 for one dollar and 864 francs for one pound sterling.

The parities of the homeland franc with the other currencies of the franc zone are not modified except as regards the franc of the French territories of the Pacific as well as the French rupee. Their rate in relation to the dollar and the pound sterling remains unchanged.

(2) There will be created immediately, beside the official market, a free market on which the United States dollar and the Portuguese escudo can be quoted.

The features of the free market will be as follows:

(a) The market will be supplied:

By half of the proceeds of the exports, the other half being ceded to the Exchange Stabilization Fund on the basis of the latter's rates:

By all moneys having a different origin, notably moneys acquired from non-commercial payments, moneys corresponding to movements of capital into France from abroad, moneys paid by foreign tourists.

(b) The resources of the market will be employable:

To pay for imports of commodities, to the exclusion of some categories deemed essential, to pay for which the Exchange Stabilization Fund will continue to deliver currency at the rates it practices;

For all other payments or movements of capital from France abroad to the exclusion of certain payments by the state.

(c) The market thus defined will be a free market, in the sense that the currencies dealt with thereon will be established freely by the play of offer and demand.

The monetary authorities shall see to it only, first, that all currency that is to be turned over to them is indeed turned over; second, that no purchases be made except those conforming to the regulations authorized by the Exchange Office under the usual conditions—that is to say, as regards imports, only upon delivery of licenses.

The "Journal Officiel" will publish a notice on Jan. 26 by the Exchange Office detailing the provisions of application of the new system.

Joint Anglo-French Statement

Mr. Rene Mayer, Minister of Finance, exchanged views in London on the 16th and 17th of January with the Chancellor of the Exchequer about the monetary project of the French Government.

These conversations were continued in the course of the visit which Sir Stafford Cripps made to Paris on the 23rd and 24th of January. Although the points of view of the two Governments on the method to be adopted in this matter did not coincide, the conversations which took place both in London and Paris have made clear the frank and intimate character of relations existing between the two countries.

The French Government have presented their proposals to the International Monetary Fund at Washington.

They have explained that the solution chosen by them is the only one capable of meeting the exigencies of the economic situation. It does not constitute in its intention the permanent monetary system of France, but a step toward the stabilization of the currency on the basis of a single exchange rate, which is the object of the financial and economic policy of the Government.

On the British side, objections of the same character as those put forward by the Chancellor of the Exchequer have been presented to the Fund. The International Monetary Fund has today published a statement on this subject, of which the two Governments have taken note.

The United Kingdom Government associated itself with the statement by the International Monetary Fund.

Whatever the differences between the French and British point of view in this matter, the two Governments wish to continue their close cooperation in order to insure that any measure which may be considered necessary in these new circumstances will have only a minimum repercussion on the commercial relation between the sterling and the franc areas.

The two Governments have the same objects in view. In this spirit of mutual comprehension, close cooperation between the technical services of the two countries has been decided upon and will begin at once.

Statement of Camille Gutt of Monetary Fund

The French Government has engaged in full and frank consultations with the International Monetary Fund regarding a plan for exchange adjustment, which would require the approval of the Fund.

The essential features of the plan were the following:

The par value of the French franc would be reduced by 44.444%, which would result in a change in the rate from approximately 119 francs per United States dollar to approximately 214.

At the same time, a discriminatory multiple-currency practice would be introduced, whereby United States dollars and certain other currencies which can be readily sold for dollars would be bought and sold in a market inside France at fluctuating rates which would differ considerably from the new par value.

French exporters would be permitted to sell in this market one-half of their export proceeds in the designated currencies, the other half being sold to the French monetary authorities at the official par value. French importers would be permitted to buy in this market the designated currencies needed to pay for non-basic commodities.

In addition, various "invisible" transactions would be authorized to take place in this market, including exchange transactions of tourists, capital transfers and other non-commercial remittances.

The Fund agreed with the French Government that a change in the par value of the franc was necessary, and indicated that it was prepared to concur in a devaluation of the franc to a realistic rate which would be applicable to transaction in the currencies of all members of the Fund. In this connection, the Fund has noted with satisfaction the budgetary and fiscal measures directed at internal monetary stabilization which France has taken in recent months.

The Fund gave careful consideration to the proposal to establish a market in convertible currencies along the lines indicated above. The Fund had no desire to be rigid or doctrinaire in its approach to this matter, particularly in view of the abnormalities of the present situation. Despite serious reservations regarding a system involving fluctuating rates, the Fund explored various alternatives designed to meet, in so far as possible, the objectives of the French authorities. The Fund was not, however, able to agree to the inclusion of a market with fluctuating rates of any part of the proceeds of exports, as in its judgment this entailed the risk of serious adverse effects on other members of the Fund, without being necessary to achieve the trade objectives sought by the French authorities.

The Fund felt that there would be scope for competitive depreciation in the application by one country of a fluctuating rate on exports to one area while other rates remained stable and other countries maintain the parities agreed with the Fund. Such a system, operating in an important trading country, would encourage trade distortions and might cast an unwarranted doubt on the real strength of many currencies through the apparent discount applied to them in the French system.

The Fund feared that the widespread adoption of such a system would result in exchange uncertainty and instability and produce a disorderly exchange situation from which all members of the Fund would suffer. While recognizing the difficulties of the French position, the Fund felt that the solution must be found through cooperative efforts to place currencies on a sound and stable basis.

The French Government found that it could not accept the modification of its proposal suggested by the Found and has now informed the Fund that it has decided to go forward with its proposal notwithstanding the objections of the Fund. The Fund regrets this action by a country which collaborated so effectively in the Fund's establishment and whose cooperation has been a valuable asset.

The Fund will continue to work with France in seeking a modification of these exchange practices in order to meet French needs within the framework of the international montary arrangements established by the Fund Agreement.

Blames Stock Market Setbacks to Politics

Philadelphia "Evening Bulletin" editorial lays market decline to uncertainty due to people's interests not being adequately served in Washington.

An editorial, captioned "Uncertainty and Politics," published in the Philadelphia "Evening Bulletin" of Jan. 23, lays severe setback in the securities market to politics — "a controlling factor this Presidential year." The editorial follows:

"When the securities market suffers a severe setback, as it has on recent occasions, the financial sharps are ready with explanations. The market lives in a state of nervous apprehension, like a sheep hearing the distant yelping of wolves. It sniffs the wind for the odor of any kind of governmental action adverse to the interests of business, and what it smells sends cold shivers up and down its spine.

"In a word, this threat hanging over the market is called 'uncertainty.'

"The uncertainty is due to the fact that the interests of the American people are not being adequately served by their representatives in places of power.

"The reason why they are not being adequately served is not alone that there is want of agreement among policy-makers as to how the national economy should be handled; for if there were a will to agreement it is probable that differing views could be reconciled and a course of action determined upon.

"At the bottom of the uncertainty is politics. And politics is a controlling factor because this is a Presidential year.

"The problems that confront the country are not being handled with a view to warding off the dangers of uncontrolled inflation, of stabilizing wages and prices, of averting a 'bust,' but in the light of what moves will be most popular and get the most votes. We have economic advisers, and they make reports, and we discuss those reports from the standpoint of partisan advantage.

"That doesn't make sense. And as long as the business of the country is conducted without sense, how can the people who have their money tied up in it chart their future course with confidence that they know where they're going?"

Securities Salesman's Corner

By JOHN DUTTON

FIFTH ARTICLE (Training of Salesmen)

There are still more people who are interested in the future than in the past. They are the optimists. What would those of us who make our living selling securities do without them? They are the people who still believe in "Tomorrow," despite socialism, incentive killing taxation, and constant attacks upon the stockholders of this country. They are the people who have both imagination and courage—they have open minds and they don't try to get something for nothing. THEY ARE THE PEOPLE WHO INVEST FOR INCOME, AND ALSO ARE ALWAYS READY TO LISTEN TO THE INSIDE FACTS REGARDING A SPECIAL SITUATION. They buy "growth" securities. They will buy non-dividend payers if they think they can obtain a "capital gain." They are the people who know what is going on in the world—in politics, finance, and economics. If you know what you are talking about—and how to say it briefly and in simple language—you will find their door will be wide open to you.

It does not matter how much pessimism is in the air—it matters not how many will tell you that markets are down and that investors are not in the mood to buy securities—you can always do business, if you know people who are in the category of those we have described in the foregoing paragraph. You may not make as many sales under such conditions as when confidence is in the ascendancy, but you can do business. But YOU MUST SELL YOURSELF FIRST. At least 75% of a successful sales campaign is in the salesman's OWN MIND.

This leads up to one objective when you train new salesmen in the art of selling a "special situation." Here is where a man with creative imagination, and the ability to become enthusiastic, will find that these personal characteristics will help him to a great extent in motivating others. There are all kinds of securities. For investment purposes, they are good, bad, and indifferent. Once in a while you can find something that is even more attractive than the average run-of-the-mill situation. For instance, there are situations that have romance, color, growth possibilities, outstanding management, a real story of the company behind the issue, good financial structure, the right industry to fit the times, priced right, and even some special news can sometimes be obtained for release to clients in advance of general publication. This may sound like the millenium but such opportunities can be uncovered at times.

When you send new men out to sell something that has the earmarks of an outstanding investment or speculative opportunity, SELL YOURSELF FIRST—THEN SELL YOUR MEN. If you are a salesman, you won't have much difficulty convincing your new man that he has an opportunity to go out AND DO SOMETHING FOR HIS PROSPECTS, FRIENDS, AND CUSTOMERS. For remember, there is no line of business (retailing securities included) that can be successful, unless the welfare of the customer comes FIRST. If you have found something that is going to develop into a profitable money making opportunity—if you are convinced that your special situation is really as good as it looks—you are not going to have any difficulty carrying this conviction and enthusiasm over to your men.

No one can tell you what words you should use—no one can put ideas into your head—the only way you can obtain such inspiration is through a KNOWLEDGE OF WHAT YOU ARE SELLING. If you have thrown scores of likely looking situations into your waste basket for one reason or another—if you have checked, rechecked and double checked—if you have visited plants, met the management, obtained the figures, investigated the past and peered into the future, and your convictions are based upon a careful conservative appraisal of all the factors, YOU CAN SELL ANYONE—INCLUDING YOUR NEW MEN.

Those who have had experience in this sort of selling will guard against overselling both their salesmen and their customers. No investment is perfect—no security can be sold without reservations. There is such a thing as overdoing it—even when you believe you are 99% right. Watch out for that last 1%. You can put enthusiasm and drive behind your selling without wrapping it up in a piece of the "blue sky." Successful selling is inside of YOU. What goes on in your own head determines what you are going to say, AND WHAT THE OTHER FELLOW IS GOING TO DO. The old saying, "what you think determines what you are," is the keystone of every salesman's career. Believe in yourself—in your business—in your associates—in your country—in the inherent decency of most human beings—and in what you are selling. Any man who does these things—and who works and learns while he works, will make a success selling securities. Enthusiasm cannot always stay at the boiling point, but if you have it in you to believe in the thing you are doing, then you can make others feel the same way about your business as you do.

If we could take the prevailing pessimism out of those who are depressed and discouraged about the future of the securities business today, everyone would be better off. So much depends upon our state of mind. Nothing is ever as bad as it looks—or as good either, for that matter. But our country is good despite all of its follies. Our business is constructive and helpful to the nation and all the people—despite our many critics and detractors. Our business is a good business if we wish to make it so. This is the kind of thinking that will MAKE YOUR NEW MEN FEEL SUCCESS IN THEIR VEINS AS WELL AS IN THEIR MINDS. When you feel this way you "MUST DO BUSINESS," because others will feel that way too.

Current Bank Credit Policies

By DeWITT A. FORWARD*

Senior Vice-President, The National City Bank of New York

Denying bank lending policies have contributed materially to present inflation, Mr. Forward stresses program of ABA to discourage bank loans for speculative and non-production purposes. Says there is revision of lending policies, and loans should be studied with view to soundness and liquidity. Points out banks have responsibility to public as well as borrowers, and that cyclical turns in business should not be taken for basic credit weaknesses. Says bank term loans for long-range capital needs should be replaced by equity securities.

It is hardly necessary to emphasize before this audience that there have been changes in bank credit policies over recent months. My object is to review briefly why this has happened and, a little more fully, what has happened. Mr. Sproul has already discussed the drop in the bond market.[1] This has, of course, affected the market value of bank bond accounts and has provided plenty of food for thought for banks in their lending operations. The bond decline wrote "finis" to one of the longest bull markets in high-grade bonds in history and reflected the convergence of two forces — increasing demands for funds and action by the Federal Reserve and Treasury authorities to put brakes on credit expansion. The projected retirement of seven billion dollars of government debt during the first quarter of 1948 and the raising of the rediscount rate by the Reserve banks are recent developments in this regard.

DeWitt A. Forward

At the same time, banks are being made conscious of their responsibility in the national interest of curtailing "all loans either to individuals or business for speculation in real estate, commodities, or securities," and in confining, in so far as possible, the extension of bank credit "to financing that will help production rather than merely increase consumer demand." These are phrases taken from the recent joint statement of bank supervisory authorities with which you are familiar.

Banks Not Responsible For Inflation

The President previously, at the opening of the November session of Congress, referred to the need for placing — and I use his words — "some restraint on inflationary bank credit." I do not think bank lending policies have, as yet, contributed materially to the present inflation cycle in which we find ourselves.

Nevertheless, it was incumbent upon the banking fraternity to recognize the problem—and make a clear statement of policy. I think the program of President Dodge of the ABA, with which you are familiar, meets the situation most effectively. As you know, the Association plans to undertake a nationwide series of meetings to lay stress on the importance of sound lending policies. This program will be appropriately emphasized at all State Bank Association meetings such as this. It deserves our full support. The program has been endorsed by Secretary Snyder, and also by the President himself.

Through these and other channels influence is being brought to bear on bank lending policies. It seems to me that the situation is more or less self-policing. These developments have served to cause each well managed bank to re-appraise its commitments and make any necessary adjustments in its portfolio or lending policy to assure its being in a position to meet its lending obligations. Many of us have done this. Perhaps I can best express my present thoughts on this subject by mentioning some of the factors we are taking into consideration in the bank with which I am identified.

Revision of Lending Policies

Our lending and money management policies must necessarily undergo continual revision under present conditions. Many old factors which have not been too important for some time are now very much before us. We operated for a long period when we did not have to be concerned too much about liquidity — we had short-term governments and liquid reserves, through necessity, far in excess of what efficient money management would have otherwise dictated. With the economic cycle on the upswing, it was difficult to make a loan which was not reasonably sure of being repaid. Experience tells us that this will not always be the case. It has been a period in which many banks were liberal in granting credit lines, possibly without a clear realization in every case of just what long range lending obligations were involved.

These days are over. As lending and general administrative officers, our first responsibility is, as always, to our depositors. No two of us have the same problems or obligations because of the differing character of our deposits and of the manner in which they are now invested. In my bank's case, loans are now some 23% of our resources, and we still have cash, and governments maturing within 12 months, in an amount which should cover calls likely to be made against our outstanding credit commitments.

From here on, the type of loans we make and the investment program and liquidity schedule we maintain must depend on an analysis by each of us of our own position and obligations. We now have to think more of not only whether a loan is good, but whether it will actually be paid on the date specified, purely from the standpoint of liquidity. Large metropolitan banks such as ours which feel the final impact of their customers' and correspondents' requirements in times of need, naturally have to maintain greater liquidity and lending power than do many other banks.

Responsibilities to Borrowers and Public

Our second responsibility is to our borrowing customers, and the effect of our lending policy on public relations. Because of unhappy experiences in the past when some banker or other did not take care of their needs, some businessmen do not have complete confidence in the banking fraternity's ability to steer a level lending policy through trouble-

(Continued on page 36)

1 See cover page for Mr. Sproul's address—Editor.

*An address by Mr. Forward at the 20th annual mid-winter meeting of the New York State Bankers Association, New York City, Jan. 26, 1948.

Snyder Reports on Nation's Finances and Promises U. S. Bonds Above Par

Treasury Secretary issues statement U. S. will keep bonds at par or above. In annual report to Congress reveals small surplus of revenues and reduction of $11½ billion in national debt during year ended June 30, 1947. Sees need for anti-inflationary fiscal policy.

In a press conference at Washington, D. C., on Jan. 22, Secretary of the Treasury John W. Snyder asserted that neither the Treasury nor the Federal Reserve Board had any intention of letting the prices of U. S. bonds go below par. He stated the recent lowering of pegged prices by Federal Reserve System was merely to "tighten up on inflationary pressures." This action, Mr. Snyder stated, had the approval of bankers who "complimented us for taking a courageous step." In this connection, Mr. Snyder praised the American Bankers Association for their program to restrict bank lending to productive purposes only and said it was "a very aggressive step" and should help the anti-inflation program. He agreed with President Truman that legislative authority should be given to place further controls on credit, but said it was merely to implement "alertness," and not necessarily an indication that new specific regulations would be immediately put into force.

John W. Snyder

Just prior to making the above announcement, Secretary Snyder issued to Congress his annual report on the state of the nation's finances for the last fiscal year in which he reveals a budget surplus of $745 million and a reduction in the national debt during the year of $11½ billion. The text of the portion of the report, captioned "Fiscal Policy," follows:

The government closed its operations for the fiscal year with a surplus. During this year, the first full fiscal year following the end of the war, substantial progress was made in the reconversion of the American economy to a peacetime basis. By the end of the year all previous records of civilian production had been surpassed. Goods and services were being produced at an annual rate of about $230 billion, and the accumulated backlog of demand for some types of goods was being satisfied at a growing pace.

Notwithstanding the high rate of industrial output, full employment, and generally good harvests, scarcities of various kinds continue to be much in evidence. This is true of housing, housing materials, automobiles, certain electrical equipment, fuels, industrial and agricultural machinery, and other products. Perhaps of greatest moment is the short supply of steel. Its ramifications extend throughout the transportation and manufacturing industries and are reflected in turn in inadequate supplies of finished goods.

The upward pressure on prices, to which I called attention in my last annual report, is more critical than a year ago, despite the progress made in converting industry to civilian production and in refilling commercial and industrial pipe lines. The situation assumed such compelling proportions that the President deemed it necessary to call a special session of the Congress to cope specifically with the inflationary trend as well as with the problems of European recovery.

Under present circumstances, the need for the Federal Government to pursue an anti-inflationary fiscal policy is at least as great as last year. It must maintain a strong financial position to assure the continued well-being of our economy. Revenues should be maintained at a high level—high enough not only to balance the budget and to finance the European Recovery Program, but also to provide a substantial surplus for retirement of debt. In his State of the Union Message on Jan. 7, 1948, President Truman recommended certain changes in the tax structure which are necessary in order to provide tax relief to those who need it most without cutting the total tax revenues of the government. General tax reduction must wait until the present inflationary pressures have subsided. At that time it can become a part of a general revision of our tax structure. In making this revision, a tax system must be created which will help to maintain broad consumer markets, strengthen the incentives to work and invest, provide flexibility as economic conditions warrant, and treat all groups equitably. Such a tax system is an indispensable instrument in maintaining an economy of lasting full employment and abundance.

The total gross public debt and guaranteed obligations amounted to $258.4 billion on June 30, 1947. This was a reduction of $21.4 billion from the postwar peak which had been reached on Feb. 28, 1946, and a reduction of $11.5 billion during the fiscal year. The reduction in the debt during the year, like that which had occurred in the last four months of the previous year, was accomplished almost entirely by a reduction in the cash balance in the Treasury. By the end of the fiscal year, this source of debt reduction had been substantially exhausted.

Total holdings of Federal securities by commercial and Federal Reserve banks amounted to $91.9 billion on June 30, 1947. This was a reduction of $24.8 billion from the postwar peak, and of $16.3 billion during the fiscal year. The reduction in bank-held debt thus substantially exceeded the reduction in total debt, both during the fiscal year and during the entire period since the postwar peak. The amount of public debt (including noninterest-bearing debt) held by nonbank investors was about $3½ billion larger on June 30, 1947 than it had been at the time of the peak in the total debt on Feb 28, 1946. This concentration of the entire debt reduction during the 16-month period ended on June 30, 1947 on bank-held debt plus the transfer during this period of a net amount of $3½ billion of additional Federal securities from bank and nonbank hands, contributed substantially to the reduction of inflationary pressures during the period. It was made possible by the large sums which were available for trust fund investment during the period, the remarkably good record on the redemption of savings bonds, the continued successful sale of new savings bonds, and the restrictive debt-management and monetary policies of the Treasury and the Federal Reserve System.

The anti-inflationary debt-management policy which characterized the fiscal year 1947 is still continuing. A substantial reduction in the total debt will be possible during the fiscal year 1948 and this reduction, unlike that which occurred in the fiscal year 1947, will be accomplished principally by an excess of budget receipts over budget expenditures. This excess of budget receipts over budget expenditures, which will occur principally in the first three months of the calendar year 1948, and the debt retirement which it will make possible, will of course, be a farm more powerful anti-inflationary force than the debt decreases which have occurred up to this time.

The U. S. Government has continued to pursue a broad program of financial aid and cooperation designed to assist in the reconstruction of war-torn countries and to facilitate the expansion of multilateral world trade and monetary stability. In addition to participating in the work of the International Monetary Fund and the International Bank for Reconstruction and Development, which were constituted with a membership of most of the countries of the world, the United States has carried on a program of direct assistance through its own agencies under various acts passed by the Congress.

In the course of the fiscal year, payments of the subscriptions to the International Monetary Fund and the International Bank were completed by the United States and most of the member countries, so that these institutions were in a position to begin active operations. The organizational stage of these institutions has now passed. By the end of the calendar year 1946, the International Monetary Fund had agreed upon par values for most of the member currencies; and March 1, 1947, was set as the date for the beginning of active exchange transactions. A number of purchases of dollars through the Fund took place in the course of the fiscal year. The International Bank also received loan applications from foreign countries totaling more than $2 billion; and by the end of the fiscal year, a $250 million loan was made to France.

The National Advisory Council on International Monetary and Financial Problems, established by the Bretton Woods Agreements Act to coordinate the foreign lending operations of U. S. Government agencies, and to consult and advise with the United States representatives on the International Bank and the International Monetary Fund, considered all important questions arising in these institutions and gave its advice to the representatives of this government on the boards of these institutions. The Council approved for consideration loans proposed by the Export-Import Bank and formulated general policies for the guidance of the Office of the Foreign Liquidation Commissioner, Department of State, in financing the sales of surplus property abroad. It also considered credits extended by the War Assets Administration and the U. S. Maritime Commission. It approved of the extension of the stabilization agreement concluded between the Secretary of the Treasury and the Mexican Government. The Council recommended an emergency loan to the Philippine Government, which was authorized by an act of Congress approved Aug. 7, 1947.

The Council also coordinated studies of international financial problems undertaken by its constituent agencies. In this way, the Council was able to give its best judgment on the changing international picture, as it developed in the course of the fiscal year. It continually reviewed the broad questions of policy involved in the settlement of war obligations and in the financing of programs of world reconstruction. It has thus carried out the mandate of the Congress to coordinate the activities of United States agencies concerned with international financial problems and has been instrumental in the integration of our foreign financial program.

JOHN W. SNYDER,
Secretary of the Treasury.

Of Course Not!

"Thus far, there is no evidence that the Labor-Management Relations Act has enabled employers to discharge workers for union activity, nor is there any indication that the Act has caused employers to resort unduly to litigation which some critics predicted would drain the energy and resources of unions in court action. On the contrary, labor unions are as strong and aggressive as ever, and workers have not lost any of the protections which they normally seek from the unions they join.

* * *

"Events have already discredited predictions that the non-Communist oath would have an effect exactly opposite to that intended by Congress. Many unions have already used the Act to purge themselves of their extremist leaders, and other unions which are Communist-led have been exposed to the bright light of publicity. Thus far, it appears that the non-Communist oath requirement is achieving precisely the purpose which Congress intended."—The Nat'l Ass'n of Manufacturers.

Of course, most of the predictions about the way this law would work out were rather silly.

The real question has to do with the good it will do. As to this there is as yet no definitive answer.

It would not be surprising if the mere fact that Congress, with strong popular support enacted some such law, has so far been the most potent factor.

Announces Slight Incr. in Reserve Requirements

Federal Reserve Board increases cash reserve against demand deposits of banks in central reserve cities from 20 to 22% effective Feb. 22. Allan Sproul says effect will be $420 million greater reserve in New York and $100 million in Chicago.

The Board of Governors of the Federal Reserve System last week issued an order as "Supplement to Regulation D" ordering an increase in the cash reserves to be held by banks in central reserve cities (New York and Chicago) against demand deposits from 20 to 22%. The legal reserve requirements for banks in all other cities are already at the maximum fixed by law, but in the central reserve cities, under the announced increase, they will be still 4 points less than the maximum under existing authority.

Allan Sproul, President of the Federal Reserve Bank of New York, issued the following notes to all member banks in the Second Federal Reserve District:

Enclosed is a printed copy of a supplement to Regulation D, "Reserves of Member Banks," adopted by the Board of Governors of the Federal Reserve System to supersede the existing supplement to Regulation D and to become effective at the opening of business on February 27, 1948.

The Board's press statement for immediate release regarding this action is as follows:

As a step toward restraining further inflationary expansion of bank credit, the Board of Governors today increased from 20 to 22% of net demand deposits the amounts of reserves required to be maintained with Federal Reserve Banks by central reserve city member banks. This action is to become effective Friday, Feb. 27, 1948.

The effect of this increase will be to raise the required reserves of central reserve city banks in New York City by about 420 million dollars and those in Chicago by nearly $100 million. The present required reserves for these banks amount to about $4,300 million and $1,000 million, respectively.

Under the provisions of section 19 of the Federal Reserve Act, the Board of Governors has authority to establish reserve requirements for the various classes of member banks within the following limits:

Against net demand deposits	Min.	Max.
Central reserve city banks	13	26
Reserve city banks	10	20
Country banks	7	14
Against time deposits		
All classes of banks	3	6

Reserve requirements are now at the maximum limits in all cases except for net demand deposits at central reserve city banks, which, after the present increase becomes effective, will be 4 points less than the maximum under existing authority.

Reserve Board's Statement

The text of the Federal Reserve Board's supplement to Regulation D, effective as to each member bank at the opening of business on Feb. 27, 1948, follows:

Reserves required to be maintained by member banks with Federal Reserve Banks:

Pursuant to the provisions of section 19 of the Federal Reserve Act and section 2(a) of its Regulation D, the Board of Governors of the Federal Reserve System hereby prescribes the following reserve balances which each member bank of the Federal Reserve System is required to maintain on deposit with the Federal Reserve Bank of its district:

6% of its time deposits plus—

14% of its net demand deposits if not in a reserve or central reserve city;

20% of its net demand deposits if in a reserve city, except as to any bank located in an outlying district of a reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 14% reserves against its net demand deposits;

22% of its net demand deposits if located in a central reserve city, except as to any bank located in an outlying district of a central reserve city or in territory added to such city by the extension of the city's corporate limits, which, by the affirmative vote of five members of the Board of Governors of the Federal Reserve System, is permitted to maintain 14% or 20% reserves against its net demand deposits.

Canadian Securities

By WILLIAM J. McKAY

As anticipated since the outset, the idealistic global schemes for currency stabilization and for the rehabilitation of war-damaged economies, founded as they were on billiant Keynesian theories and on undue confidence in the altruistic side of human nature in general, have been inevitably foredoomed to disappointing failure.

The area of damage was always too extensive and deep-seated to permit immediate reconstruction on a universal scale. The efforts of the few adherents to the Bretton Woods Agreements who have faithfully endeavored to set a constructive example have been entirely wasted. On the other hand other members have found it expedient to take unilateral action which entirely defeats the purposes and objectives of the currency agreements.

Therefore this country in company with the United Kingdom and Canada who have been called upon to make sacrifices in the universal interest without avail, should now consider the entire question.

The idealistic approach having failed, it is now opportune to examine a practical alternative. From the very beginning the "Key Currencies" plan has always offered the best possibilities for a successful solution of the problem of currency stabilization. To all intents and purposes, the only currencies on the basis of which world commerce is now conducted, are the U. S. and Canadian dollars and sterling. At the present time the pound is the weak link and the Canadian dollar has also been unable to play its full part in view of the failure of the Bretton Woods scheme to achieve its objective of multilateral convertibility.

Having thus an existing foundation it is logical to proceed to eliminate the weaknesses that impair its strength. The Tripartite Agreement of 1936 constitutes a worthy precedent, and accordingly a U.S./United Kingdom/Canadian Currency Agreement could very well mark the return to international monetary sanity. Such a scheme could be designed to operate within the scope of the Marshall Plan and any other arrangements that might be devised to strengthen the economic relationships of the three countries.

In this way the pooling of the financial and economic resources of this powerful bloc would permit the freer flow of trade between the Sterling and dollar areas and would also restore full confidence in sterling and the Canadian dollar. From this point further agreements could be made with other countries whereby appropriate exchange relationships could be established on a practical basis. This would represent the first step towards the institution of a common world currency which is a desirable ideal that can only be successfully attained by easy stages.

During the week both the internal and external sections of the bond market displayed an easier tendency. Free funds also weakened slightly but in view of the fears regarding the effect on sterling of the French devaluation plans the market remained remarkably steady. Even in the face of a devaluation of the pound it is believed that the Canadian dollar could still maintain its existing level. Inasmuch as the establishment of more realistic values on the "soft" currencies would ultimately facilitate Canadian purchases in Europe, the Canadian imbalance of trade with this country would tend to be corrected. Stocks were irregular and lower with the base metal issues alone resisting the downward trend.

Gould Research Chief For Wiesenberger & Co.


Edson B. Gould

The New York Stock Exchange firm of Arthur Wiesenberger & Co., 6 Broadway, New York City, has appointed Edson Gould as Director of Research and Statistics. For the past three years Mr. Gould has been associated with Smith Barney & Co., and previously was Director of Economic Research of Moody's Investors Service. His connection with Moody's covered a period of twenty years, during which he also served as account executive and as editor of Moody's Stock Survey, Bond Survey and Economic Reports.

Dempsey-Tegeler to Admit J. McMillan

ST. LOUIS, MO.—Dempsey-Tegeler & Co., 407 North Eighth Street, members of the New York and St. Louis Stock Exchanges and other leading national exchanges, will admit John S. McMillan to partnership on Feb. 5. Mr. McMillan has been with the firm for some time as manager of the municipal department.

Barron Trading Mgr. for C. S. McKee & Co.

PITTSBURGH, PA.—C. S. McKee & Co., Union Trust Building, members of the Pittsburgh Stock Exchange, announce that Stephen L. Barron has joined their organization as manager of the trading department.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

In an annual report complete with charts, tables and operating ratios, the **Savings Banks Trust Company**, wholly owned by the 131 savings banks in **New York State**, reports earnings for 1947 of $580,000, or $23.20 per share of capital stock after payment of $1,179,700 more in interest to savings banks on time deposits than in 1946. Financial returns to the savings banks since organization of the Trust Company in 1933 are reported as $33,021,100, made up of $13,059,200 in interest paid, $5,050,000 in dividends, and $14,911,900 in undivided profits and reserves. Deposits at the end of 1947 were $253,648,600. Of these, $248,300,800 were due to savings banks, $2,410,300 to their agencies, and $2,937,000 to the United States Government.

At the stockholders' meeting on Jan. 21, John Adikes, President of Savings Banks Association of the State of New York and President of Jamaica Savings Bank, Willard K. Denton, President of the Manhattan Savings Bank and William S. Rogers, President of Buffalo Savings Bank, were elected Directors of Savings Banks Trust Company, and the following were reelected Directors: Henry Bruere, President of The Bowery Savings Bank; Robert M. Catharine, member of the Banking Board of the State of New York and President, Dollar Savings Bank of the City of New York; Frederick T. Jeram, Executive Vice-President, Home Savings Bank of the City of Albany; George C. Johnson, President, the Dime Savings Bank of Brooklyn; Edwin Allen Stebbins, President, Rochester Savings Bank, and Harold Stone, President, the Onondaga County Savings Bank.

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At the annual meeting on Jan. 21 of stockholders of **Guaranty Trust Company of New York**, presided over by J. Luther Cleveland, Chairman of the board, the following directors, whose terms had expired, were reelected for a term of three years: George G. Allen, F. W. Charske, Charles E. Dunlap, Walter S. Franklin, Lewis Gawtry, John A. Hartford, Cornelius F. Kelley, and William L. Kleitz. W. Palen Conway retired as Chairman of the Executive Committee, under the company's retirement system, after nearly 37 years of service with the bank. A member of the board since 1924, Mr. Conway will continue as a Director and member of the Executive Committee. He became associated with the bank in 1911, was made Vice-President in 1916, and was elected President in 1934. He was Chairman of the board from 1941 until 1944, when he was made Vice-Chairman of the Executive Committee. In January, 1946, he was elected Chairman of the Executive Committee.

The Board of Directors at their annual meeting on Jan. 21, following the stockholders' meeting, made the following official appointments: Robert W. Stephens, Vice-President, formerly Second Vice-President; Reidar E. Gundersen, Second Vice-President, formerly Assistant Treasurer; Percy Wiesenauer, Trust Officer, formerly Assistant Trust Officer; Robert S. Denvir, Assistant Trust Officer, formerly Assistant Secretary; Alfred W. C. Spindler, Assistant Treasurer, formerly Assistant Secretary; Frederick G. Duncan, Assistant Treasurer.

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Manufacturers Trust Company of New York announces with regret the death of Elliott Debevoise, a Vice-President of the institution. Mr. Debevoise died on Jan. 26 at Harkness Pavilion. A native New Yorker, Mr. Debevoise started as an Assistant Trust Officer with the Chatham Phenix National Bank and Trust Company in 1922. Ten years later when that bank was merged with Manufacturers Trust Company, he joined the latter bank as a Vice-President, first in the Trust Department and later in charge of the bank's Fifth Avenue Office. In addition to his connection with Manufacturers Trust Company Mr. Debevoise was a Director of the Union Dime Savings Bank and Oil Transfer Corporation.

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The 12th annual dinner of the Quarter Century Club of the **National City Bank of New York** and **City Bank Farmers Trust Company** was held on Jan. 22 at the Hotel Astor. Guests numbered 925, all of them having served 25 years or more, with Chairman of the board of Gordon S. Rentschler as host. In many other parts of the world where National City has branches, dinners were also held to welcome new club members. Including veteran employees and officers in National City's overseas branches, the total membership is 1,363, of which 88 incoming new New York members were greeted by Mr. Rentschler at the Hotel Astor dinner and presented with silver trays, traditional symbol of membership.

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At the organization meeting of the Board of Trustees of the **Title Guarantee and Trust Company of New York** held on Jan. 21, Robert A. Burdick was elected a Vice-President; Andrew N. Burkard, Thomas Pearson and Edward A. Minogue were elected Assistant Vice-Presidents; J. Louis Laiola John N. Lewis and Hugh M. Houston were elected Assistant Secretaries; John P. Billhardt was named Counsel in the Manhattan Office, and Harvey I. Tutchings was named Counsel in the Brooklyn Office; George L. Cohen was named Assistant Solicitor and Garret Sanderson was appointed a Manager, Banking Department. All other officers were reelected. At the annual meeting of the stockholders of the Company held on Jan. 21, the following were elected Trustees in the class whose term will expire in 1951: Albert B. Ashforth, Jr., William Barthman, Gordon S. Braislin, William V. Lawrence, Byron A. Long, John B. Morton and Charles W. Nichols, Jr. At the organization meeting of the Board of Trustees, Jacob L. Holtzmann, of the firm of Holtzmann, Wise, Shepard, Houghton & Kelly, was elected a Trustee of the Company. Harold W. Hoyt is President of the Title Guarantee & Trust.

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At the recent annual meeting of the **Clinton Trust Company of New York** Carl F. Schock was elected to membership on the Board of Directors.

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The art and literature of Latin America are exemplified in windows of **Colonial Trust Company** in Rockefeller Center, at 48th Street, New York through a display of color plates taken from the cultural Spanish publication "Americana." Accompanying each page is the original painting or statue from which the reproduction was made.

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Alexander Stewart Webb, formerly Vice-President of the **New York Trust Company**, and President of the Lincoln Trust Company of New York, died on Jan. 22. He was 77 years of age. For the past 10 years Mr. Webb had been President of the Society for the Prevention of Cruelty to Animals. In Mineola, L. I., advices to the Brooklyn "Eagle" of Jan. 24 it was stated that when the Lincoln Trust Co. was absorbed by the Mechanics and Metals National Bank and that institution in turn was taken over by the Chase National Bank he continued as Vice-President.

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Clifton F. Thomas, formerly Executive Vice-President of the **Richmond Hill Savings Bank**, Jamaica Avenue and 116th Street, **Richmond Hill, N. Y.**, has just been elected President of the bank by the Board of Trustees. Mr. Thomas joined the bank in 1923. He was made Assistant Secretary in 1935, Secretary in 1936, and was elected a Trustee in 1941; becoming Executive Vice-President in 1946. Frederick Boschen, who resigned as President of the bank, will continue as a member of the Board of Trustees.


Clifton F. Thomas

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Approval by the New York State Banking Department of a certificate of reclassification of shares of the **Patchogue Bank of Patchogue, Long Island, N. Y.**, providing for elimination of certain retirement restrictions on 1952 shares of preferred stock "B" of the par value of $50 each was announced by the Department on Dec. 24.

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At the annual meeting of the stockholders of the **County Trust Company at White Plains, N. Y.**, on Jan. 21 the following Directors whose terms expired were reelected: Raymond R. Beatty, Chester A. Cawood, Warren W. Cunningham, Charles C. Fenno, Thomas F. Foley, Robert Goldblatt, E. J. Murray, Wilfred L. Richardson and Warren L. Ward. At the directors' meeting E. J. O'Neill formerly Assistant Secretary and John H. Macdonald were appointed Assistant Vice-Presidents. Mr. Macdonald has been in charge of the Mt. Kisco office, while Mr. O'Neill has been in charge of the Mamaroneck office.

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Louis F. Hartmann, who has served **City & County Savings Bank of Albany, N. Y.**, for 36 years starting as a clerk, was elected President of the bank by the board of trustees on Jan. 12, it was made known in the Albany "Times-Union" of Jan. 12, which in part also said:

"Mr. Hartmann succeeds Frank H. Williams, whose application for retirement was approved at the board meeting.

"Since 1940 Mr. Hartmann has been Executive Vice-President of the bank. Elected with Mr. Hartmann were John Boyd Thacher 2nd, former mayor of Albany and former Children's court judge, who will be a Vice-President; Joseph A. Ehrhardt, Secretary-Treasurer of the bank since 1940, who will also be a Vice-President, as well as Secretary; and William G. Livingston, Assistant Treasurer since 1940, who was advanced to Treasurer."

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At the annual stockholders' meeting of the **State Street Trust Co. of Boston** on Jan. 14, Everett W. Gammons, President of the Franklin Savings Bank of Boston, was elected a director. At a meeting of the directors of the company on Jan. 19, the following promotions were voted: Fred D. Harrington, to Vice-President;

(Continued on page 40)

What's Wrong With Our Economic Set-up?

By REV. WILLIAM J. SMITH, S.J.*
Director, Crown Heights Associated Activities, Brooklyn, N. Y.

Father Smith urges a redefining of competition and a clarification and reorientation of objectives of industry. Sees trend away from freedom in industry and towards greater concentration. Wants both labor and management organized in each industry, with government representing people. Calls for codes of legitimate competition and concludes problem is not economic, but a moral one.

It is proper I think to let your audience know where the speaker stands right from the beginning. I am not an Economist. I am not a Capitalist. I am not a Communist. Well, what are you? Some of my friends, and many who are not friendly, would like to characterize me, I believe, as just a little Bolshevik from Brooklyn.

One need not be an Economist, a Capitalist nor a Communist to see that there is something wrong in our present economic set-up. The question is: Should government place a control over wages and prices? I do not think that the Government can effectively control wages and prices any more than it can control strikes, and still leave room for a free and democratic order. To control one or two elements in the economy is to control all. Wages, prices, production, profits, strikes, stoppages are so intertwined, so interlinked, so inter-dependent, so relatively connected one with the other, that I do not believe that you can completely control any one of them without eventually coming to complete control of all. The result is a totalitarian economy. No one wants that. But it leaves us with only one alternative.

When men disagree, the problem is solved either by themselves voluntarily accepting the responsibilities of settlement by coming to a harmonious compromise or a disciplinary power must force a decision upon both from without.

It is my conviction that the leaders of Labor and Management, with the help of Government, must solve this problem themselves, or there is no solution. At present it is a vicious circle, and left unsolved, it must result either in the Government taking over in critical periods, and then perhaps permanently, or allowing the conflict over economic supremacy to run its course into chaos.

Can any possible, reasonable suggestion be offered? It strikes me that we must do two things: First, redefine the meaning of competition; second, clarify and reorient the objectives of industry. The fundamental truth in this whole problem is constantly ignored. There can be no solution until it be recognized. It is the simple fact that we are dealing with human beings. Human beings can act only in accord with the ideas possessed by their intellects and the reaction of their human wills to human circumstances. There is no solution of any human problem except in the willing acceptance of the solution by human wills. There is no foolproof automatic answer, and that is what I am afraid most people are looking for.

We must redefine the meaning of competition. To me that means efficiency should be the norm and content of competition. Wages and prices should be removed from the area of competition. (I have been told that no less a man of prominence in labor relations than Mr. George Taylor is in agreement with me on this proposal.) I say the step is necessary for two reasons. First, from the sociological angle, wages and prices are the stuff by which men live. If we really believe in the dignity of human beings and the sacredness of life, why should the elements upon which men depend for their very livelihood, be subject to the greed, selfishness and ambitions of other men? Secondly, there can be no stable social order unless there is a proper balance between wages and prices. That balance becomes impossible when it is left to the determination of one side, engaged in ruthless competition, with economic and political supremacy as the only rule and guide of action. The strongest and most unscrupulous survive. The rest suffer. The results of such a theory are becoming more and more apparent.

The trend is against freedom in industry and toward greater and greater concentration in the hands of few. For instance: We have 47 one-billion-dollar corporations in America. Individually, each of these concerns possesses greater corporate wealth and all the political and social influence that goes with it, than 38 sovereign States. Only 10 States in the union equal the corporate assets of any one of these individual concerns. There have been 1,800 mergers between 1940 and 1946 in manufacturing and mining alone. Of the 250 largest corporations in the country, only 25 have no interlocking directorates; 151 of these have interlocking directorates with at least three other corporations. They control three-quarters of the combined assets of the 250. This is just on a larger plane and prescinds from the connection with small subsidiaries, etc. 106 of our largest corporations are under the control of eight financial interest centers. What happens to free enterprise when you have your largest business enterprises operating through interlocking directorates and credit controlled from central sources? It contradicts the whole theory of free competition.

An essential of free competition is an immediate and easy access to the field of competition. The Temporary National Economic Committee spent a million dollars and a half just before the war in an effort to analyze some of the difficulties of free competition. Among other things, the Committee reported that it is hazardous for new enterprise to enter business. The obstacles include:

(1) Necessary resources may be controlled by existing enterprises.

(2) Patent rights may stand as a bar to new enterprise.

(3) Market outlets may be controlled.

(4) Heavy initial advertising costs are often an impediment.

(5) Large capital requirements essential to modern industrialism constitute a barrier.

The door of opportunity is only theoretically open.

What is the natural result and reaction among the working forces of industry as an economic system develops in this way? A counter-economic force rises to meet it. Free-born men will fight it. When their livelihood is threatened, their dignity as human personalities ignored, the welfare of their families in jeopardy, they will unite in self-defense. The giant trade union is the natural consequence. Economic warfare is on. Prices are determined by corporate directors. Wages to meet the rising cost of living are demanded by the union leaders. The vicious circle spirals along. The public clamors for law. Even if enacted, the black market defeats the purpose of legislation.

It is evident that no solution can be found in class warfare as we have it. The insistence upon solving the problem by legislation leads to totalitarianism. Is there any answer? Not unless class warfare conflict can be abolished or so mitigated that we can rebuild on a principle of cooperation. No form of human society can work — no kind of an economy can fulfill the principles of sustaining human life as long as strategically placed individuals and groups are considered of greater importance than the lives of all the people.

If the objective of industry is to be the exclusive enrichment of individuals at the expense of the majority of the people, the profit motive becomes a profit obsession. Monopoly power reigns as the supreme norm of the conflicting groups involved. We get what we have today and it plunges on to final collapse. That is why I say we must redefine competition and change the objectives of industry.

It is evident that you can get nothing from competition over wages and prices except class warfare. Human selfishness obliterates the social viewpoint. We have lost the concept of what a human being is and why. Unless industry is acknowledged as a means to sustain a nation and not to perpetuate a race of profiteers, there can be no human solution to this human problem. The answer rests in the answer to the question: How human are we willing to be? If the Fatherhood of God and the Brotherhood of Man are not to enter into the actual operations of industrial relations, it is a waste of time to discuss the issue. Both men and the form of industrial society must be changed.

How can cooperation be attained, or even get a start? If we really believe in the principle of real democracy, economic as well as political, I would say that there is need to set about organizing all workers in every industry. Organize management in each industry. Supply them with an army of experts. Let government represent the public. Draw up codes of legitimate competition. The experts representing Labor and Management set maximum and minimum wages and prices in the various industries. Coordinate the scales on regional and national bases.

Raise production through union-management committees. Efficiency becomes the norm of competition. It won't work? Not as long as U. S. Steel can unilaterally determine the price of its products. Not as long as John L. Lewis can unilaterally tie up the nation with a strike. If profits and economic supremacy are the only standards of competition — there is no human solution to the problem. And the simple reason is that the norm is contrary to the nature and the needs of human beings. Leave out the human and social obligations and viewpoints and the whole world of industrial relations ceases to be human. Much more than an economic problem, this is a moral problem. It will be answered when we answer the question: How human are we willing to be?

You cannot have a system that is built on selfishness and expect it to fulfill the social obligations that the very existence of human beings in society demand. Our present relationships of Management and Labor are based on selfishness, the survival of the strongest, economic warfare, anti-social attitudes, amoral practices, and almost a complete disregard of the common good.

If it isn't working out, don't blame me. I didn't start it.

*An address by Father Smith before the Economic Security Association, Brooklyn, N. Y., Jan. 22, 1948.

Wages, Prices and Inflation Controls

By HERBERT A. JOHNSON*
Program Director, Brooklyn Chapter, Nat'l Ass'n of Cost Accountants

Asserting history of price controls over 4,000 years proves they are doomed to failure, Mr. Johnson points out price fixing leads to black markets and discourages production, thus increasing scarcity. Defends governmental regulation of business and cites statistics that prices have not risen above wage increases. Holds competition keeps down prices and lists 7-point program to fight inflation.

When I was asked to speak on the subject of "Price and Wage Controls," the first thing that I felt I should do was to analyze my own views on this subject and come to firm conclusions before attempting to discuss the subject with you. In the course of my self-analysis I felt it necessary to determine in my own mind my personal convictions on the subject. I certainly would not want to speak against supporting price and wage controls, if I favored them or vice versa. In attempting to speak against my personal convictions it would make my words as sounding brass or a tinkling cymbal, as quoted in the Bible in another connection.

Herbert A. Johnson

In preparing for this talk, I thought I would do a little research into the history of price and wage controls. Is this something new which was instituted with the last war or perhaps the previous one? Much to my surprise, I found that this subject has been a controversial one for thousands of years. Price controls are not new. The oldest price regulations known to us and carved in the law were in the times of Hammarabi, King of Babylon more than 2,200 years B. C. These laws which were extremely rigid, established both maximum and minimum compulsory prices. The Babylonian business man worked out these regulations. Also, the over-all price ceiling was tried as far back as 301 A. D. when the Roman Emperor, Diocletian, decreed over-all prices, wages and rent ceilings. Infractions were punishable by death. Despite this extreme penalty, price controls were not satisfactory and as a result were removed a short time later.

Discussions as to what constituted a fair price beginning with Aristotle, if not earlier, continued right through the middle ages. The Church Fathers discussed these problems for 1,000 years. Martin Luther discussed this subject in a book entitled, "About Sales, Merchants and Profiteering." English price-fixing is reported from A. D. 959 on. The Guild System prevailed in most countries from the Middle Ages until the period of the American and French Revolutions. Even in Colonial America direct price-fixing was instituted at the beginning of the Revolution, in Massachusetts in 1777 and later in Pennsylvania, but with little success.

It might be seen that throughout 4,000 years of history there seems to have been some need for controls during difficult times, but it was always doomed to failure, human nature being what it is. Economic history during the last 150 years has established beyond a doubt that free competition from government regulations have contributed to economic progress.

Wartime Controls May Be Helpful

In my self-analysis I came to the conclusion that while price and wage controls may be considered helpful and possibly necessary, the only conditions under which I feel they are to be instituted are during periods of war. Human nature rebels against controls and unless there is some outside extreme influence creating patriotism as during a war period, controls will never work. I feel that the free enterprise system is the only one which will allow the United States to progress at the accelerated rate which we have known for the past several score years.

Mr. J. Howard Pew, President of the Sun Oil Company, has stated, "Our American system of free enterprise is far more than just a way of doing business. It is a system which as its base comprehends good sportsmanship, given free play to the laws of supply and demand and of competition, develops initiative, character and discipline and in many ways goes far toward improving the morale and bettering the lives of our people. When I speak of free enterprise at its best, I mean free from monopoly, private or governmental, free of government control or intimidation, free of trade agreements that would control prices and production after the manner of the European Cartel System. For a government to destroy free enterprise is for that government to destroy itself. There is no higher duty than that of inculcating in the public mind an understanding of what the American competitive system of free enterprise is and what it means to the American people."

Our Greatness Due to Free Enterprise

The free enterprise system which prevailed in the United States for almost its entire history is the only one in which I have complete faith. While the United States has only one-sixteenth of the earth's population, she produces nearly seven-sixteenths of the world's goods. Her people own 46% of the world's electric power, 48% of its radios, 54% of its telephones, 59% of its steel capacity, 60% of its life insurance policies, 85% of its automobiles and 92% of its modern bathtubs.

Yes, it is statistically true that in the 150 years of her dynamic, adventurous life, America has made more progress than all the other nations have made in 6,000 years. Why? What has she got that the rest of the world has not?

She has only 6% of the world's area. Other nations have more land and more people. Some are more richly endowed with natural resources. Several enjoy a general level of health, education, political freedom and native ingenuity approximately comparable to our own. Carry the comparison on down the line and you will be forced to the conclusion that the one thing which America has that the other nations lack is the American system of free enterprise.

That you like in America is circumstance; but that America lives as she does, is not. For a century

(Continued on page 38)

*An address by Mr. Johnson before the Economic Security Association of Brooklyn, Brooklyn, N. Y., Jan. 22, 1948.

Sterling Devaluation Scare

By PAUL EINZIG

Dr. Einzig, commenting on French franc devaluation, points out pound sterling is not overvalued to extent of franc, and decries belief in official U. S. circles that sterling should be devalued. Points out since Britain has more orders for capital goods than can be filled, sterling devaluation will simply mean "giving money away." Says British Treasury views devaluation effect as widening balance-of-payments gap and therefore it may be safely ruled out for present

LONDON, ENGLAND.—The vague talk of the possibilities of a devaluation of sterling, which have been going on ever since the suspension of convertibility, flared up into an acute scare during the third week of January. This was due in part to the vague reference made by Secretary Snyder to the subject of a devaluation of European currencies in general, in the course of his evidence on the Marshall Plan. His remark happened to coincide with the publication of a report by the State Department containing a passage according to which sterling would be devalued in agreement with the International Monetary Fund if and when it should be found to be overvalued. Even though this remark was a mere statement of the obvious, read in conjunction with Secretary Snyder's remark, it conveyed the impression that the U. S. Government would welcome a devaluation of sterling.

Dr. Paul Einzig

In addition, the London visit of the French Finance Minister was announced on the same day, followed by a subsequent visit of Sir Stafford Cripps to Paris. It was reported that the object of Rene Meyers' visit was to discuss the devaluation of the franc and sterling and Sir Stafford Cripps' Paris visit had the same object. It was generally known that the franc was grossly overvalued and that France had every reason for deciding in favor of a devaluation. But, considering that prices in Paris are about twice as high as in London, it is clearly unjustified to class sterling and the franc in the same category. Yet, during the course of Congressional discussions, the view emerged more than once that both sterling and the franc should be devalued.

French Devaluation

As to the recent franc devaluation there is no reason to suppose that, by embarrassing Britain through the restoration of a free foreign exchange market with fluctuating rates, the French Government has solved the problem it has set out to solve. That end could have been attained by a straightforward devaluation to a sufficient extent to inspire confidence in the franc at the new level. It is open to question whether the rate of 214 francs to the dollar is high enough from that point of view. But in any case that rate could hardly inspire confidence seeing that the French Government itself does not trust it. This at any rate appears from the fact that French exporters and other holders of dollars and gold have now been authorized to sell their holdings to the highest bidder at rates much higher than the official rates.

The devaluation of the franc may result in a certain amount of repatriation of French capital in the near future. In the long run, however, the method of devaluation can hardly inspire confidence. In any case, if Frenchmen wanted to acquire francs with the aid of their dollars they were in a position to do so even before the devaluation, by selling their dollars in the black market at prices well above the official rates. From this point of view the establishment of a "free" market with fluctuating rates does not provide any additional inducement. And the instability of the "free" franc is bound to inspire distrust. The experience of the exchange fluctuations in the '20s and '30s, when there was a franc crisis in the average every month and it was accompanied on almost every occasion by a political crisis, is still fresh in the minds of most Frenchmen. They will probably prefer to keep their dollars and Swiss francs until after another devaluation that aims at stability, not instability.

The French Government plunges into its freak currency experiment, with utter disregard of advices to the contrary given at home and abroad, in violation of its pledge given by joining the Bretton Woods Agreement. In doing so it is endangering the policy of collaboration in Western Europe. For, although the British Government, having opposed the French scheme to the last, is now doing everything to make the best of a very bad job, it seems highly probable that the increased difficulties caused to Britain and other countries by the French experiment will create bitter feelings. They will certainly hinder the efforts of closer economic collaboration with France. For it is of importance to Britain that sterling should be isolated as far as possible from the "gamblers' paradise" set up in Paris under the new currency system. British exchange restrictions in relation to France will have to be tightened instead of being relaxed. Even so, there is the danger that the development of a discount on sterling on the French black market will accentuate the distrust in sterling, and will make things more difficult for Britain.

Nor is the system under which complete uncertainty prevails about the price of any currency in any way helpful to British export trade. After a straight devaluation of the franc British textile exporters can calculate the extent to which they have to lower their prices in order to be able to compete with France. But under the system adopted French prices will depend on the exchange rate of the moment, and there is no way of predicting the tendencies on the free market. It is a complete mystery why the French Government is so cocksure that it has chosen the right solution. From the point of view of European recovery—on which the recovery of France ultimately depends—it could not have chosen a more unfortunate solution.

The reason why there is such a widespread belief in unofficial American circles that sterling should be devalued lies in the fact that the free market rate of pound notes in New York is well below the official rate of sterling. It cannot be emphasized sufficiently, however, that the price of pound notes gives no indication whatever of the intrinsic value of sterling. The market is extremely narrow. Usually it would be difficult to buy even £100,000 of pound notes at any given moment. For this reason, comparatively moderate changes in the supply or demand are apt to produce exaggerated effects on the price. What is even more important, the market in pound notes is an isolated market, owing to the restrictions imposed by Britain on their import and export in excess of amounts of £5 per traveler. This means that even if prices in Britain were only half as high as in the United States it would be impossible to take advantage of it by buying up the pound notes and spending them on British goods and services.

It would be easy for the British Treasury to raise the price of pound notes to the level of the official parity. This has been suggested repeatedly on the ground that the discount on pound notes is bad for the prestige of sterling and gives rise to devaluation rumors. The Treasury refused to intervene, however, on the ground that a higher price for pound notes would encourage their smuggling from Britain.

Failure of Export Drive

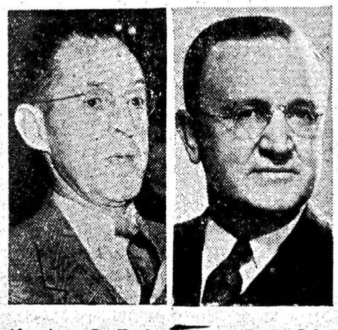
Another reason why a devaluation of sterling is widely anticipated abroad lies in the partial failure of the British export drive. It is known that goods reserved exclusively for export are accumulating in warehouses, partly owing to the fact that other countries are offering them at a lower price. On the other hand, it is equally true that in the majority of exportable British goods demand continues to exceed the supplies available. As far as capital goods are concerned, many British firms have orders which will keep them fully occupied till 1951 or 1952. Since prices have been fixed in sterling, any devaluation would reduce their price in terms of foreign currencies below what the foreign buyers have already undertaken to pay. It would simply mean giving money away. The process of the development of buyers' market would have to go much further before a devaluation of sterling would become a paying proposition. Even in the lines in which there is an unsold exportable surplus a devaluation would not necessarily help, for the difficulty is largely due to the inability or unwillingness of financially weak countries to buy luxuries or secondary necessities at any price.

It is known in well-informed circles that the Cabinet has not even considered the idea of a devaluation. This does not mean, however, that the government is dogmatic about the maintenance of the present parity, or that it considers it a matter of national honor to defend sterling with the last drop of its blood. Indeed, in the course of negotiations between London and Washington during the last five years or so the British Government has always endeavored to reserve its right to devalue sterling if and when it should consider this necessary. The Treasury is watching the situation carefully and should it at any time arrive at the conclusion that a devaluation would improve the British balance of payments proposals in that sense would be submitted to the Cabinet. But, at present, the Treasury's view is that a devaluation would actually widen the gap in the balance of payments instead of lowering it, because the increase in the volume of exports that would result would not compensate Britain for the loss of foreign exchange caused by the lowering of the price of goods which could be exported on the basis of the present parity. It has often been stated that Britain's dollar difficulties have been mainly due to the adverse change in the terms of trade, through an increase in the price of imported goods without a corresponding increase in the price of exported goods. A devaluation would further accentuate this adverse change. For this reason, it may safely be ruled out for the present.

Eccles Replaced as Federal Reserve Chairman

T. B. McCabe, Chairman of Philadelphia Reserve Bank, is named to office, but Eccles remains as Vice-Chairman. Change may end dsipute on fiscal policy between Secretary of Treasury Snyder and Reserve Board.

In a surprise move, President Truman on Jan. 27 nominated Thomas Bayard McCabe, a Republican, at present Chairman of the Federal Reserve Bank of Philadelphia and President of the Scott Paper Co., Chester, Pa., as Chairman of the Board of Governors of the Federal Reserve System to replace Marriner S. Eccles, who has held the office since 1936 under appointment by the late President Roosevelt. The step was revealed in the publication of letters between the President and Mr. Eccles. In a letter to Mr. Eccles the President wrote:



Marriner S. Eccles Thomas B. McCabe

"Dear Mr. Eccles:

"Shortly after I became President you offered to resign as Chairman of the Board of Governors of the Federal Reserve System and said it was your feeling that the Chairman, who is designated by the President, should serve at his pleasure. I told you then and on other occasions that there was no one I desired to appoint in your place.

"You will have completed your present term as Chairman on Feb. 1, your appointment as a member of the board continuing until 1958. As I explained to you last week, it is now my preference to appoint a new member of the board to fill the vacancy created by the death of Vice-Chairman Ransom, and, when confirmed by the Senate to designate him as Chairman.

"This decision, as I assured you, reflects no lack of complete confidence in you, or dissatisfaction in any respect with your public service, or disagreement on monetary or debt management policies, or with official actions taken by the board under your chairmanship. All who are familiar with your record recognize your devotion to the public welfare and the constructiveness that has characterized your leadership in the Federal Reserve System.

"Therefore, I urge you to remain as a member of the board and to accept the Vice-Chairmanship so that the benefit of your long experience and judgment will continue to be available and so that you may carry forward legislative proposals now pending in Congress dealing with the important problems of bank credit as outlined in the President's economic report to Congress, as well as with other matters in the interest of a sound banking system and a sound economy.

"Sincerely yours,

"HARRY S. TRUMAN."

Eccles' Letter

Mr. Eccles replied as follows:

"My Dear Mr. President:

"You have stated in your complimentary letter the substance of our conversation of last week. As I advised you then, I desired to have time to consider fully your decision and request. I have not altered my conviction that the Chairman of this Board should serve at the pleasure of the President, and I sought to have such a provision included in the Banking Act of 1935.

"I have carefully considered your request. After consultation with close friends and associates on the board and because of the reasons mentioned in your letter, I have decided to remain with the board in the capacity you suggest.

"Respectfully yours,

"M. S. ECCLES, Chairman."

Mr. Eccles term as Chairman of the Federal Reserve System expires at end of this month, but his term as a Governor of the Federal Reserve Board does not expire until 1958. In accepting the post as Vice-Chairman, Mr. Eccles, who has had the dominating position in fixing the policies of the Federal Reserve and who has differed in his views from Secretary of the Treasury Snyder regarding imposition of further credit controls, thus ceases to be the spokesman regarding fiscal policies in relation to banking.

The shift in the Chairmanship of the Federal Reserve System is regarded as a move to end the conflict of views on fiscal policy in Administration circles, and is generally conceded as a victory for the conservative forces, headed by Secretary of the Treasury Snyder. A short time ago, Mr. Eccles appeared before Congressional committees urging the enactment of further credit restrictions, chiefly in the form of creating a special reserve by member banks as a check on undue credit expansion. Mr. Snyder, on the other hand, testified before the same committees that he was opposed to the plan on the ground that it would be ineffective. More recently, Mr. Allan Sproul, President of the Federal Reserve Bank of New York, also criticized Mr. Eccles' proposals.

Warburg to Lecture At New School

The New School, 66 West 12th Street, announces a series of six talks by James P. Warburg, economist and writer, on "Secretary Marshall's First Year" beginning on Thursday, Feb. 12 at 6:20 p.m.

James P. Warburg

The course reviews the history of American foreign policy under the leadership of Secretary Marshall and covers such problems as Germany, the various proposals for solution of economic and political problems, the Far East and Near East in terms of the Truman Doctrine, the Marshall Plan and American policy in the United Nations, American and Soviet foreign policy.

Specific lecture titles are: Feb. 12, "What Marshall Inherited"; Feb. 19, "Military Picture"; Feb. 26, "Deadlock Over Germany"; March 4, "Return to Reason"; March 11, "Period of Deployment"; March 18, "We Don't Have to Fight Russia."

Kenneth Smith Dead

Kenneth L. Smith, former President of the Chicago Stock Exchange, died at the age of 44. He retired in 1945 because of ill health, after serving as President of the Exchange for six years.

Causes of the Abnormal Capital Market

(Continued from page 2)

would our liberties. Thus, the stakes are high and it is therefore useful and in the public interest to have these panel discussions to analyze the problem and to explore possible solutions.

Defunctionalizing the Market Mechanism

The first prerequisite is to admit and to prove to the public that a good many things which have been done—some of them under the exigencies of the war—will not work in peacetime, are detrimental to the economy and must be reversed. Now, Wall Street has long since been prepared to admit that there were abuses in the 20's which cried for correction, but it does not follow that corrections should go to the point of defunctionalizing the mechanism of the market. The general talk now is that we have an investment market, as if that were a virtue. There is no credit to speak of in the market, to be sure and Wall Street, as a high Federal Reserve Board official recently pointed out, is in the unusual position where it cannot be blamed for anything. But that does not prove that the market is in a sound position viewed from the standpoint of the economy as a whole. As a matter of fact, it is not an investment market in the sense that such a phrase would imply. The phrase suggests that it is almost an ideal market from which all unhealthy and extraneous elements and speculation have been removed and that it enjoys the inflow of investment funds that you might expect from an economy that is employing 60,000,000 people and producing a gross national product of $230 billion. Now this is an illusion—it just is not so. This flow has been cut into a fraction of what it would normally be by a combination of factors which have all worked in the same general direction.

(1) First and foremost among these is our income tax structure. This has worked to reduce the amount available for investment in various ways. First, it has siphoned off into the Treasury funds which would otherwise go into the equity market, and this has taken place at an alarming rate. One of our recent studies points out that taxes are taking the bulk of the money which otherwise would have become equity capital. Permit me to quote from our Fortnightly Review of Dec. 2, which had the following to say on this point:

"Roughly $2 billion of new capital for equity securities was required in 1946 and an amount of about $1.5 billion will be raised in 1947. Two billions may not seem a large amount in a $230 billion economy, but its limited source has been narrowed by taxation. The bulk of the new money for stock commitments probably originates with people earning $25,000 and more. Back in 1916, the 40,000 people who had pre-tax net income in excess of $25,000 had an aggregate net income after taxes of $3.2 billion. By 1929, this group had grown to more than 103,000 individuals with a combined income of $7.3 billion after taxes. In 1942 (the latest year for which official data is available) they still numbered 91,000, but their aggregate income after taxes had been reduced by steeply progressive surtax rates to only $2.2 billion. In 1942, persons with income of $1,000,000 or more kept only $21 million after taxes, or only 5% of the $400 million this group retained in 1916, and only 2% of the more than $1 billion it retained in 1929. As virtually all of the post-tax income in this strata is available for venture capital, this very important source of supply has entirely dried up. If we could bring the comparison up to date, it would undoubtedly be found that the aggregate income of people called upon to supply most of the new equity money has not changed much since 1942. It is apparent from the figures cited above that the amount of money available for new equity investment, after allowing for living expenses and other forms of savings, falls far short of present requirements."

In other words, our income tax structure has not only been a general deterrent to private capital formation, but it has been particularly severe in just those higher brackets on which the economy absolutely depends for venture capital.

Secondly, the incentive to save in order to buy a dividend-paying equity has been reduced by perhaps 30-40% on the average by the tax which comes off the dividend. Moreover, this tax represents the second tax on the same earnings which have already been levied upon prior thereto by the corporate income tax. Nor is this all. For one thing, as part of our national pattern of discouraging venture capital and fostering debt financing, we tax interest payments only once—to the recipient, while to the payor, interest is not only not taxed but actually becomes a deductible item. In the case of State, municipal and similar obligations, we go even further. In addition, our income tax structure has become so warped that a good dividend declaration often operates as a market depressant on the stock on which it is declared. So heavy is the tax on the dividend paid to any sizable holder that he must ask himself whether he would not be better off to sell the stock before the dividend date and try to buy it back after it has gone ex, in the hope that in circumventing the dividend date and making a capital gains transaction out of it, he will not lose as much marketwise after taxes, and will be left with some return on his money. Now, any grammar school child would recognize that this is economics gone crazy, but so far the Administration has blocked any move to change the situation. Here is a job to be done by the participants in this panel discussion and the same is true of the third facet of the tax structure as it applies to the stock market—namely, the capital gains tax.

The capital gains tax has not only been a deterrent *per se*, but has introduced distortions into the market by inducing the people to let their market judgment be swayed by the mechanism of this tax, such as liquidating an already depressed security to establish a tax loss or refraining from selling because the holdings are not six months old. This has been bad for the economy at large, contributing to concentrated liquidation such as was witnessed, for example, in September, 1946, exaggerating the fluctuations of the market and impairing its normal functioning. The capital gains tax should be abolished. The truth of the matter is that capital gains are not income. They never have been, and no other country ever thought that they were until we decided to tax them as such. But no one has been able to convince the Treasury officials of the error of their ways on this point, much less persuade them that they would get much more revenue out of it if the tax were reduced to, say, 10% and the differentiation between long and short-term gains abolished. Here is another job to be done; here is something else to be put up to your Senator and Congressman. Taken together, the high income taxes and the capital gains tax have had a dual effect—they have not only served to constrict the normal well springs of equity capital, but have, in addition, driven appreciable amounts of already existing equity capital out of equities into tax-exempt bonds—thus adding to the problems created by the easy money policy of the past decade, which I shall touch on again later in another connection.

The Severe Margin Requirements

So much for the income tax structure. I come now to the second obstacle to equity capital financing—the manner in which margin requirements have been handled.

(2) The right to hypothecate property is one of its inherent attributes and contributes to its value. If you abridge this right you detract from its desirability and hence from its market price. This is exactly what has been done by the capricious control which the Federal Reserve Board exercises over margins. I will not go into details here to explain what havoc has been wrought by this policy in impairing the usefulness of the security mechanism, but refer you instead to the many thoughtful and telling speeches of Mr. Emil Schram, the President of the New York Stock Exchange, on this subject.[1] I do want to emphasize, however, that the use of its power over margins, which for over a year were held at 100%, has tended to reduce the volume of capital that would normally flow into listed equities. As between various kinds of income-producing property that a man can buy, he will broadly prefer one that he can, if necessary, hypothecate freely—such as an equity not subject to this ban, commodities or real estate. There is no question but that the margin requirements have diverted funds into the real estate market, resulting in the very situation of which Mr. Eccles, in his recent testimony on the need for additional inflation controls now complains, just as the 100% margin requirements helped to create the bubble in the new issue market in 1946 which had such unfortunate consequences.

As for the commodities, it was just the other day that Mr. J. M. Mehl, the administrator of the Commodity Exchange authority, in his annual report called attention to the diversion of trading from securities into commodities as a result of the Federal Reserve Board's high stock exchange margins, as having contributed to the big commodity markets last year. This observation has been advanced as an additional reason for the necessity of subjecting the commodity exchanges to stricter controls, including margin requirements, by Congressional action. It is a typical example of how one misstep leads to another—for it certainly was not speculation which has been responsible for the rising commodity markets—and also illustrates one of the basic misconceptions with which Washington has been imbued these many years and which needs to be reversed—namely, the notion that speculation—all speculation no matter what its character—is bad *per se*. The fact, of course, is that the presence of risk-taking money in a market contributes to its liquidity, and the tangible evidence that this liquidity has been impaired particularly in a second and third-grade equity, and that you cannot sell except at a sharp discount, should that prove necessary, has in itself been an important deterrent to investment as well as to speculation. This leads me to my next and third point.

Adverse SEC Regulations

(3) Apart from and in addition to the just mentioned impairment of market liquidity, the general attitude in Washington toward profit, speculation and risk-taking has been a broadly depressing stock market factor since 1933—and thus an underlying obstacle to equity financing. I refrain from further elaboration and mention it here only for the purpose of citing a few of the legislative, regulatory and policy impediments which were born out of this philosophy and which in turn contributed further to constricting the security mechanism and the flow of equity capital.

There is, for example, Section 16(b) of the Securities and Exchange Act of 1934, which deals with corporation officials and controlling interests trading in their own stock; while this section has some theoretical justification, the practical effect has been to deprive the market of the support of such buyers in the case of undue declines, or of sales in the case of excessive advances, thus accentuating fluctuations to the detriment of the security mechanism. It has also been a great deterrent to listing securities of companies on the Exchange. Congress should be urged to eliminate all the restrictions in this section except the disclosure requirement which if reported and released promptly by the SEC should be sufficient to prevent abuses.

Another section which might receive attention is Section 11(d) which bars the extension of credit on new issues for one year, even on unsolicited brokerage transactions of firms who participated in an original offering either as dealer or underwriter; as a result of this clause, many houses as a matter of policy decline to participate in underwritings of additional issues of listed stocks, lest they prejudice some of their brokerage clients at some later date. Provisions such as this impair the smooth functioning of the security mechanism—they accomplish no useful public purpose and should be revised. I am glad to record that a modification of the structure of this section is now under consideration by the SEC.

Attention should also be given to modifying Section 102[2] of the Internal Revenue Code, which deals with the undue accumulation of surplus "beyond the reasonable need of business," whatever that means. The very vagueness of this language and the uncertainty as to how an individual case may be treated at the hands of a Keynesian-minded bureaucrat makes it difficult, if not impossible, for a corporate treasurer, particularly in the case of smaller companies, to do any intelligent planning. The same criticism of official capriciousness may be leveled at the Treasury regulations governing depreciation charges—the depreciation method chosen should be optional with the corporation, not the Treasury Department—nor would the Treasury in the long run and considering the economy in the aggregate, lose any revenue if this were done. Modification by Congressional mandate of Sections 102 and of the depreciation regulations would provide two additional sources of capital without any open market financing.

Wants Security Acts Amended

I refrain from adding to the list, but do suggest that you will be doing a constructive piece of work if you urge your Congressman to support the amendments to the Security Acts when they come up at this session of Congress—the proposals represent years of careful study of the undesirable effects of certain specific sections of these laws by all the elements in the security business.

(4) Let me instead turn to another phase of the anti-equity philosophy — namely, the easy money policy. This is part and parcel of the Keynesian over-saving and under-consumption theory which provided the intellectual rationalization for the soak-the-rich tactics on the one hand, and for the succession of government budget deficits which required easy money on the other. The governmental actions taken on the basis of the premises which follow from these concepts—to wit, that there was too little consumption and too much savings, were obviously unfavorable to equities, because the tax and other measures taken to implement the policy when examined economically represented a redistribution of income and assets at the expense of existing equity capital.

(5) A joint product of the tax structure and the easy money policy has been the shift in the character of savings. Of the total, a much larger proportion that was true, for example, in the 20's, now flows into the market via institutions such as savings banks and the insurance companies which by definition as well as by law must place these funds largely in sheltered securities. This is at the expense of the amount available for equity investment. The fire insurance companies buy some common stocks, but broadly speaking the growing proportion of funds flowing into the insurance companies and the savings banks, through most of the thirties competed with each other to find an outlet in priorities, in bonds, mortgages or preferred stocks. Until the war came and supplied an endless amount of government paper, this put a premium on this type of security and was an important factor in supplementing the easy money policy which was based on the erroneous assumption that cheaper money would promote capital investment. Now the shoe is on the other foot, and we are faced with the question whether the present rates will suffice to produce the capital required by industry even if we reduce taxes. It is true that the volume of savings has been to a considerable extent a matter of prudent foresight rather than the rate of interest, but we now need much larger savings. Whether an increase in the interest rate would induce substantial additional savings, and if so how much of an increase would be necessary, has been fully discussed by the foregoing speakers.

Price Level of Stocks Abnormally Low

The net effect of all these factors has been to produce a price level for stocks which is abnormally low, as measured by any of the historical yardsticks such as the price earnings ratios, book value, net current assets, cash position. This historically low level of stock prices which has now persisted over a number of years has produced results of its own quite apart from all the other factors I have already mentioned. It has of itself become a powerful deterrent to equity financing and by the same token added to the already burdensome volume of financing that seeks to be done by bank credit or the bond and preferred stock markets. When any new financing is required, a corporation or an individual owner naturally shrinks from equity financing once he realizes how little he would get when in his

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1 Particular reference is made to "Economic Progress," a tax study submitted by the New York Stock Exchange, in the preparation of which Mr. Schram collaborated.

2 In this connection reference is made to the excellent statement entitled "Capital Goods Industries and Tax Reform" presented to the House Ways & Means Committee on Nov. 17, 1947, by Mr. George Terborgh, Research Director of the Machinery & Allied Products Institute.

Causes of the Abnormal Capital Market

(Continued from page 25)

own mind his equity is worth very much more than the market would pay. Hence, to raise capital, the individual or corporation is virtually forced into priority financing. And now we have arrived at a juncture where the demand for such priority financing is such that it is completely out of line with interest rates being paid in the markets which might be appropriate to the situation were it not for the fact that so much financing that would normally be done by equity financing now demands satisfaction via the bond market or bank credit. For 15 years we have gone out of our way to encourage debt financing, while at the same time doing everything possible to discourage equity financing. The results are exactly what you would expect.

The chart here based on figures compiled by the National Industrial Conference Board[3] shows graphically what has happened in the new issue market. The improvement in the corporate balance sheet achieved in the twenties was drained off in the thirties and now again we are in the process of dissipating the war time accumulations of corporate capital assets.[4] We are moving in a direction where in many individual cases further additions to borrowings, even if the funds are available in the market, will become both difficult and dangerous because the equity cushion has worn too thin.

Too Much Consumption, Too Little Savings

We are now faced with the dual penalty for our easy money policy on the one hand and our whole anti-equity policy on the other. We are confronted with the Keynesian problem in reverse —we now have too much consumption and too little savings. More particularly we have too little savings of venture capital in relation to other types of saving. Our inflationary agricultural and fiscal policies have produced a level of consumption which has gotten out of line with our productive capacities and in the face thereof the rationalization for the continuation of the short work week and the featherbedding problem is, of course, again the old under-consumption theory—higher wages are demanded to keep pace with the higher prices and they, labor insists, must come out of the profits of industry—at a time when these profits together with the savings of the society, are already inadequate to meet the enormous demand for capital.

It is out of this set of forces plus the deliberate stiffening of the short-term money rates inaugurated in the spring of 1947 that the broad shift in bank interest rates and market levels for corporate bonds and high grade preferred stocks developed last fall. This shift simply reemphasized the dearth of equity money. One of the by-products of this shift in the bond market rate structure as well as illustrating the pressure to do priority financing has been the number of cases of loans made to corporations directly by insurance companies at rates slightly above the high grade government bond market, to finance which they have sold long-term governments, which in turn have been bought by the Federal Reserve System as part of its open market support program. Since nothing can be done about the easy money policy, or rather since the powers that be have decided to hold the long-term government bond market, obviously the only other alternative to resolve the present dilemma is to make the equity market more receptive.

Equity Markets Need Revitalization

A statesmanlike policy, therefore, would look to steps to shift the load from the bond and preferred stock market and take measures to revitalize the equity markets to assume the burden, or at least a part thereof. Actually, this involves no more than to restore the stock market to its normal functioning. As I have just stated, from the standpoint of the bond market, there is all the more reason to do this as, in one sense, there is no choice. If it is desired to maintain the present easy money policy, which is anchored to a long-term 2½% rate, it can only be done if the present pressures to do bond financing rather than equity financing are ameliorated. If this is not done, it is problematical whether all the financing that is pressing to be done can be handled without putting the money managers in an untenable situation—that is to say, where institutions in order to accommodate the market's financial requirements, sell such large quantities of governments to the Federal that the latter is pressed into the position where it must ask itself whether it is wise to continue to buy them at a 2½% rate or if it had not better back away again to a 2¾% or even 3% basis. Now there are many forceful arguments why this is just what should be done and these arguments have been made. There are no less cogent arguments against it. Without stopping to examine the theoretical pros and cons of this controversy, it should be obvious that from the Administration's own point of view there is every reason to support a policy to revitalize the equity distribution mechanism if that will ease the strain of holding the long-tem 2½s above par. Mr. Eccles himself in his testimony of December 4 pointed out that it would require vastly larger support purchases to hold a rate of 2.60 or 2.65 than a 2.45 rate for the money managers would run the risk of having to absorb the huge quantity of E, F and G bonds at the higher figures, not to mention the fact that some of the country banks would require additional capital at such levels to offset losses on their bond portfolios which would in addition to other things create unwelcome political problems. Finally, of course, there is the large short-term debt-maturing within the next year.

From the administration's point of view and the money managers' there is really, therefore, no alternative. The decision has been made to hold the long-term bond market, which decision, as far as the market was concerned, was made as far back as November 14, when the peg bid first appeared. The lowering of the beg prices on December 24, which in the case of long-term 2½s amounted to a mere 3 basic points—that is from a yield of 2.45 to 2.48—does not alter the situation from the point of view of this discussion.

So far, however, nothing has been done to revitalize equity financing. The Federal Reserve has not even receded in such minor matters as permitting switches in restricted margin accounts, a ban for which there is not even a theoretical excuse. Even the planned economy of England permits switching in the American market in blocked accounts. This is, of course, only a minor point but symptomatic—obviously we will have to go much further than that. The Federal Reserve takes the position, and I think I am stating it correctly, that it does not want to lower margin requirements here because it is afraid the higher level of stock market prices will encourage additional financing, the application of which to new construction would only add to the existing inflationary pressures. A plausible case can be made for this but it overloks the fact that in so doing it merely further encourages the continued financing via debt instead of equities, a process which is already creating pressures and problems; in any event a beginning had better be made promptly—even at the expense of some inflationary pressures—though this would be argued because it will take time to restore the equity distributing mechanism to the point where it will be capable of attracting some real savings from the people. Considerable legislation will have to be reversed or modified. The Treasury has consistently taken the position that there shall be no tax reduction, and that after our foreign commitments have been taken care of, any surplus shall be applied to tax reduction, without any thought whatsoever of the requirements of our capital markets, which at this juncture are paradoxically much more important to the economy than the reduction of debt. Moreover, the latter operation—paying off of debt by applying the Treasury's cash surplus this quarter if not handled very astutely by the money managers may have very deleterious effects on the amount of new money which the capital markets will be able to produce this year. The truth of the matter is that the equity market is not a spiggot which can be turned off and on at will. It will take time and thought to restore it.

President's Tax Proposals

I might add here that the President's latest tax proposals are obviously the very antithesis of what the situation requires when examined from the point of view of the greatest ultimate good to the greatest number. We do not need another temporary fillip to mass consumption at this time; on the contrary, the $40 per capita cost of living bonus will only aggravate our already existing problems. What is needed desperately is tax relief on the other end of the scale—tax relief for venture capital, for job producing capital against the day when the inflationary pressures have subsided. This the President's proposal does not provide. Instead he wants to step up corporate taxes which will again be at the expense of the capital available to the economy, forcing corporations to resort to more bank credit to finance their needs, in addition to raising their costs of doing business and hence also making for higher prices. As the New York "Times" put it editorially last week, for one who is supposedly interested in curbing inflation, Mr. Truman has put forth a thoroughly inflationary proposal. The President is now proposing the very opposite of what he was urging two months ago; he was on sounder ground in his message to the special session of Congress in November when he said: "Every dollar that is saved instead of spent is a dollar fighting against inflation."

In view of the foregoing I think you will agree that it is virtually impossible to say how much new equity money might be forthcoming in 1948—the statistical data is pretty elusive at best, nor could it be otherwise when confidence plays such a large role in determining whether a man whose earnings justify a commitment in the stock market actually does so directly or via an investment trust[5] or whether he does something else with his money. It is pretty clear, however, that the current generation of equity capital is too low to absorb the amount of equity financing that we ought to be doing at this level of business in addition to providing for the absorption of foreign selling, estate liquidation and other similar normal withdrawals from the stock market. The real question for the moment, therefore, is whether and to what extent now idle funds can be drawn into the market. There are $13 billion of governments in the hands of corporations other than financial institutions, and $66 billion in the hands of individuals including $52 billion of savings bonds, of which $31 billion are Series "E." Idle bank deposits which are potential investment money may be roughly estimated at at least $20 billion. To induce some of these funds to move into the equity market will require a basic change in philosophy—we can all contribute individually and constructively to bring such a change about.

Business after all has the greatest stake of the whole community to continued prosperity; it is not callous to rising prices, unemployment, inflation or the evidences of distortion in the economy—rather, the reverse is the case—it is deeply concerned with these problems. I submit that a basic approach to the elimination of these dangers lies in taking steps to promote an adequate flow of capital—particularly venture capital.

3 See table, page 42, of the Economic Almanac 1948 of the Conference Board, based on figures compiled by the Commercial & Financial Chronicle.

4 See monthly letter of National City Bank for January—page 10.

5 $186 million of new money flowed into the investment trusts in 1947, of which perhaps $120 million flowed into the stock market.

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and with food, materials and equipment sufficient at least to help meet the critical shortages of the rest of the world. To the appeals from Europe and elsewhere the United States has already made extremely generous responses—through UNRRA, through post-UNRRA assistance, through surplus property and lend-lease credits, through the recently enacted Interim Aid law and other measures.

Now United States representatives have announced America's disposition to make still further response through the European Recovery Program, and the great debate on that program is under way.

The European Recovery Program deserves a great debate. It is the most ambitious plan of reorganization ever recorded in history. Upon its success or failure many heavy issues depend.

Much of the debate may be cast in terms of power politics, much in terms of humanitarian considerations. These are relevant and important factors. But neither politically, nor in the long run from a humanitarian viewpoint, will United States assistance be effective unless it is economically successful, unless it enables Europe so to reorganize its economy that it will become self-supporting at a decent standard of living within a reasonable period of time.

In my judgment, such a reorganization is feasible if the United States, and particularly the European participating countries, act with the boldness, the imagination and the vigor which the situation demands.

There are few reorganizations in which it is possible to guarantee success, but reasonable prospects of success should always be the basis of any plan. And success usually does follow from a combination of good assets, a sensible program, good management and sufficient new money. All of these essential elements are, I believe, either present or can be provided in connection with the proposed reorganization of Europe.

Let us look first at the assets to be dealt with.

Europe Not Moribund

It is usual to think of Europe as moribund or hopelessly weak. But the facts belie that misconception. What we are dealing with is an area containing some 270,000,000 people, highly skilled, with a heritage of education unparalleled in the world and with a technical productive know-how surpassed, if at all, only in the United States. These 270,000,000 people are possessed of incalculably valuable assets in their traditions of personal freedom, parliamentary government, a rich culture and other great intangibles by which all progress from the jungle is marked. They are possessed, too, of material assets of such value as to compare most favorably with the productive potential of the United States itself. While we may concede that none of the European countries, including Great Britain, has the strength to play the role of world leadership which many of them played at one time or another in the past, collectively their assets add up to what is still one of the two most productive areas on earth. Indeed, the main reason to support an aid program for Europe lies not in Europe's weakness but in her inherent strength.

Before the war, Marshall Plan Europe produced considerably more coal than the United States. Her production of electric energy was 130 billion kilowatt hours as compared to 117 billion in the United States. Her shipyards produced more than seven times the gross tonnage of American shipyards, and her production of textiles was considerably greater than the United States production. In the best pre-war years, her steel output of about 55 million tons almost equaled the very best of pre-war American tonnage. Her output of machinery, electrical equipment and the other tools of production was enormous. Her transport system carried almost as much tonnage as that of the United States, and her agricultural production, although not strictly comparable with that of the United States, was in the same order of magnitude. Of the basic commodities, only in such items as oil, some of the non-ferrous metals, lumber, and cotton did the United States have a decisive productive advantage.

Generally speaking I believe I am right in saying that the physical capacity of Europe today is almost equivalent, if not entirely so, to that which existed prior to the outbreak of the war. There is need for replacement and modernization, but if the existing capacity can be utilized to the full, there can be some deferral of large new investments in capital equipment.

We have, then, as basic assets for our proposed reorganization a great mass of people with outstanding cultural strength, technical ability and political morality, and with a great productive plant at their disposal. We have another asset, too, which is equally important—a will on the part of those people to work hard, if need be to endure austerity over a long period of time, in order to achieve recovery. The astounding progress made by the European nations since the end of the war, despite the vast destruction, the fundamental disruption of trade, the loss of foreign investments and shipping, and the devastating effects of the weather, bears eloquent testimonial to this will to recover.

I visted Western Europe during the war and again at the close of the war in 1945. The European economy was then almost at a standstill, production was at a low ebb, governmental machinery was either non-existent or in low gear, transportation was scarce and halting, the flow of trade was almost non-existent. When I revisited the area last fall, there was a most marked contrast. The productive machine was turning over, and turning over amazingly well, the transportation system was in effective operation, and trade was once more moving. The improvement, to be sure, is attributable in good part to postwar credits by the United States, Canada and a few other countries, and to the expenditure of Europe's dollar balances, but by far the chief contribution has been made by the energy, the ingenuity and the determination of the European peoples themselves.

Let us look at some of the accomplishments since the end of the war. Of the some eight million displaced persons found in Germany, Austria and Italy, nearly seven million have been repatriated and the resettlement of the remainder is proceeding. Vast areas of arable land have been cleared of mines and war wreckage and restored to the plow. Despite the unprecedented destruction of railroad bridges, marshalling yards, cars, locomotives, trackage and other facilities, the European railways, through intensive effort and rapid turnover of available equipment, carried more passengers and freight in 1947 than in 1938.

In other fields, too, there has been encouraging improvement. At the middle of 1947, Marshall Europe's shipyards had under construction approximately 3,340,000 gross tons of merchant vessels, almost 50% above the mid-1939 level; 1,540,000 gross tons were launched in 1946, as compared with an average of about a million tons before the war. Production of electric power shows the same improvement, an increase from 130 billion kilowatt hours yearly in 1938 to 170 billions in 1947. Coal production is still below pre-war levels, but even in this field remarkable strides have been made. Excluding the output of the United Kingdom, production of coal in Marshall Europe increased from 41% of prewar in 1945 to 88% of prewar in October, 1947. In the United Kingdom the output was 80% of the prewar in 1945 and by November, 1947, had reached 92% of the prewar level.

I could give you many more similar figures, but suffice it to say that, despite all obstacles, industrial production in the United Kingdom, Belgium, Denmark, Norway and Sweden was running at a higher level in 1947 than in 1937, that France and the Netherlands were approaching pre-war levels, and that only in Italy, Austria and the Western Zones of Germany was production still at a low ebb compared to prewar.

This improvement in industrial production reveals the inherent strength of Europe and gives reasonable assurance of the success of the European reorganization plan now proposed. It does not, however, detract from the need for that reorganization. For the improvement to date has, as I have said, been due in part to foreign aid, in part to drawings upon the European dollar balances. It has also been accomplished at the expense of depleting Europe's working stock of fuel and raw materials. And even apart from these factors, it must be remembered that European industrial production must far exceed the prewar output if Europe is to become self-supporting at a standard of life even approaching that enjoyed before the war.

Reduced Agricultural Production

There are many reasons for this. For one thing, agricultural production is, and will for some time remain far below that of prewar years, necessitating heavy imports of food. The population of Europe has increased by about 10%, which means that, without increased production, less food and other consumer goods per head will be available. At the same time, there has been a change in the terms of trade to the substantial detriment of Europe; prices of the food and raw materials which constitute the bulk of European imports have risen considerably more than the prices of industrial goods which Europe exports. Again, foreign investments have had to be liquidated, resulting in the loss of substantial prewar foreign exchange earnings. Similarly, the destruction of merchant vessels during the hostilities has meant that, instead of earning dollars from shipping as in prewar days, Europe now must spend dollars for shipping services. Perhaps most important of all, the extent of war devastation has been so great that a substantial portion of Europe's productive output must be diverted from current consumption to reconstruction of the basic stocks of wealth—housing, transport, plants, tools, machinery and raw materials.

These inherent economic difficulties have been aggravated by the disruption caused by the war in the normal flow of international trade. The shattered nervous system of European trade is the most difficult thing to repair; the normal routines and systems of such trade can be reestablished only after trade barriers are lowered, restrictions are removed and currencies become so stabilized in value that confidence in them is once again restored. All of these steps are possible, but they take time to accomplish.

One frequently hears it repeated that Europe's present weakness is due primarily to her own mismanagement, that if she took the necessary internal measures to balance her budget, free her trade and stabilize her currency, external assistance would not be necessary. Such generalizations overlook the basic economic difficulties I have mentioned. Of mistakes there have been plenty, but to portray those mistakes as the dominant factor in the situation is to distort the picture completely. That becomes clear if we look at what has happened and is happening in certain of the major European countries.

Case of Great Britain

First take the case of Great Britain. In many respects her problem is more difficult than that of the other large Western European countries. Being so heavily dependent upon her foreign trade for subsistence, having so relatively few agricultural products within her own borders, the disruptions of trade that have occurred as a result of the war deeply affect her.

I have already made reference to substantial losses in her foreign investments and it was her foreign investments and her income from services now largely impaired on which England relied for approximately 25% of her necessary import costs. Due to many factors her coal production, perhaps the chief basis of her nineteenth century economy, has seriously lagged. Today England is making very determined efforts to improve her coal production and again to export coal to the continent.

Another large item in England's balance of payment picture is the rise of world prices in foodstuffs and raw materials. It has been the pattern of her economy to import foodstuffs and raw materials and export finished products. The prices of finished products have not gone up as much relatively as have the cost of the imported food and materials, yet without these imports the Island is really gripped by the throat and her economy comes to a dead stop. She is maintaining important subsidies and her controls are rigid but in periods of great scarcity it requires great faith indeed, particularly if you are in a position of responsibility, to assume that the absence of allocations and controls will bring plenty. Even the United States did not possess this faith when faced with the shortages and needs of war and England's present plight is comparable to the necessities of war.

Yet with all the question marks that face the English recovery, none seems absolutely insurmountable in the light of the discipline, character and political maturity of her people.

France, Italy and Holland

Take next the three countries which suffered most from war devastation and enemy occupation, France, Italy and Holland. In each there are important elements of strength, and their problems, while serious, certainly do not appear insoluble.

Perhaps of all the countries in Europe, France has the greatest reserve of valuable material assets. Her food problems in normal years are minor; she has the possibilities of a good balance between her agriculture and her industry; she has iron and coal, and though her political situation is unstable her people are industrious and tenacious. Given a normal crop yield, a period of political stability, increased imports of British and Polish coal and a stabilized budgetary and monetary position, France not only would recover but would be a powerful stabilizing influence throughout all the rest of Europe.

In Italy, reconstruction is proceeding well, in spite of the great physical destruction that occurred during the war, the disruption of much of her prewar trade, her shipping losses, the falling off of tourist receipts and remittances from abroad, and the troubled political situation. Every recent observer is struck by the energy and will to work of the Italian people, by their desire to forget the past and forge a new and brighter future. By last autumn production had revived to about three-fourths of prewar, and further advances were prevented only by the lack of imported raw materials and fuel. The Italian Government, under intelligent, courageous leadership, has instituted vigorous and relastic measures to restore financial stability. The increasing economic importance of the Middle East creates prospects for increased trade of substantial potential significance. Given a revival of Italian trade with Germany and the Balkans, and a reasonable solution of her surplus population problem, Italy should be able to plan an important and constructive role in the future economy of Europe.

Holland was particularly hard hit by the war, but in her efforts to recover she has given the world an outstanding example of courage, character and hard work. Holland's cities, ports, transportation systems and even the land itself were ravaged by the invader. Her great ports of Rotterdam and Amsterdam were heavily damaged and the continued occupation of Holland by the Germans made it impossible for the Allies to use Holland as a base. In addition her colonies, due to political and military disturbances, have for the time being become liabilities rather than assets. No doubt because of these heavy inroads on her economy and the drains imposed upon the nation, heavy controls were instituted to which the people have responded with a discipline which is comparable to that of the British.

Holland, particularly due to the fury of the German invader, is having a hard time. But despite their low rations her people are working extremely hard and they have made great advances in the reclamation of their land. If matters can be straightened out in Indonesia and a substantial revival of the exports from that area can be resumed, and if some restoration of the German economy can take place so as to serve as a base for the Rotterdam and Amsterdam trade, I should say that the future of the Dutch would be assured. Neither of these two things have as yet been accomplished but neither is so remote as not to justify hope.

Finally, take the case of Belgium. Belgium had relatively little physical destruction. The invader ran over the country quickly and was run out of the country quickly. He did not have time to tarry long with destruction. The Allied Armies spent large sums in Belgium toward the end of the war which enabled Belgium to accumulate dollar and sterling balances and the use of reserve manpower had much to do with the rapid recovery of Belgium after the close of the war. Unlike other European countries Belgium's ability to capitalize on the products of her colonies was unimpaired but the Belgian leaders showed great courage and determination in the manner in which they set about concentrating on the production of coal and the rehabilitation of the currency.

Drastic monetary reforms were put into effect, incentives were established, and though the cost of living went up its rise was far below that of France. She has striven hard to avoid controls and restrictions on imports, and she has a substantial dollar deficit. Some compromises have had to be made and will have to be made in the future no doubt, but the example that Belgium has already given of her financial soundness, her willingness to adopt politically unpleasant but necessary measures and her vigorous instinct for a free economy is a most heartening sight. Indeed I think the case of Belgium may be an indication of the trends other Western European nations would follow if their economic situations were in better order.

The economies of all these nations are related to one another. Recovery may proceed at different paces in different countries, but basically the recovery of each depends upon the recovery of all. That is why I have spoken of a reorganization of Western Europe as a whole and why I have stressed the collective strength of the assets of this area.

Accomplishing Reorganization

How can such a reorganization be brought about? Assets, human and material, are basic but they are not alone enough. There must, in addition, as I have said, be a sensible plan, good management and sufficient new money. Each of these elements is fundamental to success of the program.

By a sensible plan, I do not mean, of course, blueprinting all the details of Europe's economy for the next 4 or 5 years. Such programming would not only be unrealistic but would involve self-defeating economic regimentation. The need is for something at once less ambitious and more basic—the adoption of sound principles of reorganization and strict insistence upon adherence to those principles.

The main principles seem to me both simple and obvious.

Every effort should be made to stimulate the basic productive resources of the particular nations or area to be aided, rather than, at the outset at least, to invest huge sums to uncover entirely new resources or to develop new productive enterprises. The latter are slower of accomplishment, more difficult to achieve, and in a situation where means are limited and needs vast, are not likely to yield either the most prompt or the most effective results.

The furnishing of external assistance should be conditioned upon the cooperation of the recipient nations in taking those far-reaching measures of economic unification and reform which are almost universally accepted as essential to recovery. These measures include financial and monetary stabilization, drastic anti-inflationary measures, elimination of inefficient business and labor practices, reduction of trade barriers, including steps toward the achievement of a customs union, and many others. Not all of these reforms can be accomplished over night; many of them, in fact, can be achieved only as a result of gradual development. They will be hard and difficult of accomplishment but if the proposed reorganization of Europe is to succeed, I believe it essential that real progress be made in these directions.

The Paris Report is encouraging in its recognition of the necessity for these steps and in its declarations of good intention to accomplish them. But good intentions are not enough. Many of these essential measures will be unpopular, some of them will injure strong and articulate vested interests, and all of them will be misrepresented by partisan opponents of the program. It is important, therefore, that there be a constant incentive and pressure for their accomplishment. In my judgment, the European Recovery Program should be so framed and administered that it will provide such inducement and means of pressure.

Efforts should be made in the course of the plan to encourage trade with the countries of Eastern Europe. That line of trade is normal and vitally important to the other areas. Though we may have fine schemes for changing the axis of the European economy from East and West to North and South, it will be a long time, if ever, before such a fundamental change is satisfactorily achieved.

I believe it to be of great importance that whatever assistance is given to the reorganization of Europe in the form of new money from the United States be carefully supervised in the sense that those who give and those who receive should know for what the aid was given and how it was distributed. There should not be a repetition of the experience with the recent British loan, where both the giver and the taker lost the full benefit of the loan through the apparent lack of any immediately available information as to the manner in which the money was being applied and the benefits it was accomplishing. Both sides of the Atlantic gained the quite erroneous impression that the loan was totally ineffective and each side was prone to blame the other for it. It is nonsense to argue that an attempt to follow the proceeds of a loan or of a grant constitutes an infringement upon the sovereignty of the taker. To the contrary, the recipient should be the first to insist that a procedure be set up to enable the proceeds to be readily traced. This procedure is not advocated so as to insure that every dollar is most efficiently spent—there is no procedure which can insure there will be no waste in such a large enterprise—but to shed light on the whole process so that all may see and learn the effect of this business of international aid. Money carelessly furnished or carelessly accounted for usually has poor consequences and this is particularly true of transactions between nations. And certainly the prospects for further credits or grants are impaired where information is not available regarding the utilization of past assistance.

It would seem obvious that financing on the scale contemplated and for the type of things needed should be afforded, in the main, in the form of grants rather than loans. Financing in the amounts now needed, if provided primarily in the form of loans, would impose an intolerable burden on many of the participating nations and would create a very difficult transfer problem. Unpaid loans are bad things to have around

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either among individuals or nations. Further, the giving of grants will speed the time when private financing can take over the field. If Europe is choked with loans there will never be any prospect that private financing will resume.

Wide latitude should be given for the use of appropriated funds for so-called off-shore purchases, purchases from other countries than the United States. The re-establishment of trade between South America and Europe, and between Europe and Indonesia and Asia, for example, are very important factors in the rehabilitation not only of Europe but of the world. With these off-shore purchases the so-called Marshall Plan for Europe becomes in reality a rehabilitation plan for the world economy as a whole. Such off-shore procurement is beneficial not only in the case of goods which can be more economically purchased elsewhere than in the United States, but also in the case of goods in short supply in the United States. So to distribute purchases would not only reduce the inflationary effects of the program on the United States but would also help to remove the present disequilibrium of world trade.

The Management Aspect

A few words now about the management aspect of the proposed European reorganization. We have heard much discussion about the form of agency which should be charged with administration of the program on the part of the United States. That discussion has generally centered around such questions as whether the administrative agency should be in corporate form, whether it should have a full-time bi-partisan board of directors, and what its relation to the State Department should be. It is inappropriate for one who is the head of an international organization whose strength is already largely dependent upon the contribution of the United States to attempt to advise the United States Government how it should organize to distribute its benefits.

The vigor of the debate on the form of the American administrative agency may, however, obscure what I believe to be another extremely important element in this problem of management, namely, what kind of European agency should be established to implement the Recovery Program and what functions such European agency should perform. Upon the initiative and cooperation of the Eureopean countries in this respect depends in large measure the progress which can be made towards a real integration of the European economies and towards realization of the potential collective strength of those economies. The United States can help and make the hard way easier but in the end it is a task which Europe alone can achieve.

The 16 nations have already undertaken to establish a continuing organization. I would urge upon them to give serious consideration to the creation of an organization which is something more than a group of national representatives who usually are unable to accomplish more than a series of political compromises. Rather, it is essential, in my judgment, that there be at the core of the European continuing organization an international staff, owing allegiance to no national government and headed by a European director of recognized independence, courage and ability. It is my thought that the director and his staff would make the initial recommendations with respect to programs and allocations, based on a continuous evalution of the performance of the participating governments in carrying out their undertakings and in making effective use of the aid furnished to them. In addition, the director and his staff could serve to supervise the use of funds and supplies granted under the program and to coordinate the efforts of the participating countries. The director would not be merely a mouthpiece for the American agency or for the European Committee which appointed him and which would presumably give him over-all policy directives. His strong relatively independent position would enable him to serve as the focal point for the common endeavors of all the participants. His organization, of course, would have to operate in close cooperation with the American agency and his recommendations therefore would ordinarily be acceptable to that agency, but the latter would always retain the deciding voice as to the use of American funds.

I see many advantages in the establishment of such a European organization. In brief, I believe it would tend to disarm partisan opposition to the Marshall Plan within the European countries, it would increase the prospects that decisions would be made on a broad-gauge economic basis, it would help to enlist the full cooperation of European governments and nationals; and it would exert a strong coordinating and integrating influence. As John Foster Dulles has said, the Recovery Program must be such as to fire the imagination of Europe and to appeal to the idealism of its youth. I know of nothing which would serve these purposes better than the successful operation of such a European organization as I have suggested, for in it lies great hope for Europe's future.

Finally, I would like to say a few words about the fourth essential ingredient for a successful reorganization—the new money. If I am right in thinking of the European Recovery Program in terms of a vast reorganization, it follows, I believe, that the Congress should approach the question of the amount of assistance to be furnished from much the same standpoint as that of a banker asked to finance the reorganization of a commercial concern. Once it is decided that a reorganization is possible and is economically sound, the issue is not how little new financing might conceivably do the trick, but rather how much new financing is necessary to give reasonable assurance of success. To furnish assistance to Europe in an amount so small that it would enable her to subsist but not to recover would be a real waste of taxpayers' money, which in the long run would act to the detriment rather than to the benefit of all. On the other hand, of course, assistance must not be given in amounts so large as to deprive Europe of incentive to contribute to the maximum to her own recovery.

To translate these principles into terms of dollars is a very difficult and highly technical job. All that I can say on that score is that the international technical staff of the Bank, on the basis of an independent analysis made by them, have reached the conclusion that the administration proposals do not constitute an extravagant estimate, indeed they think they provide a rather tight fit.

The International Bank's Role

As for the Bank's role in the provision of new financing for Europe, I can only say that we intend to continue to employ our available capital and our credit for the purposes for which we were organized, and that we stand ready and willing to assist and consult with whatever agencies may be established to implement the program. Our role in Europe may, for the next few years, be somewhat different from what was envisaged at Bretton Woods; certainly our financial participation will be dwarfed by that proposed for the United States. But I do not hesitate to say that we welcome the proposed program, both because we regard it as necessary for European recovery and because it will enable the Bank to concentrate on the financing of specific productive projects and will relieve it from the pressure of making loans which in effect are intended primarily to meet balance of payments deficits.

The motives for United States aid have been and possibly will continue to be distorted by those who hope that a continuance of the existing strains and want will afford a more likely climate for the adoption of political and economic systems which they favor. These distortions may be supplemented by active efforts to destroy the program. While unfortunate, it is inconceivable that such efforts can ever deter or retard the program. The attitude is so negative and represents so obstructive an approach that it can scarcely hope to prevail or indeed be long maintained.

The opportunity which the Marshall Plan offers for the world is very great. It is, as I have said, no less than the rehabilitation of one of the two greatest productive areas on earth. If in addition to mere rehabilitation Europe can be induced to speed the time when she is able to take advantage of her great collective strength and thus to transform the area from a battle ground of wars to a stable area of production and peace, the objective is worth many times the energies which we contemplate to expend. The objective is not a will-of-the-wisp, it is a worthy goal and, I believe, one within reasonable prospect of attainment.

Monopoly Controls and Keynes' Theories in Prospect

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depend on physical or natural laws do have universal validity. Those which depend upon man made institutions change over time and space. The validity of this principle is not of mere academic interest. If we reject it, we unconsciously assume an attitude of economic defeatism. For if the laws of economics are inflexible and immutable, we find our action on all sides circumscribed and delimited. We cannot have minimum wage legislation, improve the distribution of income, alter wages, interest, rent and profits, reduce prices, or accomplish any number of economic reforms because our actions run counter to the laws of economics. Economic reform becomes impossible and our present capitalistic, free enterprise system must be accepted or rejected in its entirety, for reform is impossible.

Professor Douglas' paper was characteristic of many of those presented at the meeting in more than one respect. They represented the maturity of thought, sophistication and leadership which American economics has attained.

American Aid to Europe

One of the sessions dealt with American aid to Europe and included two papers. Professor Seymour E. Harris of Harvard read a paper on "The Marshall Plan and Its Cost to the United States" and Professor Calvin B. Hoover of Duke University discussed the question "What Can Europe Do For Itself?"

Unfortunately, the European Recovery Program is one which can, at the present time, best be analyzed by Government economists. In addition to the published reports, much relevant information has not as yet been made available outside the confines of the Federal offices.

The arrangements for this session bring out into relief the defects of the Association's program policy. The Program Committee decides upon the topics to be covered at the Annual Meeting and then casts about among its friends and economists in current repute for persons to prepare papers. A better arrangement would be for the program committee to make a survey of current research under way; to ferret out the important discoveries; and to base the program on the work being done.

Professor Harris opened his paper by pointing out the total cost of the ERP—between $17 and $22 billion. He went on to state that if the off-shore purchase program is substantial, the cost may be less and the inflationary pressure it may generate could be held down. In spite of this aid, Professor Harris felt that the European dollar shortages would not be over by the end of the Program in 1951. If the funds allocated by Congress for the Program are niggardly in Professor Harris' opinion the economic development of Europe will be retarded and the dollar shortage thereby aggravated. The diversion of ERP funds from developmental projects to the improvement of Europe's standard of living will further aggravate the dollar shortage problem, he continued, while any rise in U. S. export prices will increase the cost of the program.

Professor Harris apparently felt that the cost of the Program to the U. S. was not excessive in terms of national income and that if ERP contributes to warding off a U. S. depression, its cost will be small indeed. Expenditures of $17-$22 billion are amply justified as compared to the possible cost of a new world war which Professor Harris estimated at $1,500 billion.

While the Program will undoubtedly contribute to inflationary pressures in this country, these pressures would not be sufficient to warrant the scrapping of the Plan and, according to Professor Harris, the inflationary pressures generated by the ERP could be held in check by:

(1) Reducing or controlling the demand for ERP goods.

(2) Raising the supply of goods under ERP.

(3) An allocation system for goods furnished Europe.

(4) Careful scrutiny of ERP requirements.

(5) An increased capital investment program in the U. S.

He further stated that the present budgetary surpluses of the Federal Government make it easy to pay for the Program under the present tax structure. Most of the other participants did not agree with Professor Harris when he stated that the U. S. should neither interfere with any monetary plans in Europe nor insist upon deflation, exchange rate revision, or any other European monetary changes.

Professor Hoover's paper dealt with the steps which Europe could take to help itself and his remarks were based largely on the Report of the Paris Committee of European Economic Cooperation.

He discussed the possibility of increasing production in agriculture, coal, electricity, oil refining, steel and capital construction and concluded that the production goals, in many of these could be attained. Professor Hoover felt the individual country results of the Marshall Program would prove more important than the cooperative results. The problem of feeding Europe, he believed, will remain acute after 1951 and the Program's end.

Professor Hoover said that the coal output can be raised, but not to the goal stated in the CEEC Report and unfortunately coal production is vital to the entire program. In his opinion the electrical power program is the most cooperative feature of the Program and a 20% increase in the output of steel was likely. The increase in oil refining capacity was grandiose and Professor Hoover doubts that Europe will be able to obtain sufficient crude oil to warrant the expansion.

According to Professor Hoover, food and raw materials will be the principal commodities required from the U. S., for Europe will be able to perform its own processing and manufacturing operations. Among the more important improvements fostered by the Program, Professor Hoover signalled the proposed European customs union, standardization of equipment, the free movement of labor from labor surplus to labor shortage countries, proposals for European monetary reform.

Economic Stabilization and the Federal Government

Among the questions of current import treated at the meeting, the paper of Charles O. Hardy of the Joint Congressional Committee on the Economic Report is of special interest.

Dr. Hardy explained that the basis for the present inflationary trend is the fact that the money supply is running ahead of the current demand for money. He holds that all taxes are deflationary except those business taxes which are so high as to encourage wasteful spending and discourage resistance to demands for higher wages and prices of supplies and raw materials. Dr. Hardy believed that an excess profits tax of 90% is probably inflationary, whereas the same tax, with a rate of 25%, would be deflationary. Maintenance of the excess profits tax at wartime rates, he continued, would have increased the inflationary pressures of the last two years, but a sharp reduction of the rate would have been more timely than its outright repeal.

Dr. Hardy stated that a recent doctrine held that the anti-inflationary effect of a government surplus depends on its use to retire securities held by the commercial banks. This, Dr. Hardy claims, is erroneous. If the money collected as taxes, he said, comes back to the banks in the redemption of securities, the excess reserves will be increased while the deposits are decreased by the payment of tax checks. Hence, he went on to state, the banks can make new loans or investments which replace the full amount of money withdrawn by the excess of taxes over government expenditures.

While our tax policy is anti-inflationary, Dr. Hardy believed that the Reserve System policy is not such as to make the tax policy effective, and the present debt management policy is basically inflationary; so long as we must keep the bond market pegged we cannot grapple seriously with the control of inflation.

Dr. Hardy emphasized the point that we are relying on very slender evidence in making a sacred white ox of the parity of government bonds, for we shall never know whether a 99% quotation for long-term bonds would wreck the country until we try it out, but we know that no calamitous results followed the decline of government bonds below 85 as was the case in the early '20's. The risks attached to a policy of unpegging the bond market at 2½%, Dr. Hardy thought, must be weighted against the risks of continued blowing up of the bank credit structure in the process of supporting the market.

Dr. Hardy further explained that the plan recently advanced by the Federal Reserve System, a scheme calling for isolation of most of the short-term government debt from the rest of the money market, would be only a partial solution to the problem of inflation. He said such a plan would afford no protection for the long-term money market from the competition of corporate securities and commercial loans.

The next logical step in Dr. Hardy's opinion would be the creation of a third reserve requirement, consisting of long-term bonds, which would isolate the long-term market yields, as well as the short-term, from the reserve system's pressures on the rest of the money market. The special reserve of short-term securities would be worth adding to the monetary structure, he stated, especially if the treasury would agree, in return for protection of its short-term market, to withdraw its objections to stabilization of the total volume of money by Federal reserve open market operations.

Dr. Hardy recalled that Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, recently presented a novel doctrine to a Congressional Committee that a rise in long-term rates on Government bonds would be inflationary and would precipitate a wholesale cashing of savings bonds and dumping of marketable bonds.

This tendency to inverse elasticity—holders selling on declines and buying on advances—does appear occasionally in speculative markets, according to Dr. Hardy, in periods of rapid price change but has never been so chronic as to discredit the general practice of price cutting on the part of sellers who want to move their goods quickly. He observed that the late John M. Keynes considered "inverse elasticity" as an important factor in wages, but he believed a rise of interest rates to be a stimulant to buying bonds.

The Taft-Hartley Law

An interesting paper on a burning current question was delivered at a dinner meeting of the Association and dealt with the effects of the Taft-Hartley Law. A well-known and highly respected labor economist, Edwin E. Witte of the University of Wisconsin, presented "An Appraisal of the Taft-Hartley Act."

Professor Witte stated that the Taft-Hartley Act is only beginning to take effect. The most far-reaching provisions, those relating to union security, he stated, will not affect the majority of contracts until next summer. Under all other provisions of the law, Professor Witte emphasized, a total of but 11 complaints charging unfair labor practices thus far have been issued by the General Counsel and none of these has been decided by the Board. On many points, he said, it will be years before the full meaning of the provisions of the new law will have been clarified and decided by the Board and the Supreme Court.

No major union contracts have expired since the Taft-Hartley Act took effect and this, he believed, is probably the main factor in the last months, following a trend which has been developing ever since June, 1946. Professor White felt that the Act has cost the unions prestige and checked their organization drives but that only a few employers have utilized the new law to help them to get rid of unions or to win strikes. In his opinion, the non-Communist affidavits have been of value to some unions in eliminating Communist officials and the financial reporting provisions have potentialities for improving the financial records and accounting procedures of many local unions.

The most important effect of the Taft-Hartley Act to date according to Professor Witte, has been the bitter resentment it has aroused not only among union leaders but also the rank and file of dyed-in-the-wool unionists. It is coming to be regarded among union men, he stated, as something akin to treason to say anything good about the new law and everything that workers do not like is ascribed to the Act, which to them seems flagrantly proemployer. This is the same attitude, in reverse, he declared, which the employers took toward the Wagner Act and the shoe is now on the other foot, but the wearers like it no better.

It was Professor Witte's belief that the Wagner Act represented interference by government in labor-management relations in behalf of labor but that this interference did not extend beyond the pre-collective bargaining stage, leaving labor and management free to work out the terms of their agreements. The new Act, he continued, in going beyond this, regulates in detail the procedures to be followed in collective bargaining and on many points substitutes legislative fiat for terms arrived at through free collective bargaining.

Whether governmental interference in labor relations will stop with the Taft-Hartley Act is doubtful in Professor Witte's opinion, for there is danger that political determinations will completely replace free collective bargaining in this country ere long. But collective bargaining can still survive if both labor and management not only want it but will actually make it work, he declared.

Monopoly and Competition—the Future

Many of the sessions of the meeting were devoted to an examination of the problems of monopoly and competition and foreshadow future Federal action in these fields.

Trust busting in the U. S. has had a checkered history. Beginning with the fervor which led to the enactment of the Sherman Anti-Trust Act of 1890, it then died down. The enactment of the Clayton Act and the establishment of the Federal Trade Commission in 1914, brought new vigor to trust busting, but activity under these Acts has been sporadic. In 1938 attention was focussed on monopoly with the TNEC but interest in the question lapsed during the war.

Many of the papers presented at the meeting provide some indication of the type of government action which large business will face. Out of about 45 papers read at the meeting, thirteen dealt with problems of monopoly and monopolistic competition. These fall roughly into two broad categories: the theory of monopolistic competition and the practical social problems arising from the concentration of economic power.

Monopoly Growth and Control

Two of the most significant papers on practical problems associated with trusts were those presented by Wendell Berge, formerly Assistant Attorney General of the United States and Hon. Estes Kefauver, Representative in Congress.

Mr. Berge declared that the courts have come at last to an application of the Sherman Act in line with its historic purpose which is directly related to the preservation of private competitive enterprise and capitalism. If the people, Congress, and the law enforcement officers face the problems of concentration as squarely as have the courts, and act vigorously to solve them, there is still hope to preserve our chosen way of life against the forces that threaten destruction, he declared.

Mr. Berge reviewed recent anti-trust decisions, emphasizing particularly the Aluminum, American Tobacco, Yellow Cab, and International Salt cases. The court's reasoning in these cases, he felt, shows that it is veering away from its former view that there are both good and bad monopolies and that it is moving toward the view that monopoly power as such is prohibited by the Sherman Act. In his opinion, earlier court decisions had rested primarily on the abuses of monopolies and the courts were not inclined to disturb monopoly power unless it had been acquired and maintained through predatory practices. Now, however, the Aluminum and Tobacco cases indicate that the possession of power to exclude competitors from the market constitutes monopoly and is illegal, regardless of how it was attained or how it is used, he went on to show.

The Yellow Cab case decided by the Supreme Court last spring and the International Salt case decided this fall, taken together, raise important problems for integrated industries, in Mr. Berge's opinion. In the Yellow Cab case, he said that, the Court held agreements between a company manufacturing taxicabs and various companies operating taxicabs, binding the latter to purchase their cabs exclusively from the former, were not saved from illegality because the manufacturing company owned the operating companies. In this case, he argued, the Court declared that "a restraint may result as readily from a conspiracy among those who are affiliated or integrated under common ownership as from a conspiracy among those who are otherwise independent." The vice of the agreements was that they restrained the freedom of the operating companies to buy taxicabs in a competitive market, and they also narrowed the market for taxicabs manufactured by competitors of the parent company. This type of restraint, Mr. Berge indicated, was rather common in integrated industries.

The International Salt case, he stated, although it did not involve an integrated industry, held that agreements to foreclose competitors from any substantial market are unreasonable *per se*, and hence illegal. Taking the two cases together Mr. Berge asked the question, "Do we now have an indication that agreements between companies that are affiliated through stock ownership which foreclose competitors from a substantial market would be held illegal *per se?*" He added that the implications of these two cases "are sufficiently pointed to require a reappraisal of the operations of many conglomerate enterprises which restrict their subsidiaries to dealings within the family."

Mr. Berge also referred to the opinion of Judge Learned Hand in the Aluminum case as indicating a concern for the social and moral values of the type of capitalism which the Sherman Act seeks to protect, as well as for the economic values. In that opinion Judge Hand said:

"Congress did not condone 'good trusts' and condemn 'bad' ones; it forbade all. Moreover, in so doing it was not necessarily actuated by economic motives alone. It is possible, because of its indirect social or moral effect, to prefer a system of small producers, each dependent for his success upon his own skill and character, to one in which the great mass of those engaged must accept the direction of a few. These considerations, which we have suggested only as possible purposes of the Act, we think the decisions prove to have been in fact its purpose."

Representative Kefauver took the position that, in general, trust busting is good. Certain monopolies, he stated, refuse to expand their output when additional production is sorely needed, while under competition, monopolies would not exist and the perpetuated shortages would disappear by the increase in output of the competing units. Many advantages are inherent in small business, in his opinion, and the decentralizing techniques of modern industry render the small unit economically efficient. Finally, he said, the concentration of economic power leads to state control and state socialism, destructive of our system of free enterprise.

Mr. Kefauver felt that to obtain the advantages of competition, unrestricted output, decentralization and continued free enterprise certain important changes in our legislation and procedures are needed.

The first of these, he continued, is sufficient Congressional appropriations for our anti-trust agencies. Congress has voted anti-trust legislation in response to popular demand and then proceeded to emasculate this legislation through lack of financial support of the agencies which are charged with its enforcement, he declared. In the past, the Budget Bureau has been unwilling to approve adequate requests for appropriations, he went on, but for the coming fiscal year, larger amounts have been approved by this agency indicating a more serious attempt at enforcement.

Secondly, conspiracies to restrict output, allocate markets and other monopolistic practices need to be restrained, he said, through appropriate punishment. In his opinion fines of $5,000 do not restrain millionaire companies from indulging in conspiracies to restrain trade — not when hundreds of thousands of dollars are to be made with the outlay of a $5,000 fine. The TNEC recommended that the fine be raised to $50,000. Representative Kefauver recommended that the fine be levied, not once for a series of offenses, but during the whole period during which the conspiracy existed. The penalty he stated, should vary in amount according to the size of the offending company. Further, he said, the Federal Trade Commission should be given the power to issue, cease and desist orders under the Clayton Act as well as the Federal Trade Commission Act.

It was Mr. Kefauver's view that the increase in the concentration of economic power should be halted. The Sherman Act, the Clayton and Federal Trade Commission Acts, he stated, have been undermined by the Supreme Court. While the purchase of companies through the acquisition of stock control has been held illegal, the purchase of companies through the direct acquisition of their assets is not. He felt that this is a serious loophole in our anti-trust legislation which should be plugged. On the other hand, Mr. Kefauver believes that the restraint of concentration of power through restrictions on size were too arbitrary and inflexible.

A third needed change, according to Mr. Kefauver, in our anti-trust procedures is to remove the control over industry exercised by financial institutions; to change the system whereby a few large banks control a substantial fraction of the American industrial economy. Improvement in this field implies the restoration of competition in the marketing of securities and the plugging of the loopholes in the interdiction of interlocking directorates, he stated.

Mr. Kefauver went on to propose a new TNEC to study the anti-trust legislation and to recommend new legislation. A negative anti-trust program is not enough; we should encourage the formation of small business by affirmative legislation towards this end.

In a paper entitled "An Appraisal of Government Control of the Financing of Public Utilities," Professor Merwin H. Waterman of the University of Michigan stated that the regulation of monopolies by financial supervision, as exercised by public bodies such as the Securities and Exchange Commission, has neither proven satisfactory nor an improvement over private management.

"All in all," he declared, "the decade of experience in financial regulation of gas and electric utilities by the Securities and Exchange Commission as affecting capitalizations, values, and security distribution, cannot be marked as a period of operation which proves either the infallibility of SEC management or even an improvement over private management. That utility managements have perhaps been more widely awakened to their financial responsibilities through association with the Public Utility Division of the SEC may have been an incidental and beneficial result. These managements may have bestirred themselves to improve their financial status more expeditiously than they might otherwise have done."

Professor Stuart Daggett of the University of California explored the effects of anti-trust legislation upon railroad traffic associations. He concluded that these associations restrain competition, but not to the extent that is often charged. Some traffic association activities, he stated, are probably inconsistent with the Sherman Law, strictly interpreted.

The technical advantages of association procedure are considerable, Professor Daggett said, both to carriers and to shippers. During World War II they were sufficient to persuade the Office of Defense Transportation, the Secretaries of War and Navy and the Chairman of the War Production Board to approve joint action by common carriers through rate bureaus. Both Houses of Congress have passed legislation, at one time or another, authorizing agreements between carriers with certain safeguards, he declared. While there are dangers in association procedure, Professor Daggett concludes that the balance of advantage lies in the passage of some law such as the Reed-Bulwinkle Bill, and that the Interstate Commerce Commission can be given sufficient authority to protect the public.

He went on to state that some limitation of competition may be approved in a regulated industry without sacrifice of the public interest and that this is the opinion of the Interstate Commerce Commission itself, of most State Commissions, and of the greater number of shippers and shipping organizations which have expressed their views. Railroads would not stop running, he believed, if the present functions of railroad traffic associations were greatly reduced, but their efficiency might be impaired.

Patents, frequently employed as monopolistic device, were discussed by Professor F. L. Vaughan, University of Oklahoma, who feels that our patent system fails to promote public welfare in many instances because it discourages rather than encourages the inventor, permits the suppression of patents, and is a means of creating industrial monopoly and restraining trade.

Professor Vaughan said that patents have facilitated monopoly and restraint of trade through mergers of concerns with patents, through the pooling of patents of different concerns, and through license agreements with former competitors. He gave examples of such control in shoe machinery, camera and film, electrical, radio,

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chemical, petroleum and glass industries. The control of the market in this country may be a mere phase of the operation of patent cartels, he declared.

Patents are suppressed for various reasons, he stated. In his opinion the most important group of suppressed patents consists of the hundreds taken out in the United States by foreigners solely for the purpose of reserving this country as a market for their inventions manufactured abroad. From the standpoint of manufacture in this country such patents are certainly suppressed.

Professor Vaughan proposes three possible remedies for abuses of our patent system: First, fewer and better patents. Second, greater remuneration for inventors by reducing litigation, providing a better market for their patents, and the royalty basis for remuneration. Third, compulsory licenses on the grounds of conjoint use of improvement and basic inventions, suppression of patents, and monopoly and restraint of trade.

At another session of the meeting, the international ramifications of monopoly were discussed. Raymond Vernon of the Department of State read a paper on "Post-War Trends in International Business Organization." In his paper, Mr. Vernon pointed out that although the effect of World War II had been to weaken the ties between members of prewar international cartels, the nationalization of industry was easing the way toward the resumption of new restrictive arrangements in international trade. International cartels, he said, can only have a reasonable chance for success when domestic industries are under highly centralized control. Otherwise, he stated, enterprises outside of the cartel are likely to threaten the price policies and market divisions which the cartel sponsors. With the introduction of state socialism in many nations, centralized control of domestic industries is being achieved in Mr. Vernon's opinion.

Mr. Vernon pointed out that there was little reason to expect that state enterprises would be most hesitant to join cartels than their private predecessors. The desire to maintain high prices for their exports and to exchange technological information with their cartel partners could well make restrictive international arrangements appear attractive in the eyes of the managers of state enterprise, he declared.

The chief means by which this trend could be deterred, he felt, was by international agreement, such as the proposed International Trade Organization now being negotiated at Havana under the sponsorship of the United States. Part of the proposed Charter, Mr. Vernon stated, would commit nations to prevent their enterprises, state or private, form engaging in harmful restrictive business practices in international trade. Added provisions to assure non-discriminatory treatment in trade by state enterprises also are contained in the proposed Charter, he continued. He pointed out that even the possibility of an international agreement of this kind might prove impossible if the immediate currency and commodity stringencies of the world were not met. Too little aid from the United States, tendered too late, may compel the European nations to adopt systems of international trade which turn them irresistibly away from the aim of multi-lateralism, he emphasized.

Is Big Business the Most Efficient?

In an especially competent presentation, John M. Blair, newly appointed Assistant Chief Economist of the Federal Trade Commission showed that recent technological developments have made it possible for relatively small plants to operate in many fields just as efficiently as plants of much larger size. The long-term, general and pervasive increase in plant size throughout most industries has come to an end and technology is now tending to promote a smaller rather than a larger scale of operations, he declared.

Mr. Blair observed that whereas the great inventions of the Industrial Revolution required the building of large plants, recent technological developments "are qualitatively far different and their effect on size is the reverse of the 19th century technology." Among the recent developments which have enabled small plants to gain a more equal footing with large plants, he cited the replacement of steam by electricity as the primary source of industrial power; the replacement of iron and steel by light metals, alloys, plastics and plywood as the basis materials of industry; the replacement of costly, single-purpose, highly-specialized machines by newer and more flexible mechanical and chemical machines and processes; and the replacement of railroads by the motor truck and the automobile.

He warned, however, that the introduction of these new technological developments "may be held back by the non-technological, institutional barriers of monopoly controls and lack of financial aid for small business."

In addition, Mr. Blair referred to the decentralizing potentialities of atomic energy stating that if electric energy can be generated as cheaply with atomic energy as with present methods, "the other attributes of atomic energy—its mobility and its infinitesimal transportation costs—should lead to its widespread utilization, particularly in underdeveloped areas, thus giving a powerful thrust to the whole decentralization movement."

Mr. Blair maintained that any decentralization of plants which results from these new technological developments should be accompanied by a decentralization of ownership and control. The available evidence, he said, indicates that large corporate enterprises which own and operate several independent plants are, if anything, less efficient than smaller concerns. "At the very least," he added, "the widely-held assumption that the ownership and control of plural production units by single corporate enterprises contributes to efficiency would seem to rest upon an overwhelming absence of supporting facts."

In summary, Mr. Blair concluded that:

(1) The period of long-term increase in business size has apparently come to an end.

(2) Smaller scale business enterprises are growing in number and effectiveness.

(3) Since there is no greater efficiency in large size, a decentralization of ownership and control is indicated.

(4) Monopoly and competition will continue to exist side by side.

Outlook for Concentration

In spite of the doubts cast upon the relation of size to efficiency which Mr. Blair's findings indicate, the growth of concentration continues apace in present day business practice as shown by Harrison F. Houghton's paper on the "Growth of Big Business." Mr. Houghton, a colleague of Mr. Blair on the Federal Trade Commission, after tracing the history of the growth of business in this country, goes on to sketch the current movement and today's outlook for concentration.

"The level of concentration in the coming years will be determined principally by four basic factors," he stated, "(1) the distribution between large and small business of the volume of new postwar facilities; (2) the disposal of Government, war-built facilities by the War Assets Administration; (3) the current merger movement, and (4) the level of economic activity."

"The nation's manufacturing facilities in 1939 carried a gross valuation of about $40 billion," he continued. "To this capacity there was added by June 1945 about $26 billion of new plant and equipment. Roughly two-thirds of this expansion was provided directly from Federal funds, and the remainder from private funds."

"Who controlled this vast productive plant? How much of it was held at the war's and by big business and how much by smaller firms?" he asked. "It was found that the 250 largest manufacturing corporations, composed for the most part of the traditional giants of American industry, plus a few corporations which rose to positions of dominance during the war, were in charge of roughly 65% of the nation's usable manufacturing facilities. If it is assumed that these giant corporations control about 1,000 subsidiaries, approximately one-half of one percent of all the manufacturing firms in the country commanded roughly two-thirds of the nation's productive equipment," he declared.

"Although this may appear to represent an extreme degree of concentration, it is no higher, *on a percentage basis*, than was the case for the *identical* corporations prior to the war. This is explained by the fact that although these giants owned 65% of the prewar (1939) facilities, and operated 77% of the publicly financed usable facilities constructed during the war, they accounted for only about 43% of the expension in private (war plus non-war) facilities."

"On balance," Mr. Houghton continued, "the tendency has been for the disposal of surplus Government facilities to enhance the power of big business. In important specific industries, notably steel, electrical machinery, and agricultural implements, concentration has definitely been increased." He stated that "in one important area, aluminum, an enlightened disposal policy has substantially curtailed the position of the formerly sole producer, and injected new competition into the industry. And two new factors (Kaiser and Tucker) have entered the automobile field."

"How extensive is the current merger movement? How has it affected the structure of industry, concentration, the integration of industrial operations, and the position of small business?" In answer he said that "first of all, from 1940 through 1946 more than 1,800 formerly independent firms in the manufacturing and mining industries, alone, disappeared as a result of mergers and acquisitions. And preliminary data indicate that the high level of merger activity continued into 1947. The asset value of the concerns acquired amounted to about $4.1 billion, or nearly 5% of the total asset value of all manufacturing corporations in the country. Superimposed on the plateau of concentration prevailing before the war, this indicates a substantial shift in favor of greater concentration."

Mr. Houghton went on to say that "two factors suggest that the current merger movement has enhanced the position of big business. In the first place, several of the traditionally 'small business' industries have been affected. More than one-third of the total number of acquisitions were accounted for by only three industries, namely, food, non-electrical machinery, and textiles and apparel—all predominately 'small business fields. Moreover, nearly one-third of the companies merged since 1940 have been absorbed by the very largest corporations—those with assets exceeding $50 million. Nearly three-fourths of the total number," he stated, "were absorbed by corporations with assets of over $5 million. During the period covered, 71 out of the 100 largest manufacturing corporations bought up about 17% of all companies acquired, while another 49 of the second 100 purchased about 10% of the total." "In other words," he said, "120 out of the top 200 corporations accounted for 27% of all the mergers. The other half of this picture of large corporations taking over small firms is shown in the fact that fully 90% of all the firms bought out had assets of less than $5 million, and 70% had less than $1 million of assets. Thus, in contrast to some earlier merger movements, the present one is characterized principally by big firms buying smaller firms, rather than combinations of big corporations," he declared.

Mr. Houghton continued by showing that "the overwhelming majority of the mergers since 1940 have been horizontal (i.e., combinations of firms producing identical products for similar markets, or products which might be substituted for one another) and the trend seems to be moving more and more in this direction." "In addition to the distilling industry," he said, "horizontal mergers involved purchases by large dairy firms of small concerns in the same line of business, large meat packers bought small strategically located packing plants, and numerous combinations bought together cotton mills, rayon mills, knit goods mills, drug firms, paint and wallpaper firms, cement, rubber, zipper, and even rice concerns."

"What is the outlook for concentration? On the basis of historical precedent," Mr. Houghton declared that "it may be assumed that under continued prosperity the merger movement will be further accelerated. Likewise, high level activity and full employment enhance the attractiveness of Government facilities. The inflation, incidentally, has greatly speeded the disposal of facilities, as on a monetary basis their values have increased, and as delays in new construction have made it more feasible to buy existing plants."

Mr. Houghton felt that, "in the event of a depression, the outlook for small business is even more unfavorable. The merger movement will fall off, and the sale of Government plants (if not virtually completed by that time) will decline sharply. The position of big business," he continued, "will already have been greatly fortified, through war plant purchases and mergers. Then it will be a matter of staying power. After the 1929 break, it will be recalled, concentration increased by virtue of attrition." "Whereas the 200 largest non-financial corporations held 48% of the total assets (less taxable investments) in 1929, their proportion rose to 55% in 1931," Mr. Houghton went on to show, and said that "the 250 largest manufacturing corporations at the peak of the war held two-thirds of the total usable manufacturing facilities, or, in absolute terms, almost as much as the entire facilities owned by all manufacturing corporations in the country prior to the war. Since the pattern of disposal of Government facilities is to maintain this unbalanced situation, the pressure upon small business in the event of a depression will be severe," he declared.

The Economic Theory of Monopoly and Competition

At the annual meeting several outstanding papers on monopoly and competition were presented and ably discussed. Because of the unverified and hypothetical character of the findings, they will not be discussed here. One of the papers, by Professor Oskar Morgenstein of Princeton, abandoned the standard analyses of the subject in favor of a new approach, the "Theory of Games," evidently an outgrowth of the German theory of "Machtoekonomie" popular in the '20's.

In this paper the proposal was made for a radical departure from the current treatment of problems of monopoly and monopolistic competition. It consists of substituting for the current ideas of economic theory, derived from mechanics, a new model to be found in games of strategy. These are games in which, besides chance, the strategies of the individual players determine the outcome and where considerations of the probable reactions of the opponents have a determining influence upon the conduct of the ployers. Professor Morgenstein showed that the tendency of firms and individuals to combine the mutual advantage is fundamental in economic life. One of Professor Morgenstein's conclusions was that the exploitation of the loser in a business game for power, was not always pushed to the limit.

Professor David McCord Wright of the University of Virginia pointed out that an economy of pure competition would be one in which no profits exist. He also felt that business cycle disturbances could not be cured by private business policy and initiative. In insisting on this, Professor Wright declared that the President's Council of Economic Advisers was making a mistake.

Lord Keynes

Keynesian economics occupied a conspicuous place in the discussions of the annual meeting and seven papers on various aspects of his theories were presented and discussed. Many of these were highly technical and since Lord Keynes' theories have been fully discussed in the pages of past issues of "The Commercial and Financial Chronicle" they are not to be repeated in detail here. Some consequences which flow from Lord Keynes, and the papers presented at the meeting, may be, however, in order.

Professor John H. Williams of Harvard pointed out that Keynesian theory was only valuable in so far as it provided guides to public economic policy. He rejected the general Keynesian postulate of chronic unemployment and did not see any immediate contraction of investment opportunities on the horizon. Professor Williams further felt that consumption was not passive. One of the great defects in Lord Keynes' theories was the lack of emphasis placed upon price and wage changes in modern American economic life together with the overemphasis upon Government fiscal policy as a corrective.

Professor Lorie Tarshis of Stanford University felt that the theories of Lord Keynes applied more generally to economic conditions in England in the '30's than in the United States of today. He declared that the national income depended upon the propensity to consume, the marginal efficiency of capital and the amount of money in circulation. He also believed that an economy could be in equilibrium when less than full employment prevailed.

Professor Lester V. Chandler of Amherst believed that Keynes' theories are not adequate for public policy. Much more study is needed, he declared, before his economics can be used as a guide to public policy.

Richard M. Bissell, Professor at the Massachusetts Institute of Technology and lately Executive Secretary of the Harriman Committee on the European Recovery Program, held that Lord Keynes' theories provided very useful tools for economic research. He also stated that Keynes placed too much reliance upon fiscal policy as a guide to economic life and too little upon production and the optimum use of natural resources.

The emphasis upon Lord Keynes at the meeting, the critique and development of his theories, indicates that the type of economics which prevailed during the thirties in this country, and which were basic to the New Deal are, far from dead. They are indeed a very lively corpse and we are likely to hear much more of them in the future. They will, however, if the papers presented at the meeting are any guide, be modulated by greater emphasis on private initiative, price and wage policy, new information on consumption and investment opportunity.

In the thirties, many felt that the failure of government pump-priming to bring us rapidly out of the depression established the fallacy of Lord Keynes' doctrines. Our experience with World War II indicated, however, that the fault was rather to be found in the too great reliance placed upon the multiplier effect of public spending. The sums spent in pump-priming in the thirties was insufficient. When we really started to spend during World War II, we came rapidly out of the depression.

We may have learned our lesson and the next time we enter a depression much larger sums may be spent to restore prosperity unless we are wise enough to learn now that a good distribution of income among all classes of people, conservative price policies, new investment opportunities and increased production will prevent the future depression so earnestly desired by the enemies of capitalism.

Other Items of Interest

Professor Joseph Alois Schumpeter of Harvard was elected President of the American Economic Association for 1948. Before coming to America, Professor Schumpeter was connected with various German Universities and is the author of numerous important works in the field of economics, especially a distinguished treatise on business cycles. He succeeds Professor Paul H. Douglas of Chicago, President in 1947.

The Francis A. Walker medal for conspicuous contributions to economics was awarded to Professor Emeritus Wesley C. Mitchell of Columbia University for his work in business cycles. The John Bates Clark medal, for a younger economist of promise and distinction was awarded to Professor Paul A. Samuelson of the Massachusetts Institute of Technology.

In addition to those papers discussed in this article, many others of interest were read at the meeting. The more important of these have already been published in "The Commercial and Financial Chronicle" in the issues of Jan. 1 and 8, 1948.

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from war levels, with wartime amortization for new plants.

(d) Continued rent controls, with provision only for clearly justifiable increases.

(e) Postpone tax reduction for two years, after which a five-year orderly reduction of personal and corporate taxes combined with the systematic, substantial lowering of the national debt which is a terrible threat to our security.

(f) Put off all less essential works, including Federal, State and municipal projects, giving priority to increasing production, housing, schools, hospitals and other more essential needs.

(g) Set up a Capital Issues Committee, with advisory powers, under the Secretary of Treasury, to review all capital issues, public and private, with a view to deferring less essential projects. The Governors of each state should appoint committees to pass on all proposed projects at the local level before going to the Federal committee.

(h) Congress to set up a Digging Committee to scrutinize all Federal works and expenditures to determine which are postponable; also where government spending can be cut and whether it is being done most economically. "Cut costs for greater efficiency" is a sound business maxim. It applies to governments as well.

(i) More production—so important that I repeat it.

(9) Settle realistically all prewar and wartime intergovernment debts. For example, Britain and her creditors must decide what is to be done with the $14 billions of frozen pound sterling accumulated during the war.

(10) The British and others to retain their empire preferences for three years.

(11) A General Staff for Peace to develop an overall, global strategy for America's peacemaking.

These measures, put into effect promptly, can boost production sufficiently to cover the whole Marshall Plan and still break the present inflationary cycle almost immediately, cancel part of the national debt, while laying the groundwork for orderly tax reduction in the future.

5 to 7 More Good Years

Almost four years ago, my associate, John M. Hancock, and I forecast there would be no calamitous depression when the war ended, as so many were then predicting. We foresaw unparalleled business activity for between five to seven years. Doing what I have proposed would add another five to seven years to that "adventure in prosperity."

And if, in that time, we should succeed in making peace—a peace which enables men to face the future with hope, not fear, then I see that prosperity continuing indefinitely, with steadily improving living standards for ourselves and all other peoples, including Soviet Russia.

In taking these measures, the United States in effect would be saying this:

Trade Will Flourish

We stand ready to assure a market for the productive labor of all peoples for the next five years. Bring out the resources that lie in the ground. Go out into your colonies and the far reaches of the world and tap their riches. Produce! You will be able to sell it all.

This promise of an assured market will stimulate output so greatly—in Europe, America, elsewhere—that Europe's financial needs would be greatly and quickly reduced.

Men would discover new sources of supply. Assets now idle, hidden, or hoarded, would pour forth. Governments, apparently hopelessly insolvent, would suddenly find their resources exceeded anything they had calculated.

The continuity of despair would be broken. A new continuity of hope would begin.

Materials Are Valuable

This country would then get something useful in return for at least part of the money Congress will be appropriating. Nor am I disturbed at prospects of accumulating large stocks of these materials. The needs of the world are so ravenous, any so-called "surpluses" will not prove of such magnitude that this country cannot safely store them against future needs and against the depletion of our own natural resources.

To avoid any misunderstanding of the intent of this plan, other nations should be permitted to share in these purchases on the same basis as the United States. The purchase offer would apply to future production. For stocks governments now hold, special arrangements would be made.

Will Free Private Enterprise

Assurance of a stable market for five years will prove a further stimulus to private investment, capital and know-how for the immense job of reconstruction. There will be a new basis for credit in the world. We have been attempting to repair the devastation of the costliest war in history almost entirely through government loans and government institutions. The results have been of pigmy proportions. Let us call into action the giant energies of aspiring and perspiring peoples everywhere.

Whatever plan is adopted should provide for transactions between private individuals and companies in the United States and abroad. The Recovery Authority should also be encouraged, where possible, to make loans secured by the assets of foreign industries. Where such loans or investments are made, European governments should agree to repayment in dollars before nationalizing any such industry.

No Bar to Socialism

This does not restrict in any way the right of Europeans to socialize any or all their industries. It is the right of every people to decide by their own free choice how they want their society organized. My suggestion aims at preventing the repudiation of debts entered into in good faith on both sides. Without such a guarantee, it would be foolhardy to risk American savings abroad.

Dollars Not Enough

But dollars alone will not save Europe nor win the peace. More is required of us. More is required of the European nations.

The major objective of the Marshall Plan is the creation of stability in Europe, an essential condition for peace. To achieve this goal, Europeans must stabilize their currencies and establish realistic rates of exchange. I cannot stress the importance of that too strongly. They must reduce barriers to trade among themselves; they must compact together in mutual protection against aggression. Only as they become a bundle of sticks, unbreakable in unity, can security and peace be theirs. Should they remain so many individual, scattered sticks they invite being broken one by one.

Any economic aid which the United States gives will be inadequate without this common readiness of Europeans to stand up and fight for their independence and freedoms.

Say Where We Stand

Given such a determination, the United States should pledge itself to come to the defense of these uniting nations in case of aggression. Let us not shy from stating now what we intend to do before any would-be warmaker has yielded to temptation of aggression. Such regional pacts of assistance are provided for in the charter of the United Nations, within whose framework this agreement would be brought.

Had such a compact existed in the League of Nations, it would have prevented the last war. It is our best guarantee against a third war.

Fear Paralyzes Stability

How can the peoples of Europe go to work and reestablish themselves unless freed from the fear of another scorching—economically, politically and spiritually? How can they tackle the rebuilding of their countries with enthusiasm if they dread their labors will be swept into a shambles before the repairs are even completed?

Other nations, I am sure, will join us in this mutual defense pact and, I hope, in time, Russia will also.

It is my own belief that the United Nations Charter, in spirit, if not letter, does commit the United States to oppose aggression with every means necessary. We should remove all doubt on that score. Our world—this country—has reached the point where there can be no assurance of peace unless the American people make clear where they stand.

I have been warned that the American people may not be prepared to make their position clear. If that is true, may I add this—if we do not take our stand today, so the peace-loving, freedom-loving peoples of the world know where to rally, we shall be forced to do so in the future under more adverse circumstances.

Wanted: A Global Strategy

In enacting this Marshall Plan we shall be giving European nations a preference on the productive machinery which happens to be presently available only in this country. Shall this discriminate against Latin and South American nations who have always been our friends and allies? How are preferences given Europe to be balanced against the needs of China? Of the Middle East? Of the Far East, where rich stores of sorely needed materials lie untapped? How are all these preferences to be ranged alongside our own country's needs?

These are not decisions which take care of themselves. To integrate these and other problems into one all-embracing strategy, the President should create a body which will sit in continuous deliberations on these matters—a virtual General Staff for Peace. Only by knowing our own minds, will we know what America can do, if we must stand alone, and what we can rightfully expect of other nations.

This General Staff for Peace might be created out of the National Security Council set up under the National Security Act of 1947. The important thing is to have some group constantly on the job, weighing the necessities of peace all over the globe, balancing the commitments we assume against our resources, and, equally important fully informing the American people so we are prepared spiritually, physically, economically and militarily, to deliver on those commitments, when and where it counts.

The American people must make good all pledges. Let us not try to fool them.

America Must Stay Strong

The struggle we are engaged in will be many years in resolving itself. Because we face this long, gruelling for peace, America must keep sound, solid and strong.

The great present threat to a strong America is inflation.

May I emphasize, so it is clear beyond the slightest doubt, even were there no Marshall Plan, we still would need to take vigorous measures against this most insidious and subversive of menaces to the American way of life. We must stop inflation not to save Europe, but to save America.

Any program of inflation control — to be effective — must impose obligations on all the people, as fairly as can be devised. I offer that as a yardstick by which the public can measure the many anti-inflation plans which have been offered or which will be offered. Let the public ask — whom does it hit? If it hits everyone, more than likely it will be a good program. If it taps here and there, touching one segment, while exempting others, it will be a bad program.

The Wartime Failure

Inflation can be prevented only by taking action all across the nation. That was true in wartime when, as many of you remember, I urged an over-all ceiling over the entire economy — all prices, rents, wages — and that taxes be raised to leave the least wartime profit commensurate with getting production. Instead efforts were made to let wages run free, farm prices to rise above the level of parity, and so on. The wartime price-control legislation actually legalized inflation.

The same principle — the national interest or the selfish interest — applies to halting inflation in peacetime.

Production the First Need

The real and only full corrective of inflation is higher production. For supply to catch up with demand takes time. During war we do not have that time—to wait or waste. Nor do we have that time today in this struggle for peace. Therefore measures must be taken to bridge the gap between short supply and excessive demand. This requires three things:

(I) Increasing supplies, particularly where most needed — more production, more work.

(II) Conserving and directing what we have, to give priority to first needs first, putting off the less essential.

(III) Organizing self-restraint—the enlightened self-discipline of the people — to accept the denials which winning the peace entails.

Regimentation Not Needed

Fortunately, the scale of effort which the peacemaking requires—the magnitude of resources — is only a fraction of what war itself entails. As a consequence, nothing like the same degree of denial or regimentation is necessary. But the spirit must be the same. We must all see ourselves as contributors to, or detractors from, peace, in what we do or do not do.

Another Inflationary Whirl

Unless the rise in living costs is halted, labor will demand—and get—another round of wage increases. It won't do labor any good in the end, since prices will then be increased—a race to the abyss. Food is the critical item, for food purchases, unlike other things, cannot be put off. I suggest that farmers be asked to agree to a major cut in present agricultural prices in exchange for a guarantee of being able to sell all their crops at the price set for the next three years. That done, we can turn to labor and say, "You, too, must help hold this line on which peace and stability hang."

Labor and agriculture—through their organizations—have both assumed the position of importance in the community to which they are entitled. They are here to stay. They must accept the responsibility which goes with that position. Neither can again say wages or farm prices should be excluded from regulation, when regulation is necessary.

Through such a wage-farm price agreement, supported by the other anti-inflationary measures I have suggested, the price and cost of

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living spiral would be turned downward immediately.

Restraint or Bust

Instead of having agricultural prices boom a bit longer to collapse in another bust, farmers will be better off if their prices remain steady. Every farm dollar will be worth more in the things it can buy, as industrial prices drop. By working longer hours where feasible, each laborer will be able to earn more. Since he will produce more, prices will tend to drop, giving still greater real buying power to his wages.

By inclination I am opposed to governmental controls, except in wartime. However, we have no peace today. The demobilization was done too hurriedly, without adequately considering this fact, that the peace has still to be won. The country already has paid much of the price in the throes of adjustment, for that over-hasty demobilization. It is my belief that few controls would be needed today — and then for only a short time until production had caught up with demand — if inflation were tackled vigorously by putting off less essential activity both of governments and individuals, postponing tax reduction, reducing farm prices, holding wages stable, taking smaller profits and increasing production.

If we do not show the wisdom and restraint to make these rather small present denials for greater future gains, then I can see no other alternative but to impose a ceiling over our entire economy as in wartime, to save America from being wrecked.

I would not like to see that happen. But, the longer the delay in acting wisely, the more severe the measures which will have to be adopted or the country — and the world — will suffer the tragic consequences.

Stability Helps Everyone

Instead of boom-bust fluctuation, we have within our reach the means for assured markets for an indefinite number of years ahead with relatively stable incomes of workers and farmers. The benefits for white collar workers, government employees, the armed forces are apparent.

Stability is everyone's gain. Inflation is everyone's loss.

Budgets Coming Unbalanced

Think of the millions living on pensions and annuities, if inflation continues. What will happen to all the hospitalization and medical care plans, to church and college endowments, to the budgets of state, county and municipal governments which are even now being thrown out of balance because of rising costs. How long will be budget of the United States remain in balance unless the spiraling ceases?

The National Debt

Overhanging everything is the swollen national debt. It pressures for inflation. It imperils our national security. It is an invitation for regimentation, printing money and repudiation. In event of a recession or some future emergency, where the expenditure of considerable resources might be necessary to prevent war, our national debt could paralyze us from action, unless accompanied by a degree of internal controls as to create grave disorders. A nation which has destroyed its credit has no recourse other than regimentation.

The systematic, orderly, substantial retirement of the national debt is as much a measure of defense as maintaining an army, navy or air force. Reducing that debt is as much a protection of our traditional liberties as uprooting those who spread subversive doctrines aimed at overthrowing our government by force.

Reduce Taxes by Stages

Had the excess profits tax not been lowered—I move I opposed—the government would have had several billions additional surplus last year. Restoring the excess profits tax to the level suggested would permit a sizable lowering of the debt and interest cost.

While raising the excess profits tax, wartime provisions for amortizing new investment should be restored to spur industrial expansion. At the end of this two year peace production drive, which is so urgent, taxes would commence to be reduced steadily. This reduction should not be done all at once. Each year another 10% of the excess profits tax would come off. Similarly the 1943 increase in personal income taxes should come down 10% each year. After five years the whole situation should be reviewed—the debt, the threat of war, the state of our economy—to determine whether a more rapid lowering of taxes will then be wise.

Postponing tax reduction for two years is not asking too much, when so much is at stake.

Get the Best Administrator

Throughout this statement I have tried to stress how inextricably interwoven are the twin aspects of the problem we face—the need to help the recovery of Europe and other parts of the world and the need to keep our own economy strong for what making and keeping the peace may demand in the years ahead. Unavoidably, some conflicts between these two objectives will develop. Nor is it possible to predict in advance how the necessities of the situation may change, how much more quickly Europe can recover if her production is stimulated by measures such as I have proposed, or how much more can be safely made available from our own economy by these measures.

Congress to Set the Policy

Confronted with such a problem, I suggest the Congress lay down the broad, basic policies, giving full operating powers to a single, competent Administrator, heading the European Recovery Authority. On matters affecting foreign policy, the Administrator would be subject to the President and Secretary of State.

Keep America Strong

It is to the interests of peace to aid Europe's recovery and such aid should be substantial. However, the Marshall Plan must be fitted into a larger structure of foreign and domestic policy, rugged enough for the uncertainties ahead. Whatever global peace strategy we arrive at will not be worth anything unless we stabilize our economy to keep America strong. Either we organize production and self-restraint to furnish the tools and materials for the peace-waging to the degree that is necessary, or the peace is lost.

During wartime the average person realized that what he or she did on the job, on the farm, in business, was a direct part of the war effort. It is tragic that so few people see the connection between the things they do in their daily lives and the peace effort. Much was made of the "home front" during the war. Where is our "home front" for peace?

Keep America Free

Perhaps it is human nature—or political nature—to try to do just a little bit. A little bit may be better than nothing, but I would not be honest if I did not say here that to make and keep the peace will demand far more of all of us than merely appropriating money.

Many may cry what about "free enterprise" and "aren't we being asked to do things which we condemn in others?" To them I reply, "You cannot save free enterprise if you let the system which protects it go to ruin."

What makes the police state? What makes totalitarianism? What makes dictatorship? Not the police, but the absence of law behind the police—the rule of men instead of law. I have no fears of the restraints which we adopt as free men to save our freedom as long as we uphold our laws and constitution, as long as the people vote freely at appointed elections, as long as the press and radio are free, and as long as the American spirit of liberty remains as strong as it is today.

Gentlemen, the time has come to organize — to mobilize — for peace. It cannot be put off safely any longer. The time for courage and decision is here.

I submit to your questions.

Is Soundness of the Dollar Affected?

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ity prices, the purchasing power of the dollar had declined approximately 50% during that period. (The indexes were 78.6 for 1940 and 159.8 for Oct. 29, 1947.)

This depreciation in the value of the dollar means various things to the people of the United States. It depends upon whether one is dealing with the cost of living of people in general or of a certain group of people, with the values of people's property, with the purchasing power of people's savings accounts, insurance policies, and investments in government securities, with the purchasing power of the wages and salaries of people in general or of groups of people, and so on.

If an individual is obtaining dollars more rapidly than the purchasing power of his dollar declines, he is gaining in the face of rising prices. This tends to be the case often, perhaps in general, with farmers—their incomes tend to rise faster than their costs, and, for a time, their profits may give them a real increase in purchasing power; that is, their dollar profits increase faster than the decline in the purchasing power of these dollars. If the depreciation in the purchasing power of money continues sharply upward, the time may be expected to arrive when the decrease in the purchasing power of the dollar will overtake the increase in the supply of dollar profits.

Because the early stages of sharply rising prices tend to benefit farmers, they and the officers of farm organizations are generally pleased with that state of affairs. The fact that such a rise in prices is a prelude to a later drop does not seem to alter the position generally taken by the farmers as a group and by many, if not most, of the officers of farm organizations.

Purchasing Power of Government Securities and Insurance

If people hold government securities and insurance policies purchased in 1940 and have savings accounts established then, the purchasing power of the dollars represented by these securities, insurance policies, and savings accounts has declined approximately 50%. Individuals held $65.4 billion of United States government securities in September, 1947. On this item they would have lost the equivalent of over $32 billion in purchasing power since 1940 had they bought these securities in that year. It is obvious that at the most only a small proportion might have done this, since individuals held only $9.7 billion government securities in 1940. The large volume of purchases began in 1943-1944.

Insurance companies, other corporations and associations, mutual savings banks, and state and local governments held $64.7 billion of United States government securities in September, 1947. If these institutions attempted to buy goods and services of the same general type as those bought by individuals, then the loss in value here, as compared with 1940, would be $32.3 billion. But, as in the case of individuals, these institutions held a much smaller volume in 1940 ($11.5 billion); their heavy buying began chiefly in 1943-1944. Furthermore, since such institutions do not use their funds as do individuals, the effects of rising prices on them is a matter for separate determination.

The value of insurance policies held in 1947, that were purchased in 1940 or earlier, is probably a very large item. The value of life insurance policies alone, outstanding in the United States on Dec. 31, 1946, was over $174.5 billion—an increase of $57 billion over the amount outstanding in 1940. The purchasing power value of this $57 billion has been cut in half; and those life insurance policies purchased earlier and at any time since 1929 have depreciated still more.

Time deposits in commercial banks, mutual savings banks, and the postal savings system totaled over $56 billion in Oct., 1947. This would represent a loss of $28 billion in purchasing power if that amount had been established in 1940 and held until 1947. This could be true, at the most, of only half that amount since time deposits in 1940 were almost precisely half the dollar volume of Oct., 1947.

Therefore, all that we can know is that the purchasing power of the dollar has been declining drastically; we do not and cannot know quantitatively with any accuracy how holders of government securities, insurance policies, and of savings or other time deposits are affected since such knowledge would require that we have the data on each person and institution involved.

Position of Banks

Commercial and Federal Reserve banks held approximately $92 billion of government securities in Sept., 1947. The principal interest of bankers is in the market value of these securities rather than in the purchasing power of this market value since the business of the banker is one of maintaining assets at least equal in market value of the banks' liabilities. The decline in purchasing power of money is of more concern to the banks' depositors than to the banks themselves.

It is for these reasons that the banking fraternity as a group is rarely aroused when a nation becomes involved in a depreciating currency resulting from rising prices. Since the bankers' business interests are primarily in the market value of their assets while the public's interest is primarily in the purchasing power of their deposits, securities, insurance, and other savings, banking systems throughout the world have usually gone along with an inflationary tide and have in general done practically nothing to help a government save the people from the depreciation in the value of their purchasing power. Where central banks are tools of government treasuries, this complacency is most pronounced.

Because wages and salaries cannot generally be adjusted as rapidly as prices rise, the purchasing power of those who depend largely or solely upon such income tends to decline. This is a large amount of the people in the United States.

Many individuals and businesses occupy a mixed position; some own property which appreciates in value while the value of their bonds, insurance, and savings accounts depreciates. The effect of the declining purchasing power of the dollar is, therefore, different for people occupying different positions, having different sources of income, and owning property in differing forms, in our economic system.

In short, the decline in the purchasing power of the dollar is one thing; its effects are something else. The latter differ with respect to different people and different institutions.

Economic Maladjustments Eventually Hit All

In general, and in the course of time, few people can escape the evil consequences of a depreciating currency because of the economic maladjustments generated during the period of rising prices and the stresses and strains attending the subsequent liquidation and business recession.

If one thinks of currency depreciation in terms of the relationship between our irredeemable paper money and gold, then, it should be understood that there has been none since the present weight of our gold standard unit was fixed on Jan. 31, 1934.

The reason why our irredeemable paper currency has not depreciated in terms of gold is because of the operation of our system of indirect conversion of paper money and deposits into gold through the Reserve banks and running back to the gold held by the Treasury.

But the important principle to note here is that although the parity of our paper money with gold can be maintained under this system so long as our reserve ratios are respected, this system does not prevent, nor offer any great restrictions on, the depreciation of our domestic money and deposits in terms of goods and services.

In fact, our system has made, and makes, easy a great issuance of promises to pay since these are not redeemable but are merely exchangeable for other promises to pay which are likewise irredeemable. In other words, our domestic promises to pay as issued by the Treasury and the Federal Reserve banks, and in circulation, are both dishonorable and dishonored.

The Gold-Coin Standard System

Under a gold-coin standard and system the issuance of promises to pay is confined to those that are to be redeemed. This restricts sharply any pressure of the monetary supply in the direction of depreciation of currency in terms of goods and services.

It is to be emphasized that the best currency system ever devised by man cannot of itself prevent rising prices and a depreciation of purchasing power of the currency in terms of goods and services since the causes of rising prices can be many. The point is, however, that a good currency need not be a contributing factor to currency depreciation, whereas a defective monetary system can and may be a potent cause of such depreciation.

Our system, involving an issuance of an irredeemable paper money — that is, the issuance of dishonorable and dishonored promises to pay — has been and is a potent factor in the depreciation of our dollar in terms of goods and services. The elimination of this defect can be a powerful factor in counteracting further depreciation of our currency.

Since prices are the result of the forces of supply and demand, except in the instances of government price fixing, and since the causes of rising prices or depreciation of our currency are many, the answers to the resulting problems are to be found by ascertaining what caused the relative scarcity of goods and services offered for sale and the relatively large demand for them.

In brief, on the supply side, the long-drawn-out business depression of the 1930's kept production, with some exceptions, at relatively low levels. Then the period of the war reduced production of goods for civilian use to an extremely low point. Various government policies during the 1930's and the period of the war also acted as depressants on productive activity. Monopolies, both business and labor, have also been factors.

Causes of Increased Spending

On the demand side, the chief factors have been the government's policies of money and credit expansion in which were employed a variety of devices; the low interest rate policies of the government which invited heavy borrowing and spending; the abandonment of the gold-coin monetary standard, thus depriving the people of direct control over their government's management of the public purse; the war, which caused and invited unprecedented spending and the growth of an unprecedented volume (for the United States) of money and deposits resting largely on government debt; the widespread notion that debt and spending, rather than production, saving, and hard work, provided the roads to sound economic prosperity; the loans and gifts extended to foreign countries.

Price fixing by the government, like monopolies, has tended to affect both supply and demand adversely. Price fixing, except in those cases in which rising prices would not have encouraged greater production, has tended to aggravate the distortions by depressing production and by encouraging a greater demand.

Since the causes of our currency depreciation are many, so are the cures. In principle, those forces that increase production relative to demand and decreased demand relative to the available supply of goods and services should tend to bring the decline in purchasing power of money to an end.

Price fixing is not helpful, except where rising prices would not induce greater production, because it discourages production and invites greater demand. Rationing, ordinarily an adjunct to price fixing deals with results or symptoms; it does not in any important way reach causes.

Lower taxes on producers should encourage greater production.

Lower tariffs and the removal of obstructions, domestic and foreign, to trade should stimulate production and enable people to buy more goods and services with their money.

In short, practically all measures that tend to stimulate production and to put more goods and services at the disposal of people should be beneficial. Monopolies—both business and labor—should be broken up. Featherbedding and all obstructions to production, except where matters of health, safety, etc., are involved, should be ended.

On the demand side: government spending should be curbed sharply. The Federal debt should be reduced. Price maintenance and subsidies (except those in the interest of military, naval, and air protection) should be ended.

The use of credit, except in connection with self-liquidating productive activities, should be restricted sharply since non-productive buyers' credit adds to the purchasing power again the available goods and services.

A Return to Gold Standard

The country should be returned to a gold-coin standard so that the people, once more, would have direct control over the government's use and abuse of the public purse. Such a standard should force some contraction in the government's and banks' promises to pay now outstanding. Return to a gold-coin standard probably would be one of the most potent correctives to currency depreciation since one of the important factors in our sharply rising prices has been the great expansion of irredeemable promises to pay, issued by the government and banks. A gold-coin standard forces the redemption of promises and, therefore, restricts the banks and government to the issuance of promises that can be redeemed.

Any issuances of promises to pay without intent to redeem is uneconomic and immoral. Much of our trouble with currency depreciation today has its origin in such immorality. All our paper money in use outside the Federal Reserve banks, except silver certificates, carries a promise to pay which is "fulfilled" by the substitution of another promise of the same kind. The only exception arises when silver and minor coin are utilized, and even this money is an overvalued money in so far as its metallic content is concerned. When a government and banks issue promises that are not fulfilled, the standard of integrity is besmirched by a lack of good faith. The promises of our government and banks today are not good, in so far as our circulating paper money is concerned (silver certificates excepted), and the value of these promises is declining with relative rapidity in terms of what they will buy.

Remove Interest Rate Curbs

Interest rates should be permitted to rise to their natural levels. The government should borrow its funds in the competitive money markets at competitive rates. Most of our Federal debt should be funded into long-term consols bearing a rate of interest sufficiently high to induce non-bank institutions and savers to invest in them and to hold them. These higher rates would put sharp restrictions on government borrowing and properly allow people a better rate of return on their savings.

Government buying of goods to aid Europe should, in so far as is possible, be diverted from the United States to other countries as should the purchases by those governments to whom we extend loans. This is imperative in the case of such depleted natural resources as oil.

Thus far, the chief attention in Washington and in popular discussions has been centered in attacks on symptoms. If it be granted that a return to a gold-coin standard would be a potent force in combatting the depreciation of our currency, the question arises as to what are the obstacles to the adoption of this corrective.

The general public, in large part, does not understand the difference between a good and an inferior money. Most people seem to confuse the convenience of per money with the far-reaching and fundamental monetary functions performed by gold—its services as a reserve against promises to pay, its clearing functions (domestic and foreign), its superior ability to store up values indefinitely.

As a consequence, members of Congress and the Administration have been relatively free from demands from the people in general for a return to a gold-coin standard. Without such pressure upon them, many government officials neglect or avoid this basic matter.

Since an inconvertible paper money — a so-called "managed" paper currency — is an integral part of a governmentally-managed economy, all who think they desire a high degree of governmental dictatorship, with the Government and Reserve banks relatively free to issue promises to pay without being compelled to fulfill them, are, if consistent, opposed to a return to a gold standard.

Gold Not Cause of 1929 Depression

Because the suspension of gold payments is widely associated with our business recession of 1929-1933, a great many people regard the gold standard as in some manner a, or the, cause of that business recession. Because man's mismanagement of credit and of a multitude of our other things undermined economic systems and destroyed or impaired a large number of institutions including governments and gold standards, the belief is widespread that gold was in some way the cause or at least an important contributing factor in that disaster. This belief has been widespread in the face of the fact that, while practically all other things were losing value, gold, almost alone, was appreciating in value.

In short, gold has been, and is, blamed for man's mismanagement of it. Because he cannot do as he pleases with it, he condemns it. Because he cannot make things of less value, such as paper money, as valuable as gold without redeeming them in gold, he blames gold for his unhappy experiences and attempts to fix things so that he will not be compelled to redeem his promises in gold. He even argues that since most nations, because of their abuse of gold and reckless issuances of promises to pay, have driven gold into hiding and have caused these nations to slip down to cheap paper currencies, the latter currencies are therefore to be preferred. The cheaper money becomes "the best," and the more valuable "the worst." Such is man's intelligence, thinking, and argument today as to gold versus a governmentally-managed irredeemable paper money.

Another reason why people in general are not interested in or oppose a return to a gold standard is that with rising prices, they attempt in every way possible to increase their incomes; and, they fear a drop in prices lest it bring a loss in incomes. Many, for a time, realize real gains. Many others are hopeful. Perhaps most fail to understand the extent to which their real purchasing power is declining until prices have risen to great heights and it becomes necessary to utilize savings and to sell property in order to live. This last stage has not yet been reached in any important way in this country, although there appear to be indications that some of our people are beginning to feel the pressure of a depreciating real income. Many people, apparently, are still in the state of relatively high money incomes, relatively large cash savings, and fairly free spending. They are enjoying the feeling that they can buy much — until they try it.

There are outstanding leaders in all groups—banking, industrial, labor, professional—who, for one reason or another, will be found in opposition to a return to a gold-coin monetary standard, just as it is reasonable to expect that in these same groups there will be leaders who believe that, in so far as a monetary system is involved, the gold-coin standard will serve this country best.

Ultimate Depreciation Under Managed Currency

It seems clear that the people of this country do not yet understand that no inconvertible paper is likely to be so "managed" that depreciation will not ultimately set in, no matter how totalitarian a government may be, if the forces that can cause depreciation become sufficiently strong. The fact that Russia has recently provided a demonstration of this fact seems thus far not to be widely recognized in this country. In the face of this and many other lessons of the same kind, including the present depreciation of our money, the contentions are still advanced, as they have been during our period of suspension of gold payments, that our Government has sufficient power to maintain the purchasing power of our irredeemable paper money or that it will not permit depreciation to go "too far." That paper is paper and gold is gold is a fact that the great majority of the people of this country are not yet ready to admit in respect to money.

The truth of the matter is that a "managed" inconvertible paper money can depreciate to any degree. It is a promise to pay that is not fulfilled. It is a bad sort of promise; and the people can decide to treat such promises with the contempt that a non-fulfilled promise invites.

Despite the fact that our system of indirect conversion of our irredeemable paper money maintains it on a parity with gold at the rate established in January, 1934 it is important to understand that we are not safe from a radical depreciation of our currency for the reason that the Government and Federal Reserve banks can pump a much larger volume of promises to pay into circulation than would be possible under a system of direct redemption. The present degree of depreciation in the purchasing power of our money should make this clear to all intelligent people.

Pressure for Gold Standard Restoration

Since this is the general state of affairs in respect to the popular attitude toward our currency structure, there is not likely to be nation-wide pressure on Congress and the Administration, unless leadership is provided, to correct the far-reaching defects in our monetary system except as such pressure comes from those experienced and thoughtful citizens who, for one reason or another, have given careful consideration to the issue, and from those specialists in the field of money who are thoroughly grounded in the history and principles of monetary standards and systems.

A proposal to return this country to a gold-coin standard should raise the question, quickly, of returning to sobriety before the intoxication of a depreciating currency runs its course ending in the blue "morning after" with its economic sickness and headache. People enjoying the intoxication are not likely to welcome a withdrawal of the intoxicating stimulant. Similarly, those who are temporarily experiencing real gains from the current rise in prices may be expected, in general, to oppose a return to a gold-coin standard.

The issue resolves iself into the question of whether government officials who understand the nature of this insidious monetary disease will be leaders and attempt to save our people from further pursuit of a course the general public does not comprehend, or whether these officials will simply ride out the course with our people, trusting to luck and waiting until a possible crash engulfs us.

Apparently, the most fundamental question is whether there is enough leadership in the Federal government to deal with causal factors rather than with symptoms, and to give the people of the United States a monetary standard and system in which the promises of the government and banks are honorable and honored.

It is not to the credit of this generation that circumstances make it necessary to argue for, and to fight to establish, a system of honorable promises in preference to one in which they are not honored. Yet that is a fundamental part of this issue. And, it is by the establishment of a monetary system involving honorable and honored promises that we should expect to find our best cure for depreciation of our currency in terms of goods and services.

Should good leadership assert itself, it seems reasonable to suppose that many of those now inadequately informed and indifferent would give support to those advocating the wise and proper course. Without such leadership, it appears highly probable that we will continue on the present perilous course which can and may prove to be a most unfortunate one for the people of the United States.

It sems reasonably clear that leadership of statesmen is probably more important in this than in any other field of domestic affairs at the present time. The value of the contribution of such leadership to the welfare of the people of this country promises to be immeasurable. The need for this leadership should be clear.

Cinn. Municipal Bond Dealers Elect Officers

CINCINNATI, OHIO — Wesley C. Thornburgh of the W. C. Thornburgh Co., was elected Chairman, and C. A. Richards of

W. C. Thornburgh   C. A. Richards

Field, Richards & Co., was elected Secretary-Treasurer of the Municipal Bond Dealers Group of Cincinnati at the annual meeting.

The following were elected to serve on the Board of Directors: Paul C. Hood, of Seasongood & Mayer; Walter Kleeman of Provident Savings Bank & Trust Co., and Robert B. Isphording of Van Lahr, Doll & Isphording, Inc.

B. L. Taylor III Co. Opens in New York

B. L. Taylor III & Co., members of the New York Stock Exchange, have been formed with offices at 120 Broadway, New York City. The new firm will do a general brokerage and arbitrage business, specializing in when-issued and reorganization securities.

Partners are B. L. Taylor III, Lester S. Greenwald, and Seymour N. Sears, Jr. Mr. Taylor and Mr. Greenwald were formerly with Wellington & Co. Mr. Sears for the past twenty years has been with Miller & Dodge.

Dexter Marsh Joins L. F. Rothschild Co.

BOSTON, MASS. — Dexter H. Marsh has become associated with L. F. Rothschild & Co., 30 State Street. Mr. Marsh formerly has managed the Boston office of Lazard Freres & Co., for over ten years.

As We See It

(Continued from first page)

certainly should convince even the doubter—if there be one—that Russia can not come into any court with clean hands to accuse any other country of any such course. But why any one on this globe should need any such convincing is quite beyond us, and the revelations, of course, throw no light upon the nature of the course we ourselves are now following.

But however all this may be, there are certain useful purposes that the publication of these documents should serve at this time. If, for example, they fail to remind, impress or convince us all of the hollow mockery of much of our war propaganda, they will have failed to accomplish one of the things which might be expected of them. Lest we forget: According to our daily dose of official nonsense in those years when we were pouring out our blood and treasure to defeat Germany, Italy and Japan, we were fighting a defensive war to save democracy, freedom, "our way of life," and much more of the same sort. The "democracies" lined up to destroy tyranny included the Soviet Union, which had been "brutally" attacked by the forces of tyranny, imperialism and double dealing. It was an "ideological" war, liberty vs. slavery, statism vs. individualism, aggression vs. respect for the rights of other nations, honest dealing vs. treachery, etc., etc.

They Believed It!

There is little doubt that (thanks to the effective "indoctrination" programs of an Administration, above all a past master in such matters) in a psychological sense that is precisely what a good many American soldiers were fighting for. That is to say, the "drive" which kept them going originated in precisely such notions as these. Much the same is doubtless to be said of a great many who stayed home and sent members of their families to the front. At least, this is what they thought they were fighting for.

But what a different picture now emerges from the documents! What we now see—as many of us were convinced that we should see when the facts were made known—is a brutal, tyrannical, imperialistic, fanatical Germany (or Hitler) scheming with an equally brutal, tyrannical, imperialistic, cynical Russia to grab and divide between them all the territory and all the people they could. The "treacherous" attack upon Russia in 1941 now is clearly revealed as but a "falling out among thieves." Not a trace of "idealism," ideological devotion, or any other redeeming trait softens the black impeachment of both parties to these understandings.

It was inevitably in these circumstances that when one of these brigands found itself on the side of the victors, it at once set out to make the most of its good fortune. Its geographical position, and the fact that the whole world was in a turmoil anyhow, have added to the strategic strength of its position. What Russia doubtless now would like to do is to reach an understanding with the Western powers of a piece with its bargain with Germany—only its sights have now been raised and its bargaining power immensely enlarged meanwhile by the destruction of Germany. It may prate about "freedom," "imperialist capitalism," "exploitation of the working man," and all the rest, but its real interest is of the same sort as in 1939 when it was bargaining away the life of other countries and other peoples as if they were cattle.

A Pertinent Question

If there is any one who supposes that the contrary is true, let him ask himself this question: How much interest would the Kremlin have in a communistic regime in the United States, for example, which steadfastly remained truly American and refused to take orders from or deal with the Politburo? The Soviets are interested, so far as they really are interested at all, in promoting Communism abroad chiefly because it is the most effective way to develop "fifth columns" within various countries with which they must deal or which they may presently wish to dominate. Precisely how much of all this engendered by some imaginary danger to Russia from "Western powers," it would be difficult to say, but it is in spirit and purpose political imperialism and little else.

Where does all this leave the situation now? If what we were defending ourselves against—if we really were in a defensive war—was political aggression, it is now clear enough that not a great deal has been accomplished. Most of the assertions about Germany's plan to "conquer the world" were even at that time sheer balderdash. It required enormous credulity to suppose that the German nation either could, or thought they could, do more than about one-tenth of what was constantly put on their schedule by the propagandists of the day. These things so many saw under their bed at night now appear more ridiculous than ever. Russia and Germany had historically and indeed almost inevitably clashed when either or both began to lay plans of aggression. The existence of the two, more or less evenly matched in strength of arms, was in a certain sense an aid to world peace.

The Current State of Affairs

What we have now succeeded in doing does not encourage great enthusiam. We have destroyed Germany—and left Europe more or less at the mercy of Germany's fellow thief. We have crushed Japan, which had been holding Russia in check in the East far more effectively than she had been threatening us. The war has reduced Britain to the status of a sort of economic vassal state. Postwar France is evidently to be of little help. The United States, operating alone, could not be miltarily effective against Russians in areas now most vitally concerned—and Russia knows it.

But on a world-wide basis the situation is vastly different. We are now left alone, the only really first class power on earth to face the ambitious Soviet Union. But Russia has elements of severe weakness, too, and in any kind of war yet known to man could not for years even approach our shores or any of our possessions. It is a new role in which we have cast ourselves—a role presenting many grave difficulties. It is seriously to be questioned whether we have realistically diagnosed the situation by which we are confronted.

Our Monetary and Credit Problems

(Continued from page 10)

greatly increased importance of the public debt is one of the major factors in the present inflation.

Why has this increase in the public debt contributed so strongly to inflation? If we understand this point, we shall understand why some of the problems of the Federal Reserve System are so difficult to handle.

During the war, the Government spent more than twice as much as it collected in taxes, making up the difference by borrowing. Producers — workers farmers, and business organizations—were paid for all the production of the economy, but the taxes they paid were less than half the money spent by the Government for the goods and services needed to win the war. Producers, as consumers, therefore, were left with more money to spend or save than the value of the goods and services they could buy. To some extent, they used these excess funds to bid up prices, but because we were at war, and because some goods, such as automobiles, were not available, controls were effective in spreading the supply of goods and services and restraining price increases. People, therefore, saved. Some of the savings were in currency, some in bank deposits, and some in other liquid assets, particularly Government securities.

The country's aggregate money supply, as measured by currency in circulation and privately-held demand, time, and savings deposits, is 2½ times as large as at the beginning of the defense program, about $168 billion, compared with $66 billion in June, 1940. In addition, the general public, outside of banks, insurance companies, and government agencies, increased its holdings of government securities to $105 billion, or nearly seven times as much as in June of 1940. These government securities in the hands of the public are practically the equivalent of money because they are readily convertible into cash. In sum total, this stock of purchasing power available to buy the current output of goods and services amounts to almost $275 billion, compared with a stock of about $80 billion in 1940.

Postwar Monetary Expansion

Most of this expansion in the money supply and liquid assets in the hands of the public occurred during the World War II period. However, further expansion has taken place over the postwar period, and in recent months the expansion has shown marked signs of acceleration. This recent acceleration of expansion largely resulted from very active bank lending to businesses and individuals.

Since the war, the economy has been operating very close to capacity and the general public has shown a pronounced disposition to enjoy all the things that were in short supply during the war, from shirts and socks to automobiles and houses. People have been willing to spend their current incomes and dip into some of their accumulated savings. They have also supplemented these funds by borrowing from banks and other lenders, and by buying on installment credit. As a result of these strong demands for goods and services—demands in excess of supplies—prices have risen, and we have had inflation. As long as the volume of goods and services available, valued at current prices, remains less than the amount of money being spent, inflation will persist. This condition, in fact, is the essence of inflation.

Two other factors are adding to inflationary forces. First, the addition of productive facilities to the economy is going at a rapid pace. Second, we have a large export surplus. On the first, producers are paid now for turning out machinery and building warehouses, factories, and houses, and, on the second, producers are paid for making the goods which are being shipped abroad. But goods and services to match these incomes will be turned out by the machinery and buildings only over a period of years, and it will also take some years for us to receive goods and services from abroad in payment for our exports financed through loans.

Both expansion of productive capacity and the export surplus have resulted in additions to the money supply through the creation of credit and by the use of funds previously held idle. An additional source of increased money supply has been payment in gold for some of our exports of goods.

This brings me to the problem which confronts the banking authorities and about which the Federal Reserve Board is deeply concerned, for it shows clearly the changes which have taken place in the tasks of the Federal Reserve System.

Position of the Commercial Banks

Taken as a whole, the commercial banking system is fundamentally a mechanism for creating money—for allowing borrowers to spend money which no one has saved. This is in contrast to other types of lending—lending such as your institutions, or savings banks, or insurance companies, or individuals do—which is a matter of transferring savings from those who have them but do not wish to spend them to those who do wish to spend them.

Limits are set to the amount of credit banks can create by the legal requirement that they must hold cash reserves to the extent of some proportion of their deposits — which are themselves largely the result of loans and investments. Banks which are members of the Federal Reserve System, which hold 85% of all commercial bank deposits in this country, must hold their reserves as deposits with the Federal Reserve Banks, and no income is derived from these reserves. On the average, required reserves amount to about one-sixth of commercial bank deposits. For every dollar of reserves, credit can expand six-fold.

Reserves are the heart of commercial banking and control over commercial bank credit has traditionally been exercised by control of these reserves. Three techniques have been used to exercise this control: (1) varying the rediscount rate, or the rate of interest at which member commercial banks may borrow from the Reserve Banks; (2) open market operations, or the buying and selling of government securities by the Reserve System; and (3) varying the level of reserve requirements; that is, the amounts which member banks deposit with Federal Reserve Banks as legally required reserves.

Two of these techniques for controlling bank reserves — discount rates and open market operations—are not so effective as they once were, while the third—varying the level of reserve requirements—was exhausted under present law as a restraining weapon early in the recent war, except for a relatively small percentage in central reserve cities—New York and Chicago. The present limited effectiveness of available credit control technique is due almost entirely to the size and wide distribution of the public debt largely inherited from the war. Commercial banks now hold $70 billion of government securities, an amount equal to about 50% of their total demand and time deposits which they can sell in order to obtain additional reserves without borrowing from the Reserve Banks.

The traditional open market operation to reduce excess bank reserves is for the Federal Reserve System to sell government securities, thus drawing down private deposits at commercial banks. In turn, this draws down the reserves of commercial banks by reducing their deposits with the Federal Reserve Banks.

Here, however, we come up against the problem of management of our huge public debt of $254 billion. If the Reserve System were to sell enough government securities to reduce bank reserves and curb credit expansion, it would involve great dangers for the entire economy. To make possible this volume of sales, the prices of government securities would have to be permitted to decline. With a marketable public debt held by investors other than the Federal Reserve Banks amounting to $143 billion, no one can say how great this decline in prices would have to be. As prices declined because of Federal Reserve sales, investors would suffer capital losses and in turn would be encouraged to sell their holdings while their losses were still small, and these sales would further drive prices downward. In brief, Federal Reserve open market operation to reduce bank reserves might lead to a disruptive decline in government security prices which might spread to the prices of other securities. This is a risk too serious to contemplate.

Traditional open market policy would also have serious consequences for the Treasury. As prices of bonds decline, their yield, or effective interest rate, rising, and, if government securities were to fall seriously, all future Treasury financing would have to be done at higher interest rates, thus raising the cost of servicing the government debt. Also, in such a market, the price at which the Treasury and other borrowers could sell securities would be altogether uncertain and this uncertainty would interfere with the orderly management of the public debt as well as the orderly financing of private corporate investment programs.

The Federal Reserve System through its open market and discount policy in close cooperation with the Treasury has already recognized that interest rates have undergone an upward readjustment, probably in response to temporary forces. It has recognized this, first, by lowering the support price (increasing the yield) on short-term government securities, and second, by lowering the support price on long-term obligations (with assurance, however, that support of the lowered levels would be aggressive and continued for the foreseeable future), and third, by the increase in discount rates from 1 to 1¼%. It seems much better to us to permit interest rate changes in this manner than to leave the economy's marketable debt to find its own interest level in a free market dominated by government securities.

It should be apparent from what I have said that the most important change in the problem facing the central banking authorities is the greatly increased influence of the public debt in our monetary and fiscal affairs. After the First World War the public debt ($26 billion) could be looked on as merely another set of obligations—to be allowed to find their own price level in a completely free market. This policy, which was in line with traditional attitudes, resulted in large losses to many individuals and businesses, but these consequences were not nearly as serious as those which would result from a similar policy now. The public debt today is a factor to be reckoned with in all public and private decisions. Both its size and its wide distribution have given it great leverage in monetary policy and economic conditions. Moreover, the fact that the Treasury, unlike other borrowers, must constantly refinance its debt makes stability of the market for the public debt particularly crucial.

The increased importance of the public debt is also a factor in another situation which has received relatively less attention in public discussion. This is the shift which has taken place from the hands of the banking and fiscal authorities of a significant part of the control over the supply of money. I have already mentioned the primary difference between bank credit and credit extended by other lenders—namely, that nonbank lenders lend only savings which have been accumulated by savers, while banks also make available to borrowers funds created by the 6-to-1 expansion of deposits to which I have referred above.

It has been customary and, in the main, correct, to say that loans made by nonbank lenders add nothing to the money supply. Today, this is no longer true. Before we can say whether a loan by, for example, an insurance company or a savings bank or a savings and loan association, adds to the money supply or not we must know where these funds were obtained.

Take an insurance company, for example. In the first place, of course, the insurance company obtained the funds from its policyholders in the form of insurance reserves on policies—that is, policyholders' savings. In this sense the funds were saved by the policyholders. But this is not the full answer. If the insurance company had these funds invested in government securities and, in order to make a loan, it sold these securities indirectly to the Federal Reserve Banks, it added to the money supply, or at least to the potential money supply. Such an addition to the money supply results because when a nonbank investor sells government securities, their prices tend to fall, and if prices threaten to fall too far, the Reserve System buys in order to preserve a relatively stable and orderly market for these issues. This increases private deposits at commercial banks, and the deposits of commercial banks at the Federal Reserve Banks, thus increasing bank reserves, and the capacity of the banks to lend. The effect, in other words, may be just as inflationary as if commercial banks had sold the securities. The insurance companies, the savings banks, and the savings and loan associations are apostles of thrift and foes of inflation and yet by selling government securities to add to their currently available funds for investment they are contributing to inflationary pressures.

Federal Reserve Recommendations

In the light of all these considerations, the Federal Reserve Board has recommended to Congress the adoption of a plan which we feel would restore some of the powers over the money supply which have been lost because of the great increase in the public debt. Very simply, this plan involves a temporary increase in reserves which all banks would be required to hold, except that instead of being legally required to add to their cash reserves, banks would be permitted to hold certain income-producing assets, namely, short-term government obligations.

We would, of course, ask Congress to raise the limits to which required cash reserves may be increased, but it now appears to the board that to increase required cash reserves by this means far enough to be relatively certain of bank credit restriction, that will be required, would mean reducing the earnings of banks below expenses and a reasonable return on capital. This, however, in my opinion, may become an alternative to the special reserve plan proposed by the board.

We recognize that the board's proposal is no cure-all and that it would only deal with a part of the inflationary problem. But the proposed measure would constitute an important, available restraint, which is now lacking, on bank credit expansion in the present inflationary situation. There is likely to be little need for the suggested special reserve during the next three months because of the large amount of Treasury surplus funds, taken from the market through taxes, which will be available to retire bank-held public debt. This will temporarily exert pressure against bank credit expansion. If inflationary bank credit expansion continues after this period, however, and if further Treasury surpluses are foregone in favor of tax reduction, the need for restraining pressure will be urgent. It is better to have power to deal with the situation when it develops rather than to have it provided, if at all, too late to be used.

The urgency for the Federal Reserve Board's proposal, or some other proposal to curb credit expansion, will be especially great if we relax our current fiscal policy while inflationary dangers exist. Fiscal policy is by far the most effective way to deal with the demand side of inflation just as production and particularly more production per man hour is the most effective way to deal with it on the supply side. This means rigid government economy and deferment of all deferable expenditures. It also means as large a surplus of tax receipts as possible so that dollars are removed from the spending stream and used to retire public debt held by the Federal Reserve System. This takes dollars out of the money supply by an equivalent amount and is a reversal of the wartime process by which the money supply was expanded. The classical precept of sound finance that debt should be paid off in boom times has peculiar virtue in the case of a public debt the size of ours, so much of which is held by the banking system.

There is still another side to the credit picture.

As you know, curbing of inflationary pressures cannot be accomplished by monetary and fiscal policy alone. Among other necessary measures are appropriate private decisions. You, for example, must ask yourselves whether, as a group, you are extending mortgage credit on a sound basis—credit which will stand up in whatever storms are ahead of us. In this connection I commend to your attention, as well as to the attention of all bankers, the program formulated several weeks ago by the American Bankers Association, and the joint statement on "Bank Credit Policy During the Inflation," issued Nov. 24, 1947, by the Board of Governors of the Federal Reserve System, the Comptroller of the Currency, the Federal Deposit Insurance Corporation, and the Executive Committee of the National Association of Supervisors of State Banks.

As you can see, I have so far spoken almost entirely about a fairly technical side of the inflation problem which confronts the monetary and fiscal authorities, that is, about how the supply of money is being increased. Another, and just as important, problem is how this large and increasing supply of money is being used. Here, again, developments have removed a substantial measure of control over bank lending from the hands of the banking authorities.

Banking authorities have always exercised some measure of influence over the kind of loans and investments made by banks as well as over the total volume of their credit. Such influence has been exercised by way of statutory prohibitions or limitations, by way of varied privileges of access to Federal Reserve credit, and by way of bank supervision. Statutory prohibitions and limitations have generally been quite inflexible. Federal Reserve influence on the kind of lending done by member banks has usually been accomplished, therefore, by keeping informed as to the credit policies followed by member banks and limiting the access to Reserve Bank credit of those member banks found to be following unsound policies. Bank examination policy is also adapted, in cooperation with other supervisory authorities, to changing conditions.

Developments over the past 15 years, particularly in government programs, have modified the effectiveness of the powers of the central banking authorities. This modification is particularly marked in the case of real estate loans. It would be rather difficult, for example, for the Federal Reserve Board to say that banks with large mortgage loan portfolios shall be denied the right to borrow at the Reserve Banks—even if rediscounting had any significance today—when a large part of bank real estate loans are guaranteed by the Federal Government either in whole or in part. Similarly, in these conditions, a bank examiner might have some difficulty in convincing bankers to reduce the volume of their guaranteed real estate loans or to establish additional reserves against them.

It is probably not correct to say that restraint or encouragement of credit expansion through central bank credit and supervisory policies ever exercised a decisive influence on the lending activities of nonbank lenders. It would be equally incorrect, however, to say that such policies in the past exercised no influence. Central banking policy gradually came to exert a broad influence over national credit conditions and the prudent nonbank lender took these conditions carefully into account in shaping his own lending program. But since the middle thirties, financial developments, particularly those of wartime, have tended to reduce the influence of central banking policy. In addition, the link between important sectors of the credit market has been weakened at several points.

In the case of mortgage credit, for example, where this change is most pronounced, programs and practices instituted since 1932 have resulted in almost complete separation of this field of lending from general credit policy. Even mortgage lending by commercial banks had been largely sheltered from the influence of general credit conditions. Loans underwritten by the Federal Housing Administration and the Veterans Administration are obviously difficult to discourage by ordinary techniques of bank credit control when they are being encouraged on social grounds by other agencies.

Your own organizations, the savings and loan associations, are adding to the problems of restraining inflationary credit developments, again largely because of Federal programs developed since the passage of the original Federal Home Loan Bank Act in 1932. Let me say here that I would not argue for one moment in favor of returning the savings and loan business to the conditions that existed before that date. Then, there were no effective restraints on savings and loan lending except the volume of capital available to associations, and you suffered severely as a consequence. There was no effective means for transferring funds from areas of oversupply to areas of scarcity, and developments in real estate were uneven as a result. There was not sufficient protection for shareholders against either mismanagement or unfavorable economic conditions—and many investors lost heavily through no fault of their own.

The savings and loan system has been strengthened to perform its functions, and that is a good thing. We must face the fact, however, that this very strengthening of the system has made it independent of national credit policy, in a way it never was before. Funds are attracted to a savings and loan association as much by the insurance of share accounts as by an association's reputation for being a sound, well-managed institution. The right of borrowing from the Home Loan Banks makes it possible for associations to make more real estate loans in a community than there are savings in the community available for real estate lending. The capacity of the Home Loan Bank System to borrow in the general money market makes it possible to channel the funds available for investment in institutions sponsored by the Federal Government into the particular field of real estate. All of these conditions, among others, have given savings and loan lending a degree of independence it never had in the days when the only resources of an association were the investments of its shareholders and depositors and loans from commercial banks.

Let me emphasize that the present condition is much sounder than the earlier condition. Home mortgage credit, accounting as it does for almost a fifth of all private debt, is important enough in the economy to warrant special facilities operating under special legislation. Just because it is so important, however, its general policies need to be related to and integrated with broad national policy in the credit and fiscal areas. Mortgage credit can, and does, add to inflationary pressures at a time like the present. I know you realize that credit is needed to finance the construction of houses, and you are making more and more of your loans for this purpose. You are also aware that credit extended for the construction of more houses than can be built with the materials and labor available drives prices upward and I am sure you are limiting your lending in such a way as to minimize these price pressures. As experienced businessmen, you know not to lend money to Tom Jones just so that he can pay more for a house than Harry Smith can afford, because that is the way bad loans are made, and bad loans seem to have a way of staying on the books longer than good loans.

Summary

And now let me summarize and conclude my remarks on this occasion.

Important changes have taken place in the structure of our economy and in the organization of our society. As a result, central banking and fiscal policies have lost a large part of the influence they once exerted over the supply of money. The credit and monetary control thus lost has not been placed in other hands, but has been diffused throughout all financial sectors. At the same time, national influence over the use to which the money supply is put—never as strong as control of the supply itself—has been weakened, partly by these same forces, partly also by the independence which particular credit programs have had because they are specially sanctioned and encouraged by the government for social reasons.

The Reserve Board has recommended adoption of a special reserve plan which it believes would restore a desirable degree of control over the money supply. I suggest that the reconstruction and strengthening of policy controls over the use to which the credit supply is put also requires careful and conscientious study. I do not suggest that we keep reaching out for more power and more controls, but I am aware of the fact that in honestly and sincerely seeking to promote economic stability at a high level, new effective techniques may perhaps be devised to meet the changing situation. For many years the Board has been able to control the flow of bank credit into the securities market, and during the war it was given the task of regulating consumer credit. The Board has recently asked Congress to renew this power, at least so far as instalment credit is concerned.

It is possible that central banking policy will find the instruments necessary to perform its tasks under the new conditions which we face in a combination of traditional controls over the supply of money and selective controls over the use to which credit is put. If this be so, cooperation will be necessary between the central banking authorities and other agencies. For example, the mortgage credit field may be one in which such cooperation will be fruitful. At any rate, this is a question that you and we should be studying at this time, both separately and jointly.

The problems which monetary and credit policy must face today are different from those of a few years ago. On our success in finding ways to deal with these problems will depend in no small measure our success in reaching the goal of sustained prosperity.

No Magic Formula to Cure Inflation, Says Whitney

(Continued from first page)

is clear that this problem is being greatly complicated and its solution greatly impeded by Russia, which appears to be fixed upon a course of obstruction to all efforts for world peace and friendly international relations. The recent breakdown of the London negotiations between Russia and the Western democracies has served to make clearer its intent, and to make plainer the difficulties of fundamental cooperation. Russia may continue in its endeavor to keep the world in turmoil, but the Western democracies can, nevertheless, proceed together in their efforts toward reconstruction and, in time, the choice of freedom should prevail. In these efforts, our American production and example are vitally important in the assistance which we should give to those nations that strive for recovery and free opportunity.

"In this country, the great issue—and one that had its beginning well before World War II—is whether we shall fall into the ways of those who expect to obtain better living for less effort and less enterprise. The results for all nations that have tried this easy philosophy should provide the answer for us. However, the direction in which we were proceeding during 1947 was not much clearer than before, and the issue still plagues us in all our decisions. It is the issue that was dealt with in the annual report made to the stockholders of the company for the year 1945, a few months after the close of World War II. It is the same issue that underlies the present problem of inflation, of rising costs and wages, and of the high cost of living which, as always, bears hardest upon those least able to bear it.

"The problem of our high cost of living and inflation is much discussed and, as is usual with us Americans, the first thought is to pass a law about it. Among the many legislative proposals are such devices as wage and price controls, allocation of commodities in short supply, consumer rationing, further control over bank credit, and so on. But such measures will not solve the problem; many of them will only aggravate it with the further distortions and black markets they will bring. Such direct and potent inflationary factors as overspending and over-lending by Government and its many agencies, as well as cheap money rates, can surely be stopped or tempered without further legislative enactment. There is no magic formula or patent medicine to cure inflation. It is still true that the only real answer lies in greater enterprise and greater production, more saving and less spending by government and by the people, and, above all, more forbearance on the part of everyone. These are the fundamentals of a healthy economy. They should not be left to stand as idle preachment but should be implemented daily—in our legislation, in our economic and financial practices, and in our conduct as a part of a great community.

"In the management of our money and credit as a part of the problem of inflation, these same fundamentals should be the guide. Monetary inflation always means price inflation. A superabundance of money brings free spending and higher prices and, at the same time, it provides the means with which rising wages and costs are met. Great monetary inflation during the war was natural; indeed, because of the great cost of war, it was inescapable. Control of the supply of money is in the hands of our fiscal and monetary authorities—not the commercial banks of the country. The authorities must exercise these controls with caution and wisdom. Too drastic a course such as was followed in 1920, 1929 and 1937 might bring severe results. Inflation is bad and should be controlled, but deflation is even worse and once started is harder to stop."

Need of Venture Capital for Defense

(Continued from page 13)

nanced by venture capital and later through their production enabled this country to overcome its enemies in wartimes. In fact, without the collective combination of just one-half a dozen of these largest corporations, it is extremely questionable whether we could have won World War II by this time.

And when I say "we," history makes me include Russia as one of our allies. Certainly it was the war materials produced by our great industrial corporations, started as ventures in capitalistic United States, that saved the necks of the Communist leaders.

Probably the most important defense industry that rose from the venture capital stage prior to World War II was the aviation industry. Companies like Douglas, Curtiss-Wright, United Aircraft, Boeing, Grumman, Republic, North American and Martin found in the security markets of the country the needed capital for their research, development and expansion.

During the years 1933, 1934 and 1935, these companies were able to carry on and expand in spite of the discouragement they received at the hands of the Government, which broke certain of them apart, forcing the segregation of their aircraft manufacturing facilities from their air transport facilities. It took several years for our aviation industry to reorganize and overcome this action on the part of our Government and unfortunately this occurred at just the time we should have been encouraging this new industry so vital for defense. I only mention this because it is so important to realize that government interference retards industry and accordingly hurts venture capital.

Role of Venture Capital in War

The part played by companies that ventured and developed new scientific products during World War II is too fresh in all of our minds to make it necessary for us to review the facts. But we do realize that the kind of defense program we need is one that would enable us to wage a successful war if it is forced upon us. Therefore, in this kind of modern preparation for war the number of men is a factor, but men without modern warfare equipment are of little use, and the modern equipment for warfare is largely developed and made in the factories of our corporations, born with venture capital and developed under our free enterprise system.

The attitude of our Government must be such as to encourage the investment of savings of individuals in new industries. Therefore it must stop attacks on industry such as the Attorney General's case against the petroleum companies for pipe line monopoly just prior to 1939. Such cases were dropped very rapidly when war occurred, so that politics could not interfere with our productive sinews of war.

However, in the past several months, the Attorney General's office has again taken out its anti-trust hammer and is harassing business and discouraging private investment.

It is only from capital venturing that our new aggressive industries of the future will come. "Nothing ventured, nothing gained!"

Effect of Taxes

Current high wartime taxes are not encouraging to ventures. Last year our Federal Government spent $38½ billion, which was just slightly more than all of its 145 million people spent for food. The cost of food has gone up 100% since 1939, but the cost of government has gone up 377%. So, for the first time in history, we are faced with a government that costs us more than food during peace. We can understand the cost of a pound of butter. We do not understand the cost of many government bureaus. Venture capital would be greatly encouraged if a capital gains tax credit was given to investors in new companies and even old corporations that place capital into research and the production of new products. Further, individuals' taxes are on a wartime basis which is preventing the accumulation of savings, and it is from the savings of individuals that a large part of capital for new ventures in the businesses and new products must come.

Speaking of the savings of individuals who are the investors of the nation, I want to take this opportunity to commend the work being done by the Investors' League in fostering in the Congress and throughout the nation the interests of all investors.

To conclude with the need for venture capital in our defense program, we are faced this year with a choice between the philosophy of private capital against the philosophy of government capital in the development of our natural resources and our industrial enterprises. We know that private capital in the history of this country has provided the sinews for defense and also for war when we were attacked. In fact, private capital has provided them in such a big broad way that we now are the strongest, richest, healthiest country in all the world. By contrast to the United States I offer you the picture of socialist France and socialist England. These countries have expanded their central government to a greater or less degree. At the present time they are bogged down in a state of confusion. This picture can do nothing but convince us that the American Way, the private capital way, has succeeded in the past whereas government domination has failed. It seems clear that we need in Washington an administration of any political party whose prime philosophy will fulfill the need to encourage private venture capital as an important aid to our defense program.

The brains, initiative, resourcefulness and "know-how" of the American business man and worker represent strong protective factors for investors that risk their savings in new enterprises. With reasonable government encouragement the new venture of today will be the successful business corporation of tomorrow. No doubt, over the years ahead, these new companies will prove to be a most vital aid to our military defense so essential to world peace, our happiness and well-being.

Current Bank Credit Policies

(Continued from page 20)

some times. People of this kind take care of themselves by large capital financing programs and maintaining an independence from the use of bank credit even for their seasonal working capital requirements. Fortunately for the banks, that is not the case with most of our best customers. I feel it is up to each of us to manage our money positions in such a way so that we can comfortably take care of the needs of our customers when they come to us for the banking support they have a right to expect from us—and that there should be no lack of willingness, on our part, to utilize the rediscount and borrowing facilities open to us at the Federal Reserve Banks, if necessary to take care of deserving borrowers. Money management is our problem—not our customers'.

We are trying to take a long range viewpoint credit-wise and are cautioning our lending officers not to mistake natural cyclical turns in a business, which can be expected to correct themselves in due course, for basic credit weakness. I think all of us are going to be very careful in making sure that the terms and conditions relating to credit lines, and all loan negotiations, are very clearly spelled out. Also, we are finding here and there that we have an educational job to do as this or that borrower seems to be going full steam ahead without full adjustment of his capital expenditure or inventory commitments to current conditions. We have all learned from past experience that we are not very good at trying to run our customers' businesses and we have made it a point in the very recent past to again impress on all our lending officers the fact that they should confine the advice they give to money matters. By the process of getting our borrowers to project their money needs and figure out how they are going to meet them, any errors in their own business decisions have a way of coming to the surface. We are being particularly cautious in urging everyone to meet his money needs at the market, as they arise, and not go ahead with capital or operating programs counting on capital arrangements expected to be made at some later date.

Matter of Interest Rates

I do not think the matter of interest rate is too important to our customers — at least we are not finding it so. Naturally, no one wants to pay more than the prevailing rate for a borrower of comparable credit standing, but we think our customers presently are more interested in knowing that the money will be there for them when they deservedly need it than in trying to get commitments as to what the rate is going to be. All of us, of course, are more balance conscious than before. We realize, too, that in recent years there has been virtually no cushion in the interest rate for credit risk. The inflationary trend in which we now find ourselves is bound to bring about some eventual readjustment of values. In spite of our vigilance, there is no doubt there are elements of speculation in the inventories of some borrowers. In fixing rates, we are trying to recognize the need for our getting a margin over and above the money factor involved for the losses which may, and almost certainly will, eventually come along. In this connection, I might mention that our bank, as doubtless many of you have also done, took advantage of the new Treasury ruling with regard to bank loan reserves and the tax free feature thereof, and has set aside the maximum amount permitted under the new regulations.

Term Loans

On the matter of term loans, I have no rigidly fixed ideas. Generally speaking, we have always felt, and still feel, that ideally, long range capital needs of most industrial and commercial companies should best be taken care of through equity instead of debt. We have been consistent in taking this position with our customers of this character. We have made, or participated in term loans only where we felt the exceptions to this policy were justified and where there were large margins of safety credit-wise, indicating assurance of repayment on schedule, in alternative ways aside from prospective earnings alone. When many banks were active seekers of these loans, competition drove the market to low rates and long terms — both too low and too long in some instances. We followed only where the credit risk appeared to be unquestioned and the long range deposit relationship made us feel it incumbent upon us to go along for our share in recognition of competitive factors. These days are largely over — fortunately. There will still be instances where good customers are going to have a legitimate basis for asking term loan facilities from their bankers and I do not feel that we should have any rule book which would prevent our giving them our careful consideration when they meet our standards as to purpose, quality, and maturity, and the borrowers are willing to pay a proper rate for the accommodation.

Situation Self-Policing

As I said before, it seems to me that the situation is more or less self-policing in that banks normally are not going to liquidate long-term governments and replace them with investments in term loans except for their own customers for legitimate purposes, for reasonably short periods of time and at compensatory rates; neither do I believe that banks will want to commit themselves to so-called standby credits except for very short periods of time and then only where the funds are actually going to be taken down at satisfactory usage rates to cover nearby future commitments a customer is being obliged to make.

With reference to consumer credit, we, in our bank, have made no material change in our consumer credit policy since the expiration of Regulation W and are giving the American Bankers Association program on consumer credit our full support.

In the final analysis, we bankers are the last line of reserve for our customers. In our customers' interest as well as our own, we should try to save some lending margin for unforeseen contingencies. If we have a figure in mind as representing the maximum amount of credit we would be prepared to extend a company, we probably should limit our participation in their borrowing program to a reasonable proportion of that amount and encourage the borrower to utilize existing or develop other banking channels for the balance of their needs.

In concluding I would say that I think the new business angle, as such, will be soft pedalled by most banks in 1948. It has been our experience over the years that a great many of our important deposit relationships have come, in any event, from customers whom we have supported consistently and courageously credit-wise. I imagine this is the case with most of you also. We are still new business-minded, but the primary job now, for all of us, as I see it, is to keep in close touch with our own customers, ascertain at reasonable intervals what their legitimate borrowing needs are going to be, and then make as sure as we can that our money positions are maintained on a basis which will permit us to provide our share of them promptly and willingly. If to do this, in spite of careful management of our money positions, involves our being occasional, or even somewhat regular borrowers, at the Federal Reserve Bank, I feel confident such recourse to these facilities will be regarded as proper and fully justified in meeting our responsibilities to those we serve.

I, personally, have confidence in the banking fraternity's ability to meet today's problems and to exercise the restraints necessary to avoid improper and excessive use of credit while at the same time providing business with its essential credit needs.

S. F. Stock Exchange Com. Appointments

SAN FRANCISCO, CALIF.—Standing and Special Committees of the San Francisco Stock Exchange for the current year were announced (Jan. 20). Appointments made by Mr. Atkinson, Chairman of the Board are as follows:

Ethics and Business Conduct—John I. Dakin, J. Barth & Co., Chairman; Joseph Hauck, Schwabacher & Co.; Sherman Hoelscher, Sherman Hoelscher & Co.; Robert F. Mulvany, Irving Lundborg & Co., and Harold B. Williams, Lawson, Levy & Williams.

Floor Trading—Harold W. Lutich, Sidney P. Kahn & Co., Chairman; Warren H. Berl, Edwin D. Berl & Son; Joseph A. Johnson, Henry F. Swift & Co.; Harry E. Jonas, Irving Lundborg & Co.; Robert H. Willard, McNear & Willard, and Kenneth H. Sayre, Needham & Co., Alternate.

Finance—John R. Hooker, Hooker & Fay, Chairman; Edison A. Holt, Holt & Collins; Palmer C. Macauley, Davies & Mejia; Victor T. Maxwell, Shaw, Hooker & Co., and Elwin E. Purrington, F. B. Keyston Co.

Public Relations—Ferdinand C. Smith, Merrill Lynch, Pierce, Fenner & Beane, Chairman; George W. Davis, Davis, Skaggs & Co.; Mark C. Elworthy, Elworthy & Co.; Paul A. Pflueger, Max I. Koshland & Co., and Frank F. Walker, Dean Witter & Co.

Listing (Special Committee)—Hubert J. Soher, Walston, Hoffman & Goodwin, Chairman; Daniel J. Collins, Holt & Collins; Dean Dillman, E. F. Hutton & Co.; Howard J. Greene, Sutro & Co.; Robert E. Sinton, J. Barth & Co.; Lloyd C. Stevens, Dean Witter & Co., and John P. Symes, Henry F. Swift & Co.

Curb 5 & 20 Club Elects Landsberg President

At their annual meeting held at Cavanagh's Restaurant the members of the New York Curb Exchange Five and Twenty Club elected Mortimer Landsberg, a governor of the Curb and a partner of Brickman, Landsberg & Co., Club President for the next year. Mr. Landsberg has been President since the Club's formation last April.

Edward A. O'Brien was reelected Vice-President, George J. Bernhardt Secretary and Rully Koerner Treasurer to serve for another year.

The annual beefsteak dinner followed the business meeting and election of officers.

Frank E. Herma was Chairman of the Entertainment Committee.

The State of Trade and Industry

(Continued from page 5)

and also an interim increase of 25% in mail pay rates authorized in December by the Commission. The mail pay increase, which was retroactive to February 19, is a part of "all other revenues," and the December entry includes that increase for the whole period from Feb. 19 to the end of the year, the Association of American Railroads notes.

Estimated freight revenue in December, 1947, was greater than in December 1946, by 25.1%, but estimated passenger revenue decreased 3.5%.

STEEL PRODUCTION MAINTAINED AT HIGH LEVEL

The number one nightmare for steel consumers this year will be sharing the steel scarcity through government-sponsored voluntary allocation programs. But the number one problem in the steel industry which is causing great concern among some steel producers is the short supply of open market scrap, according to the current report of "The Iron Age," national metalworking weekly. Unless enough additional scrap is obtained this year to utilize the increased steel capacity recorded as of the first of the year there is little chance of a change in the tight steel situation, the trade magazine notes.

Steel users have been fortunate in that steel firms have won their third battle in preventing a runaway scrap market. Had this not been the case, prices would have skyrocketed to such an extent that steel firms would have been forced to raise prices on the basis of scrap costs alone.

Steel production officials, however, will still be faced with the problem of obtaining increased scrap supplies necessary to utilize additional capacity.

The practice of earmarking scrap for return to the mill has been increasing. One large producer which some months ago merely asked for cooperation in this respect has now put it on a business-like basis—no scrap, no steel.

Grading, or the buying and selling of scrap according to accepted specifications, has gone by the boards, the above trade authority points out. As supply diminished, scrap buyers have become less particular about grading. When a few buyers let down the bars, all had to follow or get nothing.

Scrap consumers at Pittsburgh and Chicago have been able to keep the market steady this week with no changes in the price of heavy melting steel. In the erratic Philadelphia market, No. 1 heavy melting the present week has dropped an average of $3 a ton. "The Iron Age" scrap composite price is down $1 this week to $40.83 a gross ton.

With older capacity along with some new capacity having been added to the 1948 official steel capacity figure, the industry is bound to operate at a lower percentage until more scrap, more pig iron and a better grade of coke become available.

This week steel ingot output is down one point to 95% of newly rated capacity. From a tonnage standpoint this rate still reflects peacetime peak levels.

Steel consumers this week were deluging sales offices attempting to obtain information on steel allocations. Most steel customers will find their second quarter quotas slashed, and for the next several months at least, no possible chance of any change in the current tight steel situation, "The Iron Age" 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 95.2% of capacity for the week beginning Jan. 26, 1948. This compares with 96.1% one week ago.

The current rate is based on the revised capacity for the industry as of Jan. 1, 1948 with 100% operations equaling 1,802,476 net tons of weekly output.

This week's operating rate is equivalent to 1,716,000 tons of steel ingots and castings as against 1,732,200 tons last week, 1,637,300 tons one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

ELECTRIC PRODUCTION RISES TO NEW HIGH LEVEL

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 24, 1948 was 5,436,430,000 kwh. according to the Edison Electric Institute. This was an increase of 11.9% over the corresponding week of last year when 4,856,404,000 kwh. were turned out, and was the highest weekly output ever reached in the history of the industry. The Jan. 24 week was the 11th week since Sept. 13, 1947 that production exceeded 5,000,000,000 kwh. Total output was 66,318,000 kwh. higher than in the week ended Jan. 17, 1948, when the previous high level was reached.

FREIGHT LOADINGS FALL 2.4% BELOW PREVIOUS WEEK

Loadings for the week ended Jan. 17, 1948, totaled 811,286 cars, according to the Association of American Railroads. This was a decrease of 20,161 cars, or 2.4% below the preceding week. It also represented a decrease of 16,774 cars, or 2.0% below the corresponding week in 1947, but an increase of 61,843 cars, or 8.3% above the same week in 1946.

AUTO OUTPUT CURTAILED BY LABOR TROUBLES, MODEL CHANGEOVERS AND INDUSTRIAL GAS SHORTAGES

Estimated output of cars and trucks in the United States and Canada the past week amounted to 109,865 units, "Ward's Automotive Reports" states. This compared with a revised figure of 109,031 units in the preceding week. Output in the like week a year ago was 93,278 units, with 121,948 turned out in the like period of 1941.

Last week's total comprised 80,150 cars and 25,650 trucks built in the U. S. and 2,590 cars and 1,475 trucks in Canada.

The magazine attributed labor troubles at Hudson, model changeovers by General Motors divisions and Lincoln shortages of industrial gas as the main reasons for production being held below desired levels.

BUSINESS FAILURES INCREASE SHARPLY

Rising to 109 in the week ending Jan. 22, from 61 in the preceding week, commercial and industrial failures were more numerous than in any other week since early 1943, Dun & Bradstreet, Inc. reports. Two times as many concerns failed as in the corresponding week a year ago, but failures were still far below the prewar level. In the comparable week of 1939, almost 400 businesses went out with loss to creditors.

Failures involving liabilities of $5,000 or more predominated, accounting for 95 of the week's total of 109 or more than double the 44 recorded last week and compared with 43 in the same week of 1947. Eleven of these larger failures involved liabilities of $100,000 or more each. Small failures with losses under $5,000 continued very low, falling off from 17 a week ago to 14 in the week just ended.

The week's increase occurred primarily in manufacturing and retail trade. Thirty-five manufacturers failed, over twice as many as in the previous week, and considerably more than the 22 reported in the same week of 1947.

While the relative gain in retail trade, where failures were up from 29 to 45 was not as sharp, this line had more concerns failing than in any other week since June, 1943. In wholesaling, failures numbered 14 against four a week ago and six in the same week of last year.

FOOD PRICE INDEX DIPS FROM PREVIOUS ALL-TIME PEAK

Although movements were irregular, staple food items averaged lower last week and the wholesale food price index, compiled by Dun & Bradstreet, Inc., dropped to $7.25 on Jan. 20, from the all-time high of $7.28 registered a week previous. The current figure represents a rise of 17.1% over the $6.19 recorded a year ago.

The chief function of the index is to show the general trend of food prices at the wholesale level.

COMMODITY PRICE RISE HALTED FOLLOWING NEW RECORD HIGH

The daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., turned sharply downward in the closing days of last week after reaching a record high of 308.82 on Jan. 16. The index dropped to 303.86 on January 20, from 307.18 a week earlier and compared with 234.65 on the corresponding date a year ago.

Grains turned lower in late trading but not before practically all deliveries of wheat, corn, and oats established new seasonal high prices on the Chicago Board of Trade.

Early strength in wheat reflected removal of hedges against sales of flour to the government and to the domestic trade, while firmness in corn was influenced by an aggressive consumer demand. The late decline in wheat resulted from heavy liquidation prompted by the failure of the market to respond to a continued CCC inquiry for cash wheat and to recent anti-inflation proposals from Washington. Other influences were reports that the recent cold wave in Winter wheat areas has apparently caused little damage to the crop and more favorable crop advices from abroad.

Visible supplies of wheat showed a drop of 4,023,000 bushels in the latest week. Domestic flour business continued very small with bakers still showing considerable resistance to high prices.

Hog prices weakened as receipts at leading markets increased. Domestic demand for lard continued rather slow and prices turned downward after an early show of strength. Refined sugar prices were reduced from 8.40 to 8 cents per pound by one large refiner on Monday of last week, marking the first downward adjustment for some time.

Cotton prices fluctuated unevenly in a narrow range most of the week with prices showing some easiness at the close.

A moderate rise occurred early in the period, influenced by mill buying, coupled with price-fixing against sales of cotton to Germany and a better outlook for exports of the staple to other foreign countries. Prices moved lower in the latter part of the week as demand lessened. Resulting liquidation and selling were attributed to uncertainty regarding legislative developments in Washington, new proposals to combat inflation and a slackening of demand in cotton textile markets.

December marked the eighth successive month in which consumption was smaller than in the corresponding month of a year previous.

In the Boston wool market, inquiries were noted for practically all types of wool during the past week. Wide interest was reported for ⅜-blood wools, with steady demand for fine and ½-bloods. There was some activity in foreign wools but spot offerings were few and scattered.

RETAIL AND WHOLESALE TRADE MODERATELY ABOVE WEEK AND YEAR AGO

Severe snowstorms and cold weather in many parts of the country adversely affected shopping conditions last week. Retail dollar volume in the week was fractionally above the level of the preceding period and moderately above that of the similar week a year ago.

Clearance and January white sales continued to attract favorable attention. Low and medium-priced goods sold well with resistance to high prices considerable.

The demand for food was steady and at a high level with substitutes for high-priced meats and butter sought by an increased number of consumers.

Heavy clothing and rubber footwear continued to attract considerable attention with consumers generally responding favorably to early promotions of Spring clothing. Fancy blouses and print dresses were popular and medium-priced shoes were steadily purchased. Men's shirts and pajamas sold well with suits in steady demand and gabardine the preferred fabric.

The supply of branded major appliances improved in some areas, but generally remained inadequate to fill the heavy demand.

Automobile supplies and equipment were steadily purchased, but a shortage of fuel oil and kerosene prevailed in some areas.

While buyers generally avoided long-term commitments, order volume for most types of merchandise continued to be very substantial. A slight rise in wholesale volume during the week reflected the prevalent optimism among retailers. Total dollar volume moderately exceeded that of the corresponding week a year ago.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 17, 1948, increased by 5% from the like period of last year. This compared with an increase of 8% in the preceding week. For the four weeks ended Jan. 17, 1948, sales increased by 13% and for the year to date increased by 9%.

Retail trade here in New York the past week maintained about the same rate of gain as was the case earlier in the month.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 17, 1948, increased 6% above the same period last year. This compared with an increase of 9% (revised) in the preceding week. For the four weeks ended Jan. 17, 1948, sales increased 6% and for the year to date rose by 9%.

What Lies Ahead for Business?

(Continued from page 10)

quarter. The final figures for the fourth quarter are not yet available. For the third consecutive quarter, California retained its leading position with a total of $456 million; Texas continued second with $256 million and New York third with $240 million. California continued its lead in private construction by a wide margin—reaching $375 million as compared with $210 and $154 million for Texas and New York respectively. With regard to availability of construction materials, I would suggest that you follow our construction reports or communicate with our Office, as time does not permit me to go into any detail. You will be interested to know, however, that during the last quarter there was an improvement in the supply of gypsum lath hardwood flooring, wire nails, fabricated structural sheet, cast iron radiation and soil pipe. Sheet and strip steel are in tightest supply of all steel items and voluntary allocations will undoubtedly continue through 1948, despite the increase in production facilities for turning out flat-rolled products. Lumber, brick, cement and gypsum board showed a decline in output in the last quarter. Lumber industry representatives claim that an extra 300 freight cars a day for two months would cut price of lumber 10 to 15%, because the great flood of lumber into retailers' hands would put an end to extreme competitive bidding. A number of west coast mills had to shut down during part of 1947 because of insufficient box cars and cargo ships to move the finished lumber.

You will recall that at our last meeting, I discussed in considerable detail, the part which the Department of Commerce is playing in assisting businessmen to meet the problems which confront them. There is no need to repeat the list. However, I want to call your attention to the "Business Service Check List" published weekly at an annual subscription rate of $1.00, in which you will find listed all new publications issued by the various branches of the Department. There is a nominal charge for some of these publications, such as the monthly Industry Reports on Chemicals, Leather, Pulp and Paper, but many valuable reports, such as the Construction and Transportation reports may be had without cost by writing to us.

Our monthly, "Survey of Current Business," for which the subscription rate is $3.00 a year, is the authoritative source of business information familiar to many of you.

A recent publication in your field is "The Small Businessman and His Bank," the price of which is 10c. This, and any of the other publications of the Department may be obtained through our Regional Office in the Empire State Building. Here we publish a semi-monthly "Bulletin of Commerce" containing items of interest particularly to businessmen in New York and New Jersey and we shall be pleased to send it to any of you, on written request.

The Bureau of the Census, also, publishes a number of valuable reports, among which we can recommend, especially to a group such as this, those on Retail Trade in the Middle Atlantic States, namely New York, New Jersey and Pennsylvania. You may have your name placed on the mailing list to receive these reports monthly by writing to the Bureau of the Census in Washington.

I hope that you will call on us for any additional information or assistance you may require. Our offices are on the 60th floor of the Empire State Building and are open daily except Saturday and Sunday. In closing, I want to express my pleasure in being with you again, and to wish you all a full and prosperous New Year.

Wages, Prices, Inflation Controls

(Continued from page 23)

and a half Americans have planned it that way.

The American system of free enterprise, on its record, indisputably is the most progressive and completely democratic form of capitalism yet devised by man. It is the only economic system extant which provides investor, producer and consumer with freedom of choice and opportunity.

It is a system under which all the productive facilities of the nation are owned directly by the people themselves. The people alone—not their government nor their politicians—determine what wages shall be paid for what services and without governmental coercion they decide how much capital shall be invested, in what competing enterprises, at what prospective profit.

Price-fixing and controls inevitably lead to black markets which discourage production, increase scarcity and make price stability an illusion.

Police State Methods

President Truman himself has said that rationing and price controls are police state methods, such methods won't work in the United States in peacetime as we saw under OPA, they can't be enforced, black markets spring up overnight.

Efforts frequently are made to make it appear that the issue of government regulation of business in this country is whether there should be reasonable regulation for the protection of the public, or whether there should be complete freedom for business to do as it likes with no regulation whatever. Actually, the issue is not that at all. There is no one in this country today, at least no one whose views carry any weight, who is in favor of the complete elimination of all regulation. Business management would oppose it because, with the present stage of industrial development, the elimination of all government regulation would create a state of anarchy throughout the business world.

Business management accepts reasonable and proper government regulation, not only because it realizes that such regulation is necessary to protect the public against unscrupulous practices, but as well because the existence of a healthy business system in a country of this magnitude is dependent upon such regulation. In short, the issue is not whether there shall be any, or no, government regulation of business. The issue is whether the regulation shall be reasonable and proper, and of a character which encourages and improves the system of individual enterprise, or whether the regulation shall be so far-reaching and of such a character that it undermines individual enterprise and thus leads the nation into a state of complete government regimentation and totalitarianism.

The nations press has in recent weeks repeatedly featured statements by government officials and others that prices have risen more rapidly than wages. As a result the impression is widely held that the position of wage earners has steadily deteriorated since the war's end. The National Industrial Conference Board has assembled tabulations from official data, quoted by the Bureau of Labor Statistics, which show:

(1) Wages have risen by just the same percentage as living costs since the War's end.

(2) Both average hourly earnings and living costs are about a third higher than when the "hold the line" order was issued in April, 1943.

(3) Since 1939 the cost of living is 66% higher than in 1939. However, earnings have increased 100%, as a result the average worker receives about 20% more today than in 1939 in terms of real purchasing power.

When prices and wages rise, which is cause and which effect? Do rising prices bring about wage increases, or do rising wages force prices up? This dispute has been going on for centuries and still has not been resolved. It recurs in much the same line of arguments during inflation periods in all countries.

Competition Keeps Down Prices

It has been the history of business that when there has been a shortage in a particular product or group of products with resulting high profits, it has only been a short time before others have entered into this field allowing production to catch up with its demand. With the present unsettled conditions in the world, particularly with the United States having to provide for most of Europe and a large part of Asia, shortages exist along certain lines. However, given a free rein, I am convinced that with the American ingenuity and spirit, production will catch up in sort order. Production is slowly but steadily catching up with demand and as this occurs, prices come in line, witness, the small radio field certain food lines, particularly the dry fruit field, and many others.

The National Retail Dry Goods Association have come out with an excellent seven-point program in fighting inflation:

(1) Resist to the uttermost any increases in prices, and sell at prices which are the lowest consistent with sound business practices.

(2) Cooperate to the fullest possible extent with those manufacturers who demonstrate a desire to cut costs and lower prices.

(3) Strive by every means to increase the efficiency and productivity of their necessary functions.

(4) Operate on inventories as low as will prove adequate to serve the needs of their customers and restrain any and all tendencies within their stores to buy beyond normal requirements.

(5) Practice unusual restraint in the use of credit as a selling incentive.

(6) Support vigorously the United States Treasury in its forthcoming campaign to sell savings bonds to the public and to private business.

(7) Concentrate every effort in the current critical situation upon the maximum utilization of existing plants, and to plan long run plant expansion in such a way as to minimize inflationary pressures.

I am certain that if we maintain the basic principles previously stated and prevent further regulations from halting our progress we will accomplish what Kiplinger has written in his article "Life in 1960" which portrays the inventions and conveniences which the American people will enjoy because of our accelerated ingenuity and dynamic spirit without the necessity for price and wage controls.

Gold Standard as Spending Check

(Continued from page 7)

our money in the absence of a direct taxpayer control on public expenditures.

Redeemable Currency, Offset to Inflation

Any analysis of our money based on the political realities must face this situation. It certainly seems to indicate that the citizen's right to own gold is the only possible effective offset to inflationary pressures.

Perhaps this conclusion is reached somewhat by the process of elimination. But certainly the inflation of the past 15 years, plus the present monetary chaos in paper currency lands generally, plus the steadily increasing power of bloc-votes, indicates the futility of anything less than a complete remedy.

That remedy is a gold coin standard enabling those who supply the public treasury to fix the limits on the outgo from the public treasury.

To put a limit on public spending, the taxpayers at large must possess an ability to influence Congress superior to that now possessed by the beneficiaries of treasury raids.

Whenever Congress is besieged on one side by "gimme" forces, there should be standing on the other side of Congress a force of equal or superior power. If the Congress shows signs of capitulating to the "gimme" crowd, the thrifty producers who pay the costs of government could then quietly go into the banks and demand gold coin for their paper money. If the "gimme" outlays were not serious in amount, the demand for gold coin would quickly subside or be satisfied.

But if the handout proposals clearly indicated that their passage would cause our money to deteriorate, then the demand over the country for gold coin would quickly be reflected in the halls of Congress. Word would come in to the law-makers directly from the folks back home and from treasury officials that confidence in the state of the Treasury was disappearing. Congress would be forced to confront those seeking handouts with firmness, and would be able to effectively justify their refusal to accede to handout demands.

Once again Congress could umpire the contest between taxpayers and tax-eaters without being the victim of irresistible pressure from one side. Unless the Congress could devise plans for additional revenue or otherwise demonstrate proposed expenditures would not dangerously strain the public credit, the demand for gold would continue. Inevitably the spread of economic stringency would force Congress to resist spending demands. That control in the hands of the producers provides a domestic balance of power.

These remarks have pictured only the inability of Congress to resist spending pressures during a period of prosperity. How unable Congress would be to resist the spending pressures with fiat money available during a period of economic adversity is a question I leave to your imagination.

A currency redeemable in gold on demand seems to be the right, on which all our freedoms ultimately rest. It enables the people to silently, but effectively protect the fruits of their labor. Under the present fiat-money, managed currency system, producers of wealth cannot successfully protect themselves from the power of the central government and its legions of pressure groups. The result is individual hoarding of tangibles in one way or another. Some day this steady movement into tangibles will become a stampede unless corrective action comes soon.

For years I wept and waxed indignant at the failure . . . to put the brakes on inflation. Finally I was forced to the conclusion that the fault does not alone rest in the present Congress—instead I found that monetary deterioration is inevitable when there is no mechanism or force supporting sound money except the individual courage of individual office holders.

You can mobilize all the technical arguments you please against restoring the right of the individual to own gold. I will not quarrel about the difficulties. But in the light of the certain chaos ahead it seems that anyone opposing this restoration is knowingly or unwittingly contributing to destruction of this Republic.

Trebling Over Dollar Outlook

For my part, I am confident that no one can demonstrate that our managed currency experiment will fare better in the future than it has to this moment—a moment that finds this country and the outside world trembling over the outlook for the dollar.

We are now at the point where unless we return to the free ownership of gold, descent toward a worthless currency will soon be accelerated and our political rulers will find that a state of perpetual war is a political necessity for them, just as it was for Hitler.

If you are willing to surrender our children to inflation, war, and slavery, then you can forget restoration of this freedom. But if you believe as I do, that we of this generation are custodians of a heritage of liberty, justice, and opportunity that we must preserve for our children, then I urge you to do your part toward restoring this basic human liberty—the right of the individual American citizen to own gold.

TOTAL NUMBER OF PERSONS RECEIVING REGULAR PAYMENTS FROM FEDERAL GOVERNMENT

As of	June 30, 1932	June 30, 1939	June 30, 1947
Federal Payroll (Civilian)	583,196	924,090	2,168,935
Civilians (Retired)	25,567	58,385	96,146
Veterans	994,351	602,757	4,399,976†
Dependents of Veterans	320,034	239,674	907,301
Army (Active)	133,042	187 886	989,664
Army (Retired)	12,532	15,501	31,345
Navy (Active)	90,516	120,784	484,768
Navy (Retired)	4,611	10,161	28,562
Marines (Active)	17,551	19,344	92,222
Marines (Retired)	756	1,258	2,875
Coast Guard (Active)	12,418	10,161	18 550
Coast Guard (Retired)	1,072	1,581	4,129
Other Retired	505	----	----
Old Age Assistance	----	1,842,000	2,271,007
Children	----	748,000	1,009,475
The blind	----	68,000	79,153
Old Age and Survivors' Insurance	----	----	1,832,285
Total	2,196,151	4,849,582*	14,416,393

*Does not include Emergency Establishment, of which there were 4,006,848 receiving payments from Federal Government, nor 5,248,796 farmers who received conservation payments.

†Includes living veterans receiving compensation, pension, disability allowances, and includes 2,048,374 veterans under the education and vocational programs.

Taxes—Their Influence on Venture Capital

(Continued from page 16)

that is the maximum tax rate that will not stifle the incentive to make a risk investment. This is the maximum tax rate fixed by law that will produce the most money in taxes over the years; that is, the maximum rate above which too many are deterred from making taxable income by risk investment, and below which there is too much loss of tax money, due to a low rate, even though more taxable income is produced.

Recognizing the difficulties of calculations of this limiting tax rate, we must resort to independent observations, having perhaps nothing to do with taxes, but which because of their nature may point the way to the answer to the question.

First, let me give you a different view:

The New York "Times" of Sunday, December 28, carried an article in regard to the effect of taxes in stifling incentive.

The article quoted a representative of the United States Treasury Department, who said that higher taxes do increase the incentive to earn more, explaining that this is due to the fact that the higher the taxes, the less net income the taxpayer has and, therefore, the more effort he will exert to secure more income.

This may be true in certain cases; perhaps the most widely-known case being that of the man who farms on shares, but there must be a limit beyond which the amount of income is not worth the extra effort—and that is certainly true in the case of the taxpayer having independent means, so that his earned income does not represent his total living.

It seems to me there is a sharp distinction between earned income and so-called "unearned income," in that earned income carries with it no risk, either of income or of principal; whereas so-called unearned income (that derived from investments) may not only disappear, but carry with it the principal.

An Illustration from Gambling Technique

Now, as to the indications which I have mentioned as having nothing to do with taxes, yet pointing the way to a conclusion as to what is the maximum rate of income tax that will not stifle the incentive to risk investment. Some of these are so old that their origin is lost in ancient history, and all have been practised so long that there is a definite experience which has been obtained, just as experience has determined the expectation of life of an individual for the purpose of calculating life insurance rates.

The indications come from certain gambling games, or games of chance that have been played under one name or another for many years: the game of roulette—pari-mutuel horse racing—the solitaire game of cards, known as Canfield, played extensively at Saratoga, I believe—the dice game of Hazard—the national lotteries; such as the Irish Sweepstakes and the proposed British international lottery, of which I will say something later.

All of these games, if run by reputable parties, are known to be run fairly. It is, I believe, generally understood that the dice are not loaded, the bettor is not short-changed, and the horses are not doped. This may seem like an undue faith or confidence in human honesty, but the facts are that the odds in favor of the proprietor are so high as to make crooked work entirely unnecessary. The operators will make money anyhow, so why take a change on crooked work, and perhaps land in jail, or be thrown out of business?

As the operators of these games of chance are always in the business to make money, and it would be natural to suppose that the higher the odds in favor of the operator, the more money would be made, the only obstacle to putting the odds higher in favor of the operator; that is, against the bettor, is the knowledge gained by many years of experience in each and every one of these games of chance played by a very large section of the public that, if the odds are put higher, less people will play, and even though the odds, and therefore the "take," are higher, the net results will be lower.

Now, according to my calculation, in roulette the odds are about 9.2 to 10 against the bettor. In the pari-mutuel race tracks, operated in the United States, the odds vary somewhat, but generally they are less than 8.5 to 10 against the bettor. In the game of Canfield, the odds against the player are about 8.3 to 10. In the dice game Hazard, there are a variety of bets that may be taken, the odds in each being different and, in most cases, very difficult to figure, but they seem to run about 9 to 10 against the bettor. In the Irish Sweepstakes lottery, according to newspaper reports which I have seen, the odds are about 7 to 8 to 10 against the ticket purchaser. In the proposed British international lottery, the odds are 5 to 10 against the ticket purchaser.

Now, the operator of a gambling room where roulette is played, knows that if he puts the odds higher than customary in his own favor that he will make more money if the same number of people play, but he and his predecessors, after years of experience with a great many people, have learned that if the odds are higher, *less* people will play, and in the end, the operator loses money. Of course, the mathematician who plays can figure what the odds are against him, but the player who is not a mathematician (and most of them are in that category) cannot figure the odds, but they seem to have an uncanny way of recognizing the fact if the odds are heavily against them. Perhaps it is the experienced players, who make a practice of playing daily or frequently and keep records of their winnings, who find by experience that they are losing money and this knowledge is communicated to other players—and so the knowledge gets around; but over the years it has been recognized from experience that the odds at roulette cannot be raised without killing the game for the operator.

If any of you have ever indulged in roulette, have you ever seen a wheel which had more than two green numbers? Of course, in the conventional wheel it is the 0 and 00 that govern the odds against the bettor. I saw a roulette wheel in a little place in France that had three green numbers, but it was perfectly obvious that it was not doing much business, and I can assure you it did not get any business from me. I would have preferred walking the street and playing a table that had only two green numbers. Incidentally, the little gambling room charged an admission fee which convinced me that the proprietor was rather new at the business. If you are going to make money by getting people to bet, you certainly should not charge a fee to keep them from coming in to bet.

In the above I made reference to the proposed British international lottery. There has been something in the papers about it within the last few weeks. The proposal is to sell to the public internationally (not only in England) lottery tickets at £1 each and to sell up to two billion tickets, thus expecting to take in £2,000,000,000—the equivalent of say $8,000,000,000. It is announced that the total prizes will amount to £1,000,000,000 so it is easy to calculate that the odds are 1 to 2 or 5 to 10 against the ticket purchaser.

Now, this is seriously proposed but it has not been done yet. I do not pose as a prophet, but would be willing to lay a wager that the tickets won't sell, if the facts are made known and if there is no "ballyhoo" campaign on the basis of British patriotism.

You will note in the above references to gambling games that the odds against the ticket purchaser in the Irish Sweepstakes are heavier than in the other games and horse racing, and yet the Irish Sweepstakes are generally successful. They raise a very large amount of money, which I understand goes to the support of the hospitals in Ireland. It is my thinking that the fact that the sweepstakes are run for the benefit of charity makes the tickets sell against a rate of odds that would be impracticable if the charitable purpose did not exist. That is why I say in my prophesy with respect to the proposed British international lottery that the tickets will not sell unless a "ballyhoo" campaign based on patriotism is carried on.

You will observe that, in the examples given of games of chance, the odds against the risk-taker run from 8.3 to 10 in racing, up to 9.2 to 10 in roulette, omitting the Irish Sweepstakes and the British international lottery, both of which seem to involve special circumstances, as mentioned. You might conclude that a maximum tax rate of 10 or 15%, which would correspond to these odds, is the highest that can be imposed without stifling the incentive to risk investment, but there is another factor involved, which is very simple to see or realize, but the evaluation of the effect is very difficult.

Nature of Business Venture

It is obvious that if one takes a risk in hope of gain, the risk is more acceptable if its nature is such that if the venture starts to go "sour" one can do something to bolster it up. It is obvious that in these gambling games, after the wager is made, there is nothing to be done to improve the chance of winning. After the race starts, there is no way to make your horse run faster.

In a business venture there are many things that can be done to bolster up the project if it seems to be going wrong. If sales prove poor, advertising can be used. If costs are higher than expected, engineers may be employed to reduce them. If the product does not appeal to the public, improvements of quality may be made, etc.; hence limiting odds in a business venture should be materially higher than in a gambling venture. Making allowance for this factor would seem to indicate that for maximum tax purposes the odds should be something like 7.5 to 10, which corresponds to a maximum tax rate of 25%.

To sum up:

The system of free private enterprise, based on the sanctity of capital, cannot continue to prosper if tax rates are so high as to stifle the incentive to make risk investments in business.

The business system is so complicated and requires the combined operation of so many minds that it is impossible to calculate what is the maximum tax rate that does not stifle the incentive for risk investment.

Certain observations of average action of men and women over the years in connection with taking risks, other than business risks, lead to the conclusion that the maximum tax rate that does not stifle the incentive, to make a risk investment is about 25%.

My conclusion, as stated, is borne out by the decision of Andrew Mellon some 20 years ago to advocate the reduction of income tax rates to a maximum of 25%. It worked.

Inflation

By ROGER W. BABSON

Asserting there is no such thing as inflation, Mr. Babson holds it is only a question of supply and demand. Says price investigations are mostly eyewash or whitewash, and cites depressed prices of citrus fruits contrasted to high prices of meat as examples of under-supply and oversupply.

Most of the talk about 'inflation" is bunk. When people have nothing else to lay their troubles to they lay it to inflation. Merchants blame high prices on inflation; politicians blame all losses on inflation; while even farmers are blaming the weather on inflation.

Roger Babson

Certainly the investigations which are being held to study prices are mostly eyewash or whitewash.

Inflation is not the fault of farmers, manufacturers, retailers or any other one group. In fact, there is no such thing as "inflation." Our troubles are just a question of Supply and Demand. When there is more demand for goods than there is supply, prices go up and they call it inflation; but when there are more goods than there is demand, prices go down, and they call it deflation.

This means that the only cure for high prices, or inflation so-called, is to either curtail buying or increase production. This means that the cure is up to all of us. When we spend less, we are helping to reduce prices; while if we increase our buying, we increase prices. The only other cure for high prices is to produce more. This is up to labor. The real trouble with labor is not their wages so much as it is their restricted working hours and faulty production.

What Should We Expect?

We should expect to continue to pay high prices for real estate until building increases and the only way that building will increase is to allow rents to go up. Price-fixing also retards production. So long as production is low then we are troubled by high prices. Take the ceiling off on rents and, of course, rents would go up for a while, but that would mean building would increase and finally rents would go down. Only then would we all have enough homes at a reasonable price.

We complain about the price of meat and various other things, but sooner or later the price of these products will be so high and the profits so attractive it will cause many more people to go into the business of raising cattle and other farm produce, and manufacturing other things that have gone up in price. These prices will again fall. It is true that the "mills of God" grind slowly, but they grind ultimately in the people's interests. Labor unions succeed in raising money wages, but not real wages. Unless wageworkers increase production as their wages increase, they are no better off in the end.

What Has Happened to Citrus?

What has happened to the market for grapefruit and oranges is a proof of all I have said above. It costs much more to raise citrus fruit today than ever before. Wages are much higher, fertilizer is more expensive, and even the railroad freights are greater. Yet, the prices for citrus fruits today are less than they were when the cost of production was much lower. If all our troubles are due to "inflation," inflation should help the citrus growers with higher prices to overcome these higher costs.

The answer is that there is no such thing as "inflation." It is only a question of supply and demand. Citrus growers do not benefit unless there is more demand for their products. In Florida we see the cattle people very prosperous while the fruit growers are very sad. The reason is that there is an excess demand for meat with a small supply, while there is a big supply of citrus and a small demand. Neither the price of beef nor the price of citrus is due to "inflation."

We all should buy the things which are in surplus supply rather than, through habit, continue to buy the high-priced things. The next time you go shopping ask the clerk to give you a list of the things that haven't gone up and then change your food customs to using those things. This also applies to shoes, clothing and household furnishings. Now that the turn of the year is past and there are "sales" going on, this is the time to do your buying. Wise buyers will stock up with goods during the month of January while these mark-down sales are in progress.

Dillon Read Underwrites Southwestern Offering To Com. Stockholders

Dillon, Read & Co. Inc. and associates are underwriting the offering by Southwestern Public Service Co. of 103,113 shares of additional common stock, $1 par value, to holders of subscription warrants. The common stockholders of record Jan. 21 are given the right to subscribe for the new stock at $21 per share in the ratio of one new share for each 11 shares held. Rights expire at 4:00 p.m. (EST) on Feb. 2.

Proceeds from the sale of the stock, estimated at approximately $2,000,000, will be used for property additions and improvements and to repay bank loans totaling $1,250,000 which were obtained for such purposes.

Giving effect to the offering to stockholders and to the concurrent sale privately of 10,000 shares of 5% cumulative preferred stock, $100 par value, the company will have outstanding: $32,965,000 principal amount of first mortgage bonds, $2,170,000 of serial notes, 95,000 shares of preferred stock, $100 par value and 1,237,354 shares of common stock, $1 par value.

The company, operating in the Texas and Oklahoma Panhandle sections and to some extent in the South Plains region of Texas, is engaged in the generation, transmission, distribution and sale of electric energy.

Operating revenues for the 12 months ended Oct. 31 last amounted to $12,390,576 and net income for the period was $3,142,274. Dividends on the common stock totaled $1.32½ for the fiscal year ended Aug. 31, 1947, and thus far in the current fiscal year a total of 80 cents per share has been declared.

SEC Abuse of Small Dealers Is Self-Made

(Continued from page 3)

reasonable limitations as the Commission may prescribe."

Does the SEC contend that it is without power to establish a rule which will provide that the financial reports of dealers and brokers must be accorded confidential treatment, and that it is contrary to the public interest to disclose the contents of such reports?

Generally speaking, the Commission, by recitals in the various orders it has entered from time to time, has made the test of its findings that these were in the public interest.

Does the Commission consider it in the public interest to permit a financial publication in the course of a circulation campaign to examine *carte blanche* the financial reports filed by brokers and dealers?

The Commission has confessed its helplessness altogether too readily to suit us.

We feel convinced that within its rule-making power there is a way to relieve small brokers and dealers from the utterly unfair treatment which they will be receiving if their financial statements are the subject of ready access by anyone and for any purpose.

Does such accessibility make any sense?

Is such accessibility the general practice in industry?

It is clearly stupid to contend that honesty exists in direct proportion to financial responsibility.

Whether a broker or dealer has more capital or less is really of little or no consequence.

When we go to a merchant to purchase his goods, we do not flag him with the question, "How much are you worth? Show me your financial statement." There seems to be no reason for adopting any different attitude in the securities business.

Seeing this picture, we can readily understand that the wide publication of financial statements of brokers and dealers, as the instant financial magazine says it proposes doing, can be put to unjust and unscrupulous uses by competitive firms and others.

THE SECURITIES ACTS DO NOT SPECIFICALLY PROVIDE FOR THE FILING OF ANNUAL FINANCIAL REPORTS BY BROKERS AND DEALERS.

That duty has been created by the Commission under its rule-making power, and we contend that if the Commission can make the rule, then, by a parity of reasoning, it can provide for confidential treatment of the reports.

That the Commission has chosen not to do so and has declared itself helpless under circumstances where the information filed is being exploited for commercial purposes is a sad commentary and indicates to us a failure on the part of this administrative body to recognize its duty to the public and to the smaller dealers and brokers in securities who would suffer competitively thereby as time went on.

Is the SEC in this instance as helpless as it would have us believe?

Let us look at the record in support of our thesis that if the Commission can make a rule providing for the filing of financial statements by brokers and dealers, it has the power to accord these statements confidential treatment.

Form X-17A-5 not only calls for the filing of reports of financial condition by registered broker-dealers pursuant to RuleX-17A-5 but it consists of two parts, designated I and II. Part I is captioned "Financial Questionnaire" and calls for a balance sheet and certain other data. Part II, headed "Supplementary Information" provides for the submission of detailed schedules relating to certain other numbered questions.

We quote from Rule X-17A-5, Sub-division B-3:

> "If the schedules furnished pursuant to the requirements of items (a), (b) and (c) of Part II of Form X-17A-5 are bound separately from the balance of the report they shall be deemed confidential, * * *."

If the Commission can provide and does provide by its rule that some portion of Part II of the form shall be confidential, then why in the name of common sense is it powerless concerning Part I which constitutes the financial questionnaire? How can it sensibly argue that it can make fish of one portion and must make fowl of the other — and we mean fowl in more than one connotation.

In the recent message of our President he indicated that there was a request for an increase in the budget due to the need for added personnel in the SEC set-up.

As we have from time to time viewed editorially some of the Commission's activities which have placed unnecessary burdens upon the securities industry, our thought is that the budget in this respect ought to be cut.

It has become increasingly more difficult for dealers and brokers to do business.

Not only have liquid markets been interfered with but by an inquisitorial system, numerous forms and reports—all unnecessary—are required to be filed.

All this excess of regulation has made the cost of business higher.

The wholesale disregard by the Commission of the dealers' and brokers' right to privacy adds insult to injury.

The response of brokers and dealers to this campaign for confidential treatment of financial reports is encouraging.

We intend to continue the fight to compel the left winged SEC to take its foot off the neck of the smaller dealers and brokers in securities. We know that intelligent finance recognizes, as we do, that policies that favor only the wealthy in the long run will work to the detriment of capitalism generally and our entire system of free enterprise.

News About Banks and Bankers

(Continued from page 22)

Edwin T. Rae, Philip J. Potter and Charles Devens, to Assistant Vice-Presidents; Norman W. Hall, Stewart G. Orr and Chester T. Morrison, to Trust Officers. Also, Robert B. Osgood of South Weymouth was elected Assistant Trust Officer and Ernest H. Osgood, Jr. of Needham was elected Assistant Treasurer.

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The **Community Bank and Trust Co. of New Haven, Conn.,** joined the Federal Reserve System on Dec. 29, bringing to 336 the number of member banks in the First Federal Reserve District. In a joint announcement, Rosario Giaimo, President, and Francis Rossi, Vice-President and Treasurer, said that their institution will now join forces with the central banking organization of the nation and thereby gain direct access to its strength, facilities and resources as they may be required in serving the needs of the Community Bank and Trust Co.'s customers. The bank automatically becomes a member of the Federal Reserve Bank of Boston and is now eligible to receive the privileges made available to other banks in the First Federal Reserve District, which includes all of New England except Fairfield County, Conn.

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Kelley Graham, President of the **First National Bank of Jersey City, N. J.,** announces the following changes and appointments to the official staff of the bank, following a meeting of directors held on Jan. 21: Edwin W. Spoerl, an officer of the bank since 1927, relinquishes the Cashiership but continues as a Vice-President; Edward N. Dean, formerly a Trust Officer, is appointed Cashier; C. Newell Hogan, with the bank since 1929, is appointed Assistant Cashier. August H. Lages is appointed Assistant Trust Officer. Three new members were added to the Board of Directors of **The First National** at a meeting of the Board on Jan. 13. They are Webster D. Todd, Leonard J. Buck and Charles W. Engelhard, Jr. Mr. Todd is Executive Director of Equity Corp., director of Metropolitan Life Insurance Co., Eastern Offices, Inc., Park & 46th Street Corp., and Twenty-five Broadway Corp., and a trustee of Stevens Institute of Technology and Children's Village. Mr. Buck is President of Leonard J. Buck, Inc., importers of raw materials and minerals and exporters of finished products. Mr. Engelhard is Executive Vice-President of Baker & Co., Inc. and is actively identified as executive or director with various other of the Engelhard industries.

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The Citizens National Bank and Trust Co. of Caldwell, N. J., has increased its capital from $200,000 to $250,000 by a stock dividend of $50,000. The enlarged capital became effective Dec. 16.

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Election of Angelo J. Spinelli and Mercer C. MacPherson as Vice-Presidents of **The Montclair Savings Bank of Montclair, N. J.,** was announced on Jan. 14 by T. Philip Reitinger, President. Mr. Spinelli was also elected to the Board of Managers. Mr. McPherson has been a board member since 1942. In addition to being Vice-President, Mr. Spinelli will retain his position as Secretary of the bank and be in charge of operations and personnel. Mr. MacPherson, who will continue as Director of Community Relations will assume the responsibility of broadening the bank's sphere in promotion of values of thrift and savings. Mr. Spinelli has been associated with the bank for 30 years, starting as a bookkeeper in 1918. At present he is an instructor in savings banking at the American Institute of Banking's Newark chapter. Mr. MacPherson was elected to the bank's board in 1942. In 1943, when the bank broadened its activities to include participation in community projects, he joined the staff as Director of Community Relations.

Mr. MacPherson is a member of the Financial Public Relations Association of America, the Public relations Committee of the National Association of Mutual Savings Bank, and a member of the School Savings Committee of the American Bankers Association.

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At the annual meeting on Jan. 13 of the **Central-Penn National Bank of Philadelphia,** Horace P. Liversidge, Chairman of the Board of the Philadelphia Electric Co., and William Park, President of the American Stores Co., were elected directors.

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Promotions and changes in titles in the executive personnel of the **Pennsylvania Company for Banking and Trusts of Philadelphia** were approved on Jan. 19 by the board of directors. John J. O'Donnell was promoted from Assistant Treasurer to Assistant Vice-President, and G. Ellwcod Williams from Assistant Trust Officer to Trust Officer; John A. Onsa and Henry S. Faus were named Assistant Treasurers, and Henry McK. Baggs was appointed Assistant Trust Investment Officer. Changes were: John M Cookenback, from Assistant Secretary to Trust Operations Officer; John W. Thorn, from Assistant Trust Officer to Assistant Secretary, and Clayton McElroy Jr., from Assistant Trust Investment Officer to Assistant Trust Officer.

At the stockholders annual meeting on Jan. 19 James M Symes, Vice-President of the Pennsylvania Railroad, was elected a Director of the Pennsylvania Company. The following five directors, whose terms expired, were re-elected: Revelle W. Brown, Alexander J. Cassatt, Arthur V. Morton, Norman F. S. Russell and James M. Skinner.

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While the authorized capital stock of the **Fidelity-Philadelphia Trust Company of Philadelphia** remains unchanged at $6,700,000 the stockholders on Jan. 20 approved a five-for-one stock split, whereby the 67,000 shares of $100 par stock are changed to 335,000 shares of $20 par each. At the same time the membership of the Board of Directors was increased from 19 to 21, with two additional members named to the board, viz.: Howard C. Petersen, Executive Vice-President and John Stewart, President, Donner Corp.

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It is learned from the Philadelphia "Inquirer" of Jan. 14 that at the annual meeting of the South Philadelphia National Bank of Philadelphia, C. Russell Arnold, Executive Vice-President, was elected President to succeed Norman C. Ives, who was named Board Chairman. Eugene Walter was promoted to First Vice-President; A. Walter Lukens to Vice-President; Anthony S. Ruggiero to Vice-President, and John F. Ward to Vice-President and Cashier.

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Carl W. Fenninger, a Vice-President of **Provident Trust Co. of Philadelphia** for almost 24 years, was elected a director at the annual stockholder's meeting of the bank on Jan. 20. The Philadelphia "Inquirer," in noting this stated that Mr. Fenninger is a past President of both the Pennsylvania Bankers Association and of the Trust Division of the American Bankers Association.

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W. Logan MacCoy, Chairman of the Board of Directors of the **Provident Trust Co. of Philadelphia,** died on Jan. 11. He was 62 years of age. Mr. MacCoy, according to the Philadelphia "Evening Bulletin," had served as President of the bank from Feb. 1, 1938, until last Sept. 1, when he was chosen Chairman of the Board. Before taking his banking post, he had been an attorney.

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The Board of Directors of **The Merchants National Bank of Allentown, Pa.,** announced on Jan. 13 the election of S. H. Carl Bear as Cashier and Herbert B. Wagner a Vice-President.

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On Jan. 13 Hooper S. Miles was elected Chairman of the Board of Directors of the **Baltimore National Bank, of Baltimore, Md.,** succeeding Howard Bruce who was elected Vice-Chairman of the Board of Directors. J. S. Armstrong, Financial Editor of the Baltimore "Sun" reporting the changes in that paper Jan. 14 said in part:

"Mr. Bruce's interest in the affairs of the bank will not diminish as a result of the change, but it will give him more time for the many other community and business activities with which he is identified, the announcement stated.

"Mr. Miles has been connected with the Baltimore National Bank since January, 1937, when he resigned as President of the County Trust Company of Maryland to become Executive Vice-President of the national bank. Four years later Mr. Miles was elected Chairman of the Executive Committee, a post he will continue to hold in addition to his Board Chairmanship.

"Mr. Miles is now serving his fourth term as Treasurer of the State of Maryland and as a member of the State Board of Public Works. He was first elected to these posts by the Maryland Legislature in January, 1935. He is also Chairman of the Board of Trustees of the State Teachers Retirement System and of the State Employees Retirement System.

"Mr. Miles also is President of

the Baltimore Association of Commerce.

"Until his retirement from the chief executive post of the Baltimore National Bank today, Mr. Bruce had been its Board Chairman since the bank was organized in 1933.

"Mr. Bruce went to Washington in July 1942, as chief of the conservation branch, Army Service Forces. In November of that year he was appointed chief of the production service branch, headquarters, Army Service Forces. Later he served as Director of material in the same branch of operations."

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At a regular meeting on Jan. 14 of the directors of the **Fidelity and Deposit Co. of Maryland, at Baltimore**, Roland Benjamin, Treasurer of the company; Benjamin H. Griswold III, partner, **Alex. Brown & Sons**; and Charles W. Hoff, President, **Union Trust Co. of Baltimore**, were elected to fill existing vacancies on the Board. Other action taken at the meeting included the election of Fred H. Doenges, St. Louis, as an additional Vice-President of the company.

A native Baltimorean, Mr. Benjamin has been connected with the F&D since 1906 and has been its Treasurer for the past 29 years. Mr. Griswold is the sixth generation of his family to be connected with Alex. Brown & Sons, said to be the oldest private banking house in the United States. He joined the firm in 1933 and was made a partner two years later. He is a director of Sharp & Dohme, Philadelphia; member of the Board of Governors of the Association of Stock Exchange Firms; member of the Governing Committee of the Baltimore Stock Exchange, and is prominent in local civic activities. Mr. Hoff has been associated with the Union Trust Co. since 1915; Mr. Doenges has been a member of the F&D's field organization since 1926 and for the past 18 years served as Manager of its St. Louis office under Vice-President Emmett M. Myers. The latter was retired on Dec. 15, 1947 under the retirement plan adopted by the company in 1944.

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Three new directors were added to the Board of the **Union Bank of Commerce of Cleveland, Ohio**, at the annual meeting of shareholders on Jan. 14, President John K. Thompson announced. They are Clarence W. Hannon, President of The Murray Ohio Manufacturing Co.; Herbert P. Ladds, President of The National Screw & Manufacturing Co., and Leigh Willard, President of Interlake Iron Corp. All other directors were re-elected.

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The Board of Directors of **The Northern Trust Co. of Chicago** announced on Jan. 13 the promotion of two officers, election of five new officers and retirement of one officer. Officers promoted were John V. Hass and Robert E. Hunt, both in the banking department, from Assistant Cashiers to Second Vice-Presidents. Mr. Haas joined the bank in 1935 as a senior audit clerk and shortly after was transferred to the banking department where in 1938 he was promoted to Assistant Cashier. Mr. Hunt entered the bank in 1934 and in 1943 was named Assistant Cashier. James D. Hinchliff, who joined the bank in 1940, was elected Assistant Cashier in the banking department. Daniel O'Day, Kenneth H. Morrill and George J. Votja were elected Assistant Managers in the bond department. Mr. O'Day, who joined the bank in 1946, is associated with Edward D. McGrew, the bank's New York representative. Messrs. Morrill and Votja entered the bank in 1942 and 1943, respectively. In the credit department, Harry S. Temple, associated with the bank since 1944, was named Assistant Cashier and Assistant Manager. The Board announced the retirement of William W. Waddell, Assistant Cashier, who completed nearly 42 years of service to the bank on Jan. 9, effective date of retirement. The stockholders at the annual meeting, held on Jan. 12, re-elected the Board of Directors.

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As noted in our issue of Jan. 15, page 227, Carl A. Birdsall on Jan. 9 was elected President of the Continental Illinois National Bank Trust Co. of Chicago; he had been Vice-President in charge of the banking department, and is a director. James R. Leavell who, as indicated in the item, retires from the Presidency, will continue as a director.

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At their annual meeting on Jan. 13, the stockholders of **Manufacturers National Bank of Detroit, Mich.**, re-elected all directors and elected William A. Mayberry, now Executive Vice-President to the Board. Charles A. Kanter is President of the bank. A previous item regarding the bank's annual meeting and changes announced thereat appeared in our issue of Jan. 15, page 227.

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Thomas W. Pettus, President of the National Bearing Division, American Brake Shoe Co., was on Jan. 13 elected to the Board of Directors of **Mercantile-Commerce National Bank in St. Louis.**

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The Board of Directors of **City National Bank & Trust Co. of Kansas City, Mo.**, elected Harry Moreland, President of Great Lakes Pipe Line Co. and Kearney Wornall, Vice-President, to its membership. George C. Kopp, Vice-President, was made Executive Vice-President of the bank. Other promotions were: James R. Gayler from Assistant Vice-President to Vice-President; Jack Black, John Yonts, Ewart H. Burch and James F. Mack from Assistant Cashiers to Assistant Vice-Presidents: Chester L. Brewer, Jr., Guy S. Hadsell, Emory F. James, Jr., Jack S. Kitchen, Chas. W. Koester and Allen Morrow from Special Representatives to Assistant Cashiers. It is also announced that **City National** increased its capital by a 100% stock dividend, this increase taken out of its surplus account. This makes the invested capital structures $2,000,000 capital, $3,000,000 surplus and $1,300,000 undivided profits.

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In presenting on Jan. 13 to the stockholders of the **Third National Bank of Nashville, Tenn.**, his annual report, F. M. Farris, President, referring to the bank's personnel, said: "At the December, 1947, meeting of our directors, Walter J. Diehl, who has served the bank for several years as Vice-President and Cashier, was designated Senior Vice-President in charge of bank operation. S. M. Fleming, formerly Vice-President, was designated Executive Vice-President in charge of business development. D. W. Johnston, formerly Vice-President, was designated First Vice-President in charge of correspondent bank relations. All three men, in addition to their designated duties, are senior lending officers. Sam H. Hunt, formerly Assistant Vice-President, was elected Cashier to succeed Mr. Diehl in that office.

The Dec. 31 condition of the bank was noted in our issue of Jan. 9, page 135.

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Continued growth of the **Anglo California National Bank, of San Francisco**, during 1947 was reported on Jan. 13 by Allard A. Calkins, President, at the annual meeting of the shareholders. At the meeting, shareholders ratified a pension plan, providing benefits for members of the staff upon their retirement in accordance with their compensation and length of service. All directors were re-elected for the ensuing year. Following the shareholders' meeting, the directors approved the following promotions: J. P. Nathan, Assistant Vice-President, to the office of Cashier, succeeding Evan M. Johnson, who has resigned; Joseph F. Hogan, Irving Manning and Milton D. Redford, from Assistant Vice-President to Vice-President; and Robert W. Armstrong, Assistant Cashier, to Assistant Vice-President. All other officers were re-elected, except Fred V. Vollmer, Vice-President, who retired Dec. 31, 1947, after 52 years of service. Alger J. Jacobs, who has been identified with Anglo Bank's investment department since he received his Master's degree from the University of California in 1931, has been appointed an Assistant Vice-President.

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At the annual meeting on Jan. 13 of the Anglo-Bank 20-Year Club, composed of 189 staff members of the **Anglo California National Bank, of San Francisco, Cal.**, with 20 years or more of service, Edwin A. Gumbinger, Assistant Manager of Montgomery Street office, San Francisco, was elected President for the ensuing year. William J. O'Brien, Assistant Cashier and Manager, contract department, Oakland office, was elected First Vice-President. Robert W. Armstrong, Assistant Vice-President, head office, was elected Second Vice-President, and Hugh Bergald, Assistant Cashier, head office, Secretary-Treasurer. Sixteen new members were admitted to the club and plans were discussed for the club's annual banquet, to be held in February.

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At the annual meeting of the **Union Bank & Trust Co., of Los Angeles, Cal.**, on Jan. 8, directors of the bank were returned to office by the stockholders and, at their organization meeting which followed, the directors elected the following officers for the ensuing year: President, Ben R. Meyer; Executive Vice-President, Herman F. Hahn; Vice-Presidents; J. C. Lipman, A. L. Lathrop, E. H. LeBreton, P. E. Neuschaefer, Louis Siegel, J. W. Lewis; Vice-President and Cashier, W. C. Neary; Comptroller, W. Watson; Assistant Vice-Presidents: W. J. Hunter, J. W. Luhring, R. R. Newmark, H. N. Herzikoff; Assistant Cashiers; Rod McLean, C. H. Landis, A. L. Somerindyke, R. F. Campbell, A. J. MacLennan; Senior Trust Officer, Don R. Cameron; Trust Officer, F. H. Kerns; Assistant Trust Officer, M. Morris. Newly elected to the bank's official family was W. B. Hill, Auditor.

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John D. Kerr, President of the American Fruit Growers, Inc., was added to the board of directors of **California Bank, Los Angeles**, at the annual meeting of shareholders on Jan. 14, Frank L. King, bank President, announced. At the directors' meeting all officers were re-elected and the regular quarterly dividend of 50 cents a share was declared, payable Feb. 1 to stockholders of record Jan. 19.

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The election of five new Vice-Presidents for the **United States National Bank, of Portland, Ore.**, was announced Jan. 13, following the annual meeting of that institution. The newly elected Vice-Presidents include Ernest Gohrband, Roy L. Orem, Graham Dukehart, L. E. Williams and O. R. Maris. Mr. Orem also was named to retain his position as Executive Vice-President of the United States National Corp. In addition, a number of other major promotions were announced. Walter Johannsen was elected as Assistant Vice-President and T. S. Prideaux and J. H. Wells, Assistant Cashiers. C. L. Minahan was named Trust Officer and K. D. Root, Assistant Trust Officer, E. C. Sammons is President of the bank.

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Maxwell Carlson was elected President of the **National Bank of Commerce**, of Seattle, on Jan 13. Mr. Carlson is 42 years of age. Formerly Vice-President in charge of operations, it is stated that he is one of the youngest men to be President of a large metropolitan bank in the United States. Andrew Price, who made the announcement, was elected Chairman of the Board of Directors. He remains active in the institution which he has guided through a 12-fold growth in the last 20 years. J. W. Maxwell, 83 years of age, dean of Washington bankers, becomes Honorary Chairman. Appointed to the new office of Vice-Chairman of the board were Homer L. Boyd, associated with Mr. Price since 1914, and Arthur W. Faragher, in charge of public relation and national accounts. Both formerly were Senior Vice-Presidents. Carl L. Phillips, First Vice-President, was placed in charge of loan administration for the entire organization. C. C. McGranahan, Vice-President, was assigned supervision of commercial loans of branches outside Seattle. These changes in the executive structure of the bank were voted by directors on the recommendation of Mr. Price after the annual stockholders' meeting on Jan. 13, at which all directors were re-elected.

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Lawrence M. Arnold, Chairman of the board of the **Seattle-First National Bank of Seattle, Wash.**, has been reappointed a director of the Seattle branch of the **Federal Reserve Bank of San Francisco** for a two-year term, starting Jan. 1, said the Seattle "Times" which credited the announcement from San Francisco. Mr. Arnold has been an officer of the Seattle-First National since 1925, and its Chairman since 1940.

Association of Stock Exchange Firms To Hold Annual Mid-Winter Meeting

The annual mid-winter business meeting of the Board of Governors of the Association of Stock Exchange Firms will be held at Atlanta, Ga., on Feb. 12, 13 and 14, it was announced by Homer A. Vilas, managing partner of Cyrus J. Lawrence & Sons, New York, President of the Association. William E. Huger, partner of Courts & Co., is the Atlanta Regional Governor of the Association who is in charge of arrangements.

In addition to the executive sessions of the board which will be held each day, the Association has invited the partners and branch managers of all New York Stock Exchange member firms in the Southeast to attend a meeting Friday afternoon, Feb. 13, to hear discussions of the major problems of the industry to be presented by Mr. Vilas; Robert P. Boylan, Chairman, Board of Governors; and Edward C. Gray, First Vice-President, New York Stock Exchange; Darwin Fenner, New Orleans partner Merrill Lynch, Pierce, Fenner & Beane; Walter W Stokes, Jr., partner Stokes, Hoyt & Co., and Association Governor; and James F. Burns, Jr., partner Harris, Upham & Co., former President Association of Stock Exchange Firms and presently Governor and Chairman Public Relations Committee.

The subjects to be discussed will include stock exchange administration, Association of Stock Exchange Firms activities in behalf of member firms, branch office administration and public relations. A considerable portion of the meeting will be devoted to questions by those attending and answers by the speakers.

In connection with previous meetings of the board in other cities the Association has conducted smaller discussion panels successfully. This meeting is the first time an entire region has been included. A dinner at the Biltmore Hotel will conclude the sessions.

On Thursday noon, the Governors will be the guests of the Citizens and Southern National Bank of Georgia at luncheon in honor of Mr. Vilas.

Saturday, Feb. 14, will be devoted to business sessions after which the Governors will depart for their respective homes which include 18 major cities of the country.

Officers and Governors of the Association of Stock Exchange Firms are as follows:

Officers

Homer A. Vilas (Cyrus J. Lawrence & Sons, N. Y.), President.

John Witter (Dean Witter & Co., San Francisco), First Vice-President.

George R. Kantzler (E. F. Hutton & Co., New York), Second Vice-President.

Walter W. Stokes, Jr. (Stokes, Hoyt & Co., New York), Treasurer.

Sidney L. Parry, Exec. Vice-President.

Henry W. Putnam, Vice-President and Assistant Treasurer.

William W. Peake, Secretary.

Board of Governors

Harold L. Bache, Bache & Co., New York; J. C. Bradford, J. C. Bradford & Co., Nashville; James F. Burns, Jr., Harris, Upham & Co., New York; Wymond Cabell, Branch, Cabell & Co., Richmond; Lyon Carter, Estabrook & Co., Boston; William W. Cumberland, Ladenburg, Thalmann & Co., New York; Ralph W. Davis, Paul H. Davis & Co., Chicago; Richard P. Dunn, Auchincloss, Parker & Redpath, Washington, D. C.; F. Dewey Everett, Hornblower & Weeks, New York; Albert D. Farwell, Farwell, Chapman & Co., Chicago; J. Lewis Gabel, Bogardus, Frost & Banning, Los Angeles; Russell E. Gardner, Jr., Reinholdt & Gardner, St. Louis; Harold P. Goodbody, Goodbody & Co., New York; M. Donald Grant, Fahnestock & Co., New York.

Benjamin H. Griswold, III, Alex. Brown & Sons, Baltimore; James E. Hogle, J. A. Hogle & Co., Salt Lake City; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven; William E. Huger, Courts & Co., Atlanta; James M. Hutton, Jr., W. E. Hutton & Co., Cincinnati; Maynard C. Ivison, Abbott, Proctor & Paine, New York; Thomas F. Lennon, Delafield & Delafield, New York; Leonard D. Newborg, Hallgarten & Co., New York; F. W. Pershing, Pershing & Co., New York.

Joseph M. Scribner, Singer, Deane & Scribner, Pittsburgh; Laurence P. Smith, Bennett, Smith & Co., Detroit; Winthrop H. Smith, Merrill, Lynch, Pierce, Fenner & Beane, New York; Gardner D. Stout, Dominick & Dominick, New York; C. Newbold Taylor, W. H. Newbold's Son & Co., Philadelphia; Frank C. Trubee, Jr., Trubee, Collins & Co., Buffalo; Hans A. Widenmann, Carl M. Loeb, Rhoades & Co., New York.

With Heller, Bruce & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—James A. Ledterman is now connected with Heller, Bruce & Co., Mills Tower.

What's Ahead in Government Bond Market?

(Continued from page 2)

taled $165,000,000,000, as against $75,996,000,000 as of Dec. 31, 1940. At the end of 1940, the money in circulation was $8,732,000,000, and at the end of 1945 it had risen to $28,515,000,000. Thus we find an increase in circulation and bank deposits of nearly $109½ billion from Dec. 31, 1940 to Dec. 31, 1945, to which must be added $48,183,000,000, being the redemption value of savings bonds, or an increase in liquid assets from these three items in the hands of the public of $157,683,000,000. All of our vast production facilities having been devoted to the war effort, the pent-up demand for civilian goods was enormous, and with a combination of greatly expanded liquid assets in the hands of the public and a serious shortage in commodities, it was obvious that the stage was set for a sharp upturn in prices. Rising commodity prices are traditionally and have been inevitably accompanied by an expansion of bank loans and firmer interest rates and the past several years have been no exception. Thus we see that in August, 1946, commercial, industrial and agricultural loans reported by the member banks in leading cities totaled $9,259,000,000, and as of Dec. 31, 1947, this amount had risen to $14,658,000,000. I believe that as bankers we are agreed that measures to halt the inflationary trend were essential, and the Federal Reserve System came to a realization that reserves which would form the base for further expansion would have to be made less readily available than had been the case during the war years.

As you are all aware, in a spirit of cooperation with the Treasury to maintain interest rates at a low level in order to finance the war at the lowest possible cost, the Federal Reserve System was obligated to take large amounts of short-term governments on a very low yield basis, and the sales of such governments created reserves upon which loans or investments could be expanded five or six times that amount. Not only were loans sharply expanded, but banks took advantage of the Treasury and Federal Reserve System's policy to sell short-terms and buy longer maturities at a more attractive yield, thereby adding to debt monetization. In order to check the continuing expansion it was necessary that the short-term rate be raised so that it would not be so advantageous for banks to dispose of short governments for the purpose of acquiring additional loans or longer-term securities. There has been a school of thought for some time that a moderate increase in the cost to the Treasury of carrying the national debt was the lesser of two evils; namely, higher debt costs or continued inflation.

First Step Toward Firmer Rates

In April of 1946, the first step toward firmer short-term rates was made when the Federal Reserve System discontinued the so-called "preferential" rate of ½ of 1% on borrowings secured by governments with a maturity of one year or less.

In July of 1947, the next step was taken; namely, unfreezing of the bill rate which, as you know, had been pegged at ⅜ of 1%, and permitting the bills to seek a more or less true market level. Since that time the bill rate has gone from ⅜ of 1% to approximately .94 of 1%, which would indicade a considerable increase to the Treasury for interest charges. Actually, this is not the case as the Board of Governors of the Federal Reserve System some months ago invoked the authority granted under the Federal Reserve Act to levy an interest charge on Federal Reserve notes issued by the reserve banks. The interest charge is applicable against the amount of notes outstanding less the amount of gold certificates held by the Federal Reserve Agents as collateral security, and the purpose was to channel into the Treasury about 90% of the net earnings of the System. Inasmuch as the bulk of outstanding Treasury bills is owned by the Federal Reserve System, this would seem to preclude any appreciable cost to the Treasury as a result of the higher yield on bills.

Then in September of 1947, the ⅞% rate on certificates was broken and 12½-month 1s were offered to holders of notes maturing on Sept. 15. This was followed in October by a 12-month 1% and the yearly rate has currently been raised to 1⅛%. Still another factor in contracting the credit base has been the Federal Reserve's recent action, by agreement with the Treasury, in permitting their holdings of certificates to mature rather than rolling them over, as well as the Treasury's action in paying off a certain portion of Treasury bills as they mature. Obviously, the payment of such certificates or bills, or any other government issues owned by the Federal Reserve System, results in a contraction of member bank reserves and lessens the bank's ability to make additional loans or purchase additional investments.

The latest step in the deflationary program was the action taken a week ago by most of the Federal Reserve banks in raising the discount rate from 1% to 1¼%.

Effects of Federal Reserve Policies

What has been the effect marketwise of these various steps? Let us use Treasury 2s of Dec. 15, 1954-52 as an indicator of the bank-eligible group and "Victory" 2½s of Dec. 15, 1972-67 in the ineligible list. In the spring of 1946, the "Victory" 2½s, which had been offered the previous December, reached a price of 106½, and the eligible 2s simultaneously sold at 105. Then in March of that year we saw the first debt retirement from proceeds of the Victory Drive, which ultimately resulted in a decline of bank deposits and reserves. Before the end of the year of 1946, the 2s had declined to 102 9/32, and the 2½s to 101 19/32, a natural reaction to the debt retirement program.

Then we saw an upward turn in the market when the terms of the September refunding were announced. I, personally, was disappointed at the terms of the refunding as I had anticipated a more realistic approach by the Treasury and looked for a 1¼% note rather than another certificate. Apparently, the market generally had expected a more liberal offering, as it proceeded to move upward coincidental with the announcement of the terms of the refunding. This was a perfectly natural move, for, as you will remember, the maturities refunded in September of 1947 bore coupons of 1¼% and 1½%, and undoubtedly most banks had them on their books at a 1¼% basis, or possibly better, and in the face of the rising cost of operations, they were none too enthusiastic about taking a 1% certificate in return for their maturing holdings. The result was that many of the holders accomplished their own refunding by reaching out for longer maturities, buying as long maturities as were necessary to replace the income which they were losing. The natural result was a rising market despite the fact that the Treasury had been endeavoring to prevent just such a rise by selling substantial amounts out of Treasury funds; in fact, from May to September, 1947, such sales aggregated approximately $1,800,000,000. I have felt that had the September refunding been of a more courageous type, the market would probably have declined moderately—certainly it would not have advanced, and consequently the decline recently witnessed might have been less severe.

Following the upturn in September, the market reversed its trend and the decline continued to the end that about the middle of November the Federal Reserve System found it desirable to support the market. As you know, the "Victory" 2½s, which is probably the key issue, were held at 101 until Dec. 24, on which date the System entered upon a more aggressive supporting operation but at a sharply lower level. On that date the Open Market Committee, through the Federal Reserve, made it known to the dealers that certain key issues, all fully taxable, both bank-eligible and ineligible, would be protected at certain fixed prices. No support was awarded the partially tax-exempts as such issues bore substantial premium and there was little or no threat to the level of par. Obviously, the Federal Reserve's attitude with respect to such issues was—and is—that at some price level they would become attractive yield-wise to institutions, and they proposed to let them find that level, whatever it might be. It is apparent, of course, that with the taxable issues being held at a small premium, the partially tax-exempt issues could scarcely decline to a level lower than the taxables.

Any effect resulting from the recent change in the discount rate has, as I see it, been purely psychological, as the Chairman of the Federal Reserve Board announced some weeks ago that a change would be made and it, therefore, should be fully discounted. Furthermore, it seems to me that with such a huge amount of short-term governments held in the banking system, the discount rate has lost some of its significance as the prevailing rates on bills and certificates are a far greater influence on the market level of intermediate and longer-term bonds.

In the week ended Dec. 30, the Federal Reserve purchased $970 million in bonds, but sold $255 million, for a net increase of $715 million in their portfolio. Obviously, such an increase provided the reserve necessary for further expansion of bank credit in the amount of $3½ billion. However, for the week ended Jan. 7, this trend was reversed, and the purchases of bonds totaled $214 million, as against sales of $1,089,000,000 in shorter maturities, or a decline in holdings for the week of $875 million. From Nov. 26, 1947 to Jan. 7, 1948, the Federal Reserve figures show an increase in holdings of bonds of over five years in maturity of $2,062,000,000, but sufficient short-term securities were sold to make the net change a reduction in portfolio of $556 million. This obviously reduces bank reserves and, therefore, is deflationary. The net result, therefore, of the Federal Reserve System's support of the market in that period has been an extension of maturities owned but a reduction in total.

What Is Outlook?

All of this brings us to the subject of this discussion; namely, "What Is the Outlook for the Government Bond Market?"

If I were to ask you gentlemen what specific questions you wanted to have answered, I believe 99% would reply as follows:

(1) Will long-term governments go below par?

(2) Will the certificate rate go higher than 1⅛%?

(3) Shall I sell my long-term governments and buy shorter maturities?

To all of these inquiries I can only give my individual opinion for what it may be worth.

Regarding the query as to whether government securities will in the foreseeable future sell below par, we have the assurances of those in responsible positions that they will not. Personally, I have little or no doubt as to the ability of the Federal Reserve System to support the market at par or at any price level at which they might elect to hold it. However, it is conceivable to me that we might reach a state where it would become debatable as to the wisdom of supporting the bond market. Let us say that over a period of time the upward spiral of commodity prices continued unchecked and commercial loans followed the trend, as they probably would, is it not possible that in the best interests of the economy as a whole, it might prove desirable to withdraw support and permit interest rates to seek their own level? Please do not misunderstand me; I am most emphatically making no such dire prediction, and neither do I anticipate any such unhappy state of affairs, but the possibility of such a condition is one which neither you nor I, nor anyone else can definitely rule out. The unknown factor in such a situation is the psychological reaction of the holders of savings bonds which are outstanding in the amount of some $51 billion, and which are demand obligations of the Treasury. A considerable proportion of these bonds are series "E" which are held largely by those who are economically inexperienced and whose emotions are unpredictable. A debacle in the government bond market might have repercussions from the holders of such bonds with conceivably disastrous results to the economy. In my own mind, I have always questioned the desirability of such heavy demand obligations of the Treasury, and so expressed myself as far back as 1942. The answer then was that the bonds could not have been successfully floated on any other basis, which is probably correct. I felt, personally, that we might have had a special war tax of 10% of income, returnable in installments over a period of years following the end of hostilities. Such a method would have avoided demand obligations and possibly helped to counteract any business recession by providing purchasing power in the postwar years. Under such a plan we would not have been confronted with present-day fears of reaction of savings bond holders in an unpegged government bond market. I was interested in reading in the press recently that no less distinguished an authority than Professor Sumner Slichter had advocated a forced savings levy of 5% of income. I doubt whether the public would accept such a proposal in peacetime, but believe that some plan such as I suggested could have been effected successfully in wartime.

The possibility of a further increase in the certificate rate seems to me to be dependent largely on the success of the deflationary steps now being taken. If they are effective, then, in my opinion, certificates will go no higher. If they are not, an additional raise becomes a definite possibility, although a further raise would complicate the situation as it would unquestionably cause further weakness in the intermediate and longer-term issues, and necessitate the Federal Reserve System's taking further substantial amounts of long bonds to protect the 2½% rate. I do not look for any further increase in the certificate rate in the next several months, but it remains a future possibility.

Should Long-Terms Be Sold?

Regarding the question of selling long-term governments and buying shorter maturities, my answer is that if a bank's portfolio is top-heavy in the longer issues, then certainly consideration should be given to lessening the degree of market hazard. Banking has undergone quite a change in the past several years, and many institutions which formerly were somewhat in the category of investment trusts have now, with the sharp upturn in loans, again returned to the status of commercial banks. This considerable increase in the loan portfolio has naturally increased the proportion of risk assets, and it seems to me that under such conditions it would be prudent to effect some reduction in the degree of risk in the investment portfolio. In other words, when loans were at a low ebb, there was justification, because of need of income, in assuming to some extent the market hazard accompanying the purchase of long-term bonds. Now, however, with rising income from loans and the additional risk involved in their making, might it not be sound banking to give thought to reducing the risk hazard in the bond account?

During the next few months, if the Treasury figures as reported in the press and various services are correct, we may anticipate a possible reduction of some $6 or $7 billion in the national debt, and the method pursued in this program will undoubtedly have a pronounced effect on the government bond market. To the extent to which retired debt is owned by the Federal Reserve System, reserves are decreased by 80% of such amount, obviously resulting in a squeeze on the banking system. But to the extent that retired debt is owned by commercial banks or individuals, the net result is a moderate easing of credit. Therefore, the type of ownership of the securities to be paid off will affect the government bond market, and should the current inflationary trend continue, it would appear likely that the debt retirement program would be of a deflationary character. Counteracting this, we have continuing gold imports which inflate the credit base, but, if found desirable, this may be offset at some later date by gold sterilization or a raise in reserve requirements. Currently, the Federal Reserve Board has authority to raise such reserve requirements in the two Central Reserve Cities—New York and Chicago—from 20% to 26%. If bank loans continue to expand and if gold continues to flow in, I look for the Board to exercise its existing authority, but if they do so, it probably would be effective 2% at a time in order to avoid too much of a shock to the market, and too much pressure on the banks at one time.

Still another matter of serious importance is the Treasury's refunding program, as in addition to the weekly maturities of bills and the almost monthly maturities of certificates, there are maturing or becoming optional in the next five calendar years $64,203,000,000, most of which issues bear coupons sufficiently high to make it almost a foregone conclusion that the issues becoming optional will be refunded, as well as those definitely maturing. With such a program confronting the Treasury, and with a realization of the fact that current interest charges of about $5,400,000,000 may be close to the maximum that could well be borne based on our present national income, it would seem desirable to keep the maximum interest rate at 2½%, provided this can be accomplished without undue inflation as the price thereof.

This matter of refunding is one meriting careful consideration. I believe we are all agreed upon the desirability of transferring as great a proportion as possible of the national debt from the banking system to private ownership, but the means of so doing and still maintaining the current pattern of rates constitute a difficult problem. Certainly, the management of a debt as huge as ours is a challenge to the ability of the most able financiers, and will have a profound effect upon our future financial well-being.

Conclusion

In conclusion, therefore, it is my belief that the key to government bond prices and interest rates is primarily to be found in the trend of commodity prices and commercial bank loans. Granted a leveling off of both within a period of, say, the next few months, I am inclined to question any appreciable decline from the present level of supported prices, and such leveling off in commodities and loans would probably mean that the current certificate rate of 1⅛% would go no higher, and from a technical standpoint, it would appear that governments up to a five-year maturity have possibly adjusted themselves to such a rate. There are, however, so many uncertainties in the outlook, as I have endeavored to illustrate, and until the full effect of any adidtional anti-inflationary steps which may be taken are felt, I am definitely inclined to counsel caution maturity-wise. With economic conditions in their present uncertain state, and unpredictable as the future is, it is apparent that the "one-way street" in the government bond market which prevailed for so long, no longer exists, and certainly portfolio management now, possibly more so than any time in the past few years, should be based on sound conservative banking practice and not on any fallacious dependence upon a so-called "pegged" market.

Business Man's Bookshelf

Britain and World Trade—A Report by PEP—The MacMillan Company, 60 Fifth Avenue, New York 11, N. Y.—cloth—$5.00.

Economic Policy for a Free Society—Henry Simons—University of Chicago Press, 5750 Ellis Avenue, Chicago 37, Illinois—cloth—$3.75.

Mono-Juris—A Diagnosis of the Ills of Modern Society and a Program for the Guidance of our Political and Economic Actions through Reason—Joseph L. Tepper — William-Frederick Press, 313 West 35th Street, New York 1, N. Y.—cloth—$2.50.

1948 Outlook for Manufacturers of Roofing, Wallboard, Insulation, and Allied Building Materials—E. W. Axe & Co., Inc., 730 Fifth Ave., New York 19, N. Y.—Paper—$1.50 (75¢ to public libraries and nonprofit institutions).

Post-War Monetary Plans—revised edition nearly half the contents of which are published here in book form for the first time—John H. Williams—Alfred A. Knopf, Inc., 501 Madison Avenue, New York 22, N. Y.—cloth—$3.50.

Savagery to Civilization—Norbert F. Dougherty—The William-Frederick Press, 313 West 35th Street, New York 1, N. Y.—paper—$2.00.

Union Challenge to Management Control, The — Neil W. Chamberlain—Harper & Brothers, 49 East 33rd Street, New York 16, N. Y.—cloth—$4.50.

Problems and Opportunities of Aviation

(Continued from page 4)

The loss, based on performance during the first nine months, is estimated at over $20,000 000. This is due not only to the costs of over-expansion and the inevitable retrenchment programs, but to sharply higher operating and overhead costs and smaller load factors. Many airlines have sought refuge under the so-called "need" clause of the Civil Aeronautics Act of 1938 which permits the Civil Aeronautics Board to pay varying rates for the carriage of mail in accordance with the need of each individual carrier. Some people incorrectly construe this to mean that the government guarantees the airlines a percentage of profit on their operations. That is not true. Actually, the law was intended to mean that if the government requires mail service over a route on which prudent management cannot develop sufficient passenger and cargo traffic, the Civil Aeronautics Board is empowered to pay more than the established compensatory mail rate to minimize the lack of other traffic. The "need" clause is not a basket to guarantee profits regardless of management, and certainly neither the Congress nor the American public will stand for its use for that purpose.

Over Expansion of Routes

Another serious problem facing the air transport industry is that of over-expansion of routes and the application of excessive competition, which the Civil Aeronautics Act of 1938 was created to prevent. Basically, the law is a good law, but it is not always administered wisely. For instance, some communities have more airlines than railroads. Boston is a good example, with five airlines and three railroads. The award of routes under the 1938 Act is based upon the public convenience and necessity. But in their scramble for route mileage before the airline pattern of the nation became frozen, many airlines asked for far more routes than sound business judgment would dictate, and have sometimes been granted more than sound route development policy would warrant.

Occasionally it seems that the philosophy of the Civil Aeronautics Board is to create undue competition, with the result that a route or a city that can be served adequately by one or two airlines gets three or four, or even five. The public in some areas is thus provided with more service than it can use and all the carriers suffer from too much rivalry for too little business. I was gratified to note the report of the President's Air Policy Commission, which recommended a slowdown and more mature consideration on the granting of new routes.

I have great sympathy for the gentlemen serving on the Civil Aeronautics Board. Their task is not an easy one, and they have tried to establish in a very short period what it took the railroads and the Interstate Commerce Commission decades to learn. But if public convenience and necessity is to be served, then routes must be granted in accordance with long-range principles — principles that will work, first, toward the best interests of the public and, secondly, toward the maintenance of virile airlines in general competition, capable of earning money without having constantly to request more mail pay.

The 15% Transportation Tax

Still another problem in air transportation involves the existence of the 15% transportation excise tax. The tax was raised to this level during the war specifically to keep unnecessary travel to a minimum. That need no longer exists. The excise tax should be removed promptly in the interest of promoting travel on all forms of transportation and thereby raising general business activity, which ultimately will pay far more in taxes than is produced by this restriction on travel.

Condition Not Gloomy

But the air transportation condition is not all gloomy. Let's look at some of the opportunities. Today the airlines are an integral part of our national security. At the beginning of the recent war, half of the less than 400 transport planes in the United States were taken by the army to provide the supply lines to vulnerable fronts in Alaska, New Guinea, Greenland and Iceland. Today, with about 1,000 planes in the transport industry, most of them bigger and faster and able to carry larger loads, we have a reservoir of far greater value in case of a similar emergency. And on the reverse of that same coin, we have an even greater opportunity to protect and promote the peace by placing all parts of our country within only a few hours of each other, and by placing all parts of the world within a day or so of us. You can now leave New York at 3:30 p.m. and be in Los Angeles before midnight Pacific time. Or travel overnight to London, or get to Buenos Aires in 37 hours. In fact, air transportation makes it possible to spend 14 days of a two-week vacation in Europe, with only one night spent each way across the Atlantic.

Within our own New York State 14 cities are served by airlines flying on schedule. And six additional communities are certificated but not yet being served.

There is good evidence that the winter valley in seasonal traffic is diminishing. The airlines have always been plagued by this dropping off of travel during the winter, following summer and fall peak periods. This is not true of all airlines. Routes in the south and routes running north and south carry heavier loads in the winter than in the summer, because that is the direction of winter vacation travel. But sharp seasonal fluctuations are costly, no matter where the routes or in what seasons, and the industry has tried to even up travel habits, with some success.

Rather than compare individual months to find the winter traffic trend, I have checked the first quarter of each year against the third quarter travel of the same year. This is done to eliminate any distortion in weather variations for a particular month. I am quoting figures for my own company, American Airlines, because they are most readily available, but I believe they are indicative of the industry trend. Using the first quarter revenue passenger miles expressed as a percentage of the third quarter, we find the 1936 figure was 47.3%. In 1937 it was 53.4; in 1946 it was 60.8, and in 1947 it was 68.4. The 12-year trend shows that the deep seasonal trough is becoming a shallower depression. C. R. Smith, our Chairman of the board, once said, "The trouble with the airline industry is that there are too many amateur weather prophets." These figures indicate either that the amateurs are getting better or that they are relying more on the professional meteorologists of the airlines. Substantial technological and procedural advances are already diminishing the effect of poor weather on airline operations, and as we learn more about overcoming weather problems the trend toward improved winter traffic figures should continue to accelerate.

Mention of weather always bring up the matter of safety, which is our single greatest concern. Every department of an airline interests itself in this problem and it probably receives more concerted attention than any other in the business, with the result that it is many times safer to fly in 1948 than it was ten years ago. Even in the past year the scheduled airlines made a big step forward, when there were only five accidents fatal to passengers, compared with nine in 1946. The revenue plane miles flown per fatal accident totaled about 65,971,228 in 1947, as compared with 34,397,826 the previous year. According to the National Safety Council, you are safer riding in a scheduled airline plane than you are when riding in your own private automobile.

At this very moment there are 300 United States Flag airplanes taking off, landing, or flying, in all parts of the world. In the Los Angeles sunset and in the Cairo dawn; across the American desert and across the North Atlantic, American planes are in the air, each manned by well trained and seasoned crews and groomed by expert mechanics. By two-way radio, pilots are keeping in touch with dispatchers on the ground, each of whom has the latest weather information and the advice of trained meteorologists. Every day 40,000 passengers prefer to travel with the professionally skilled, highly-specialized airline experts. And these passengers are carried safely, efficiently and quickly, whether their trip is 200 or 5,000 miles.

In contrast to the overly-optimistic equipment orders placed by most of the airlines during and after the war, the industry began last year to take delivery of a moderate number of postwar planes that offer passengers greater travel bargains. For the most part these aircraft are replacements for less modern planes, rather than huge additions to existing fleets.

American, for instance, took delivery on most of its 50 new DC-6s, which will ultimately replace the DC-4s now flying our routes. This spring the first of 75 Convairs on order will be delivered to us as replacements for our DC-3s. Both new aircraft are faster than present equipment, and they carry greater passenger and cargo loads than the planes they replace. The Convairs will hold almost double the capacity of the DC-3s without being proportionately more expensive to operate. We hope thus to lower our break-even load factor and better our opportunity to make some money.

Safety is the paramount consideration at all times in the operation of the airlines. We have frequently had to make decisions in the interests of safety which at times have cost us a lot of money. We withdrew our DC-6 fleet from operations voluntarily last November after a fire in flight which caused a precautionary landing without injury to passengers or crew members. The DC-6s are being modified now to eliminate the possibility of fire, and will be back in service shortly. The temporary loss of the use of these aircraft has forced us to curtail our schedules materially and temporarily is proving costly. We feel that the price is cheap for the assurance it gives us that the DC-6 is a safe airplane, and for the assurance it will give the public that we are prepared to protect their welfare regardless of cost. The DC-6 will return to service shortly and it will be the best transport plane in use.

The growth of Airfreight and of international air travel is among the wonders of the postwar world. Still under five years old, Airfreight more than doubled in volume during 1947 and will probably continue its rapid increases this year. Its speed is widening many markets and enabling both wholesalers and retailers to maintain smaller inventories of stock on hand. Some of you men are performing a greater public service because of Airfreight, for Federal Reserve branches in 36 cities are using Airfreight regularly for the speedy shipment of cancelled checks.

The story of transoceanic air travel is undoubtedly familiar to you and I will not dwell upon it. But I would be remiss if I did not emphasize it as one of air transport's opportunities to help in the cause of international amity. While the world is suffering from the dollar shortage, there is probably no more painless way of establishing dollar balances in foreign lands than by encouraging foreign travel. And the speed of aviation opens the world as tourist country to millions of persons who never had the time to cross the ocean by boat.

Furthermore, if mutual understanding is the basis of international friendship then air travel is a bridge between the two. Transoceanic air travel is not only the logical way for tourists and businessmen to sell the American ideals abroad but it is the way we Americans can learn to know and appreciate the problems and customs of other peoples.

Preserve your basic faith in the air transport industry. You are bankers and you will examine airlines on the usual banking basis, for sound plans, good judgment and efficient operation. There is no guarantee that any individual company in the industry will succeed. But you may be sure that air transportation is here to stay. It will continue to grow. Year by year it will become more and more essential to the economy of our country and of our world. It will never supplant other forms of transportation, but it will, in time, overshadow them.

Norman V. Grimsditch Joins Morton Seidel Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Norman V. Grimsditch has become associated with Morton Seidel & Co., 458 South Spring Street. He was formerly with Gross, Rogers & Co. and Fairman & Co. Prior thereto he was connected with Carter H. Corbrey & Co.

To Be General Partner

Jansen Noyes, Jr., limited partner, effective Feb. 1, becomes a general partner in Hemphill, Noyes & Co., 15 Broad Street, New York City, members of the New York Stock Exchange.

With W. E. Burnet & Co.

W. E. Burnet & Co., 11 Wall Street, New York City, members of the New York Stock Exchange, have added Maxwell Ohlman to their investment research staff.

Silberberg to Admit

Silberberg & Co., 61 Broadway, New York City, members of the New York Stock Exchange, will admit Abraham Rosen to partnership in the firm as of Feb. 5.

Wm. R. Staats Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CAL.—George H. Mecke is now with William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange.

With Chester L. Noble Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—John R. Marsh has become affiliated with Chester L. Noble & Co., 510 South Spring Street, members of the Los Angeles Stock Exchange.

Business and Finance Speaks After the Turn of the Year

(Continued from page 9)

WALTER GEIST

President, Allis-Chalmers Manufacturing Co.

Despite the apparent favorable possibilities offered by the new year, there are the many inevitable qualifications which must be applied in considering the outlook. Even though the wheels of production are turning at a fast pace today, there are many potential developments which could slow their speed.

Walter Geist

The solution to the problem of shortages — material shortages for most industries, labor shortages for some—will play an important part in determining the course of the line on the production graph for 1948. A great deal has been accomplished in the face of these handicaps up to now.

Other factors which must be considered include the outcome of the possible third-round wage demands and the application of the plan for European recovery.

The trend of production during 1948—whether it will continue to climb, level off or fall—will provide an indication of what to expect in the price picture. Management is just as aware as labor that prices are high and is constantly seeking to increase production to the point where general price reductions might be possible.

Let us examine what happens, for instance, when we are faced with a continuing material shortage. In order to satisfy customers and avoid layoffs, we find a gradually-increasing cost item called "premium" costs. These are the abnormal amounts spent for warehouse stocks. the substitution of available higher grade materials where lower grades normally would be used increased transportation costs due to the necessity of speed and importance of time in bringing in materials without department shutdowns plus new sources of supply.

In the case of our firm, we were compelled to spend more than $1,000,000 during 1947 as "premium" costs in steel. These are not gray market or black market prices. We have found it necessary to employ more expediters in the past few months than during the war. These costs can't help but boost the total cost of a product.

A more certain prediction. applicable at least for the capital goods industries, can be made concerning product demand. A continuing strong demand seems almost a certainty during 1948 with backlogs likely to rise during the early months.

As a final consideration, we might say the new year can be greeted with a reserved optimism. Let us hope its potentialities materialize.

HARRY B. HIGGINS

President, Pittsburgh Plate Glass Co.

Demand for the plate and window glass, paint, and chemical products manufactured by Pittsburgh Plate Glass Co. in 27 plants geographically spread from Newark, N. J., to Los Angeles, Calif., promises to remain strong during the current year. The 65-year-old firm, with headquarters in Pittsburgh, Pa., also is a producer of brushes, cement and plastics.

H. B. Higgins

Improved facilities at the firm's seven plate and winodw glass plants, particularly at the Henryetta, Okla., window glass plant, where capacity has been doubled, is responsible for more satisfactory inventories of glass products at the end of 1947.

With demand strong from the automotive and building industries, prime users of glass, employment in our Glass Division should continue at all-time highs. The store-front modernization program now under way across the nation will absorb all the Cararra structural glass and Herculite tempered all-glass doors the firm can produce this year.

An expansion program in the Paint Division, begun in 1945 and continued through 1947, has increased substantially our ability to produce a greater volume of quality paint products than in any past year.

Availability of increased quantities of raw materials during a year of record demand for paint products, plus the addition of production facilities at the new plant at Springdale, Pa., aided materially in making 1947 a record production year for the division.

During the year Pittsburgh Plate acquired the Forbes Varnish Co. of Cleveland, Ohio, and subsequently established the Forbes Finishes Division. Virtually completed at this time is an expansion program doubling the capacity of a seven-year-old plant at Houston, Tex.

Pittsburgh Plate's Columbia Chemical Division, together with Southern Alkali Corp., owned jointly with American Cyanimid Co., produced soda ash, caustic soda and liquid chlorine in excess of its plant's rated capacities during the current year. Expansion of the Columbia Chemical Division's Natrium, W. Va., plant is under way, and Southern Alkali Corp. recently started partial production at a new caustic soda and chlorine plant located at Lake Charles, La.

Situated on the Ohio River, 35 miles below Wheeling, W. Va., the company's Natrium plant, operated by the Columbia Chemical Division, went into production during 1943. The largest chlorine plant built as a single unit east of the Mississippi River, the Natrium plant currently is expanding its chlorine production facilities. In the electrolytic process employed at the West Virginia plant, caustic soda is a co-product of chlorine.

A fleet of new tank barges—the first ever specifically designed and built for the shipment of liquid chlorine by water—recently was placed in service by the Columbia Chemical Division and Southern Alkali Corp. Result will be more economical delivery of this basic chemical to large quantity users with plants along the inland waterways system and the intra-coastal canal in Texas and Louisiana.

ROY A. HUNT

President, Aluminum Company of America

The nation's aluminum industry, now entering its 60th year, topped all previous peacetime production records in1947. The past year also completed a decade in which the highly-competitive light-metal industry enjoyed a greater growth and diversification than in any comparable period of its history.

Roy A. Hunt

Ten years ago, on the occasion of the 50th anniversary of the founding of the industry, it was pointed out that aluminum, directly or indirectly, gave employment to about 200,000 persons in the United States. Today, close to 1,000,000 people earn their livelihoods either through the manufacture of aluminum, or by making products in which aluminum plays an esential part. Over the same span of years, the list of known commercial uses for aluminum has grown from around 2,000 to approximately 4,000.

On the basis of preliminary figures published by the U. S. Bureau of Mines for the first nine months of 1947, it is estimated that actual production of primary aluminum by the whole U. S. industry during the year will be approximately 1,140,000,000 pounds, as compared with 819,260,000 pounds in 1946—the greatest previous peacetime-year record—for an increase of more than 39%. Thus it appears certain that aluminum will more than maintain its leadership as the first-ranking non-ferrous metal of industry from the standpoint of volume produced.

Despite the production records set in 1947, the aluminum supply situation tightened toward the end of the year, particularly in certain mill products such as sheet. Demand for these mill products, over and above what would otherwise be the case, has been chiefly caused by shortages of other materials such as steel and galvanized iron. Alcoa's large new mill for rolling sheet and plate aluminum, now under construction at Davenport, Iowa, will come into production shortly, and will relieve the situation.

Apart from the abnormal demand created temporarily by the steel and iron shortages, a great and growing demand for the light metal on its own merits has arisen since the end of the war. Despite the almost universal upsurge of prices for most other materials, the basic price of aluminum has decreased a full 30% since 1939. This price reduction has been accomplished under Alcoa's leadership in the face of soaring costs, which saw the company's wage rates increased approximately 75% over the rates in effect at the beginning of World War II.

Other permanent bases of the demand for aluminum are: greatly increased familiarity of manufacturers and artisans with the handling of the metal; the many new and useful techniques developed during and since the war for the manufacture and fabrication of aluminum; the excellent service records compiled by aluminum in military and civilian applications during wartime; and the versatile new alloys of aluminum which are now available as a result of many years spent in thorough research.

The distribution of Alcoa aluminum products by industries during 1947 continued to parallel, in general, the trends established in 1946, with building construction the leading consumer of the metal. Alcoa shipments to various industries during the year are estimated to be as follows: Building Products, 19%; Transportation (all forms), 15%; Cooking Utensils, 9%; Machinery (electric and general), 6%; Household Appliances, 7%; Power Transmission, 6%; Shipments to Fabricators for Further Processing into products not identified to Alcoa, 24%; All other uses, 14%.

Alcoa Roofing Sheet has found widespread acceptance, especially in rural markets. This material, in fact, has been applied to approximately 500,000 farm buildings throughout the nation since World War II. Alcoa in 1947 also introduced a new, lightweight, heavy-duty material called Alcoa Industrial Roofing and Siding, which is designed for use on factories, warehouses, storage depots, hangars and similar structures.

The prewar popularity of aluminum windows in building construction, both residential and non-residential, has continued and shown rapid growth. Estimates indicate that 2,000,000 aluminum windows were manufactured in 1947, as compared with 500,000 the previous year.

Additional aluminum applications in building construction which have shown noteworthy increases during the past year include: heating and ventilating ducts and fittings; nails; screens; molding; thresholds; venetian blinds; awnings; storm doors and windows; garage doors; gutters and downspouts; and spandrels.

The use of aluminum for commercial vehicles such as truck, bus and trailer units has shown a marked upswing, and there is a strong trend toward aluminum in the passenger automobile field. Forged or cast aluminum wheels and rims for trucks and buses look particularly promising because of the advantage they offer in reducing upsprung weight and lowering dead load. Extensive investigations are being carried on by practically all passenger car manufacturers concerning further use of aluminum to replace numerous iron or steel parts, and one of the largest producers of automobiles is currently using aluminum running boards, headlamp housings and other light-metal parts in addition to the more familiar standard applications.

Many all-aluminum streamlined trains, elevated and subway cars, tank cars, hopper cars, and passenger cars have been placed in service, and numerous others are under construction for various railroads and transit systems.

In the electrical conductor field, wide acceptance of aluminum building wire has been an outstanding development in 1947. Quantities of aluminum cable, steel reinforced (ACSR), have gone into service, and today nearly 2,000,000 miles of this cable span the nation for transmission of electric power.

It is expected that 1948 will be another good year for aluminum. This light metal is still in an easier position than almost any other material as far as supply is concerned. Actual reduction in the basic price of aluminum, while the prices of practically all competing materials have been rising, has spurred aluminum's adoption for thousands of new uses, and should continue to do so in the future. All indications point toward a healthy growth in permanent aluminum markets, even after present-day shortages of other materials have been relieved.

ARTHUR S. KLEEMAN

President, Colonial Trust Co.

There is a new hope for bankers in 1948 if they will help in furthering a wave of understanding which seems to me at last to be surging through the channels of American business. I refer to the broader understanding in government, in business and in the minds of the public that we must try earnestly to expand our imports as a patriotic and profit-producing contribution to the economic welfare of our own country and of the world.

Arthur S. Kleeman

No matter whether a banker is hopeful or doubting as to the prospects for his ordinary 1948 business, he can improve upon his anticipations by getting behind the movement to make American businessmen better customers, as a means of selling more of our own goods in other parts of the world. Importers, and in fact all users of raw materials from abroad, should be encouraged by their bankers to broaden their purchases from other countries, for if bankers do get behind such a movement, not only will they build their own income, but they will be helping in a world rehabilitation which is sounder, more normal and far less costly to us than all the other world reconstruction schemes ever conceived.

Banks should, this very year, urge their clients to study the exportable raw materials and finished goods of other lands; many thinking people are working in that direction, so that much benefit may well be realized in 1948. Every dollar thus spent will be returned manyfold in the creation of new buying power for those products which we have for sale in return.

HERBERT F. MILLIGAN

Assistant Vice-President, Marine Midland Trust Co. of Binghamton

The general outlook for banking during 1948 is full of questions marks:

(1) Because this is a Presidential election year.

(2) The world is torn by civil wars, economic chaos, intrigue and monetary problems.

(3) Inflation controls and managed currencies will play important roles. My opinion is based on local factors, and if they are average with the nation, 1948 should be as good or better than 1947 for the following reasons:

(1) Local banks have only small Government War Loan deposits.

(2) Our industries have, in most cases, reconverted from war work with most retooling and adjustments behind them.

(3) Our industries manufacture essential goods such as shoes, clothing, office machines and accounting machines, film and cameras for hospital and industrial use.

(4) This is a railroad terminal half-way between New York City and Buffalo, served by the Erie RR., Delaware & Hudson RR. and the Delaware, Lackawanna and Western RR.

(5) All local banks are careful that industrial loans are used for the purpose of increasing production.

(6) Our labor in this area is one thing we are always proud to talk about. Absentee average is lower than the State or National average—our workers are thrifty—most of them are either home owners or are buying homes. We draw workers from a wide rural area. Management has been fair in dealing with the workers, and

we think good labor-management relations will continue.

(7) New industrial expansion is in progress and plans are being made by others for additional commercial establishments—all of which will create more jobs. Some public works by local governments is in progress which will not conflict with other business and is of a permanent nature.

In conclusion, if business in the nation looks as good at this time as it does to us in Broome County, N. Y., we think 1948 will be a good year for banking and for our citizens.

A. G. NEAL

President, Potomac Electric Power Co.

Strange as it may seem, the Federal Government had little affect upon the changes in the electric power industry in the Washington, D. C., area in 1947. Of course, the payroll of the government employees is a major source of income in the area, but, omitting this, the use of electricity supplied by the Potomac Electric Power Co. has been principally dependent upon the individual decisions of 210,000 residential and 35,000 commercial customers.

A. G. Neal

The decisions of residential customers in Washington, D. C., and adjoining counties of Maryland resulted in a combined purchase of approximately $23,000,000 in electrical appliances in 1947 including 70,000 radios and combinations; 6,000 electric ranges; 25,000 refrigerators; 7,000 television sets; 20,000 washing machines and many smaller appliances.

Better lighting, more air conditioning and cooking equipment are among the items producing major increases in the commercial customers' use of electricity, with the result that we have ended the year with a 9% increase in kilowatt-hour consumption approximately the same growth as that for the country as a whole. The maximum demand for electricity by our customers reached a new peak of 427,000 kilowatts, 6% higher than 1946.

Operating revenues increased 9% in 1947 compared with 1946, whereas operating expenses, taxes and depreciation increased 15%. Employment and wages were up 14%, the one dollar per ton added to fuel expense was 15% above the previous year and others items reflected a similar change.

Looking ahead into 1948, we find that government employment has stabilized at around 220,000 for the area, compared with 150,000 in 1940. No appreciable change is expected other than perhaps a small increase due to agencies, such as the Securities and Exchange Commission, returning to the area. It follows that government payrolls should be sustained throughout the year which, we expect, will have a corresponding effect upon private employment.

In our service area, there were 6,000 housing units completed during 1947 and almost 13,000 under construction as of Dec. 31. We understand that some 53,000 single-dwelling and apartment units are planned for the next three years.

The company's recently budgeted construction program for 1948 is estimated to cost an aggregate of $19,000,000. Actual expenditures during 1948 are estimated to be $11,849,000. We are planning to spend approximately $23,000,000 on the system of the Braddock Light & Power Co., a totally owned subsidiary, in connection with the addition of 160,000 kilowatts of generating capacity by 1950. This past year the Potomac company completed a 50,000-kilowatt unit, bringing total generating capacity to a total of 505,000 kilowatts.

In conclusion, it may be said that a substantial growth in sales and revenue is expected in the coming year, but this growth will be accompanied by higher fuel, material and labor costs along with high-priced capital additions, making it increasingly difficult to maintain a satisfactory return on capital invested with present rates.

JAMES H. POLHEMUS

President, Portland General Electric Co.

Growth of the electric utility industry in the Pacific Northwest, which has been rapid both during and since the end of the last war, at the present time shows no evidence of any material slackening. Accordingly, the industry is anticipating a continued increase in load requirements during 1948 and is planning on new construction programs equalling or exceeding in scope those of 1947.

James H. Polhemus

While the situation varies somewhat among different utility organizations serving the Pacific Northwest, very material progress in the expansion of electrical distribution systems was made during 1947 with the result that many industry executives expect to "pass over the 'hump' in meeting new construction requirements for this end of the business by the time the 1948 peak load season occurs. Catching up with the program for distribution system enlargement, however, will not remove the ogre of power shortage now confronting the region due to the rapid depletion of reserve generating capacity.

Members of the Northwest power pool, which includes Federal plants on the Columbia River as well as generating resources of all major distributing systems of the region, recently agreed that installed capacity cannot catch up with estimated needs until 1954, and then only if approved Federal power projects receive appropriations sufficient to carry on construction work as rapidly as physically possible. Population gains and the ingress of new power-consuming industries during the war and postwar periods have served to deplete reserve generating capacity to a degree greater than the average for the country at large. Complicating this problem for business-managed distributing systems of the region is the fact that the Federal Government has pre-empted the field of hydroelectric generation on the Columbia River and main tributary streams, with the result that the region is almost completely dependent upon the national Congress for a permanent solution to the power shortage problem.

Privately managed systems have not materially increased the capacity of their own hydroelectric projects since the advent of Federal development on the Columbia, not only because of their inability to compete with the tax-subsidized projects, but also because the use of power has grown so tremendously that the construction of low-capacity plants on smaller streams susceptible of development by private enterprise would not significantly alter the power shortage problem.

Aside from the basic problem of increasing generating capacity, utility managements in 1948 will be confronted with other concommitant problems linked with expansion. These include new financing, the rising costs of material and labor, shortages of fuel for steam-electric plants, and possible adjustments in rate structures to preserve adequate returns on investment. While these problems are immediately troublesome, most power men view the continued increases in business volume as a fundamentally healthful situation assuring long-range stability of the industry.

BRIG. GENERAL DAVID SARNOFF

President and Chairman of the Board, Radio Corporation of America

Favored by the American competitive system of private initiative and free enterprise, the fast-growing television industry in the United States leads the world in every phase of its development.

Gen. David Sarnoff

So strong will be television's impact as a major economic and social force in 1948 that I believe it will make this new year one of the greatest in the history of radio, as a science, an art and an industry.

Factors creating the promising outlook for television in 1948 include: an increasing number of television stations throughout the country; a vastly enlarged audience; the establishment of cable and radio relay facilities linking stations into intercity networks; the general improvement of programs; increased advertising support and vigorous competition, as the new industry takes form on a nation-wide scale.

Progressive radio men—scientists, industrialists and broadcasters alike—now think in terms of sound-and-sight; they plan in sound-and-sight. Television charts their future; it will be the dominant factor in the Radio of Tomorrow.

The Republican and Democratic National Conventions and the presidential campaign in 1948 will be outstanding events on the air—in both sound and sight. The largest number of broadcasting stations ever assembled to cover national conventions will be linked with the microphones in Philadelphia where ace news commentators will be on duty to describe the proceedings for listeners around the world.

Television was one of the main reasons why Philadelphia, with three video stations capable of being linked by coaxial cable and radio relays with other cities for network operation, was chosen as the site of these political conclaves. Millions of people along the Atlantic Seaboard from the Potomac to the Adirondacks and New England, will be within viewing range.

Television, as a new means of vote-getting, will go into action on a broad front. Before the polls close on the 1948 presidential election, television will reach substantial areas in at least 21 states having more than two-thirds of the national total of electoral votes.

Television is likely to do more to revolutionize politics than sound broadcasting did. Political candidates may have to adopt new techniques to benefit from visual radio; their dress, their smiles and gestures, all will be important. How they look, as well as what they say, may determine, to an appreciable extent, their popularity. The eyes of the public will be upon them.

Eighteen television stations now are on the air with regular programs. In 1948 there will be approximately 50 television stations or more in operation.

Between 150,000 and 175,000 television receivers are in use. By the end of 1948, a total of approximately 750,000 is foreseen, and it may reach 1,000,000. By that time, it is estimated that the New York area will have 400,000 sets; figuring six viewers to each receiver, the New York audience will be about 2,400,000.

Based upon the progress to date, within a year television measured in consumer prices will approach the status of a $500,000,000-a-year industry, and it will grow in size with the years. For the first two years of commercial television—1947 and 1948—it is estimated that the American public will spend approximately four times as much for television receivers as it did for broadcast receivers during the first two years of sound broadcasting—1921 and 1922.

I foresee opportunities for television to extend into many fields aside from the home—for example, theater television, industrial television, department store television, and educational television.

As television was being enthusiastically welcomed into the family circle in 1947, radio sound broadcasting celebrated its 27th year. More than 36,000,000 American homes are equipped with at least one radio receiver, and many of them have three or four. Five million automobiles carry radios and millions of portable sets are in use. Conservative estimates place the total of receiving sets in the United States at more than 65,000,000. New broadcasting stations authorized or placed in service since V-J Day bring the total to well over 1900, or more than twice the number of stations in operation before the war.

FM (frequency modulation) continues to demonstrate its value to the public and to the radio industry but industry-wide progress in FM broadcasting has been slowed perceptibly by restrictions which forbid musical programs now broadcast by standard stations and networks to be transmitted simultaneously over FM stations.

It is hoped that these restrictions may soon be removed. FM will then move ahead more rapidly.

It is estimated that in 1947, more than 16,000,000 radio receivers and 185,000,000 electron tubes were manufactured by the radio industry as a whole, while the allied phonograph industry turned out millions of disks.

These statistics, revealing new records in production, illustrate the tremendous industrial and commercial activities which thrive upon sound alone, providing employment to hundreds of thousands of persons and information as well as entertainment to all America. Now, with sight added to sound, the potentialities of radio service to the public are greatly multiplied.

International radio-telegraphy continued its advance in 1947 with many wartime developments harnessed to commercial service in world-wide radio to handle traffic at increased speeds through mechanization.

Shipboard radar is making important peacetime advances and progress likewise has been made in perfecting the RCA air navigation and traffic control system known as Teleran. Employing radar and television techniques, the complete Teleran system will be demonstrated in operational flight tests conducted by the U. S. Army Air Forces in Washington, D. C., in the near future.

Ultrafax, a combination of television, radio relay and photography, represents another revolutionary advance in communications. Developed in RCA Laboratories, ultrafax can handle documents, letters, printed pages and messages at the rate of a million words a minute, and can transmit photographs, maps and other illustrations at the rate of 30 pages a second.

Speed, speed and more speed, is the challenge to electronics. Through radio and the continued development of electron tubes to perform a myriad of tasks in communications and industry, scientists and engineers are successfully meeting each challenge that leads to new advances.

In radio, pioneering never ends; it continually calls for initiative, faith and exploration in unknown fields. The scientists and research men of the industry who throughout 1947 blazed new trails, true to the traditions of radio, are to be congratulated upon their achievements.

Especially to be commended are workers on the production line through whose craftsmanship the finest radio and television apparatus in the world is made available to the American people.

Further, through the efforts of manufacturers, engineers and broadcasters, it is possible for the radio voice of America to travel afar and bespeak freedom, friendship and peace.

GENERAL BREHON SOMERVELL

President, Koppers Company, Inc.

There are many reasons to view the year ahead with optimism, but, at the same time, possible sudden economic changes may tend to upset the present favorable outlook for the company.

Factors that may have a great effect on industry in 1948 include the continued high cost of government with continued high taxation of business; the possibility that the "aid to Europe" program may bring about Government controls which will cause scarcities of some basic commodities; and effect of present inflationary trends on markets and the inadequacy of depreciation reserves with mounting construction costs.

Lt. Gen. Somervell

Broaden Research Program

During 1948, Koppers will continue to devote a large amount of research effort to the development and improvement of chemical products. In 1947, Koppers' Chemical Division showed outstanding growth, starting production of a number of important chemicals for industry and adding three plants to the operations of that division.

New facilities for producing polystyrene, an important plastic, and other chemicals and chemical compositions are under construction at Kobuta, Pa., and will be put into operation in the first half of the year.

Koppers also will devote a considerable amount of research during 1948 toward development of processes for making synthetic liquid fuels and other chemicals from coal. We have done some important work in this line during past years. A considerable increase in this activity is slated for 1948.

(Continued on page 46)

Business and Finance Speaks After the Turn of the Year

(Continued from page 45)

ROBERT C. STANLEY

Chairman and President, The International Nickel Company of Canada, Limited

World deliveries of Canadian nickel in all forms for the year 1947 will be in excess of those of 1946, although considerably under the peak wartime high reached in the year 1943.

Robert C. Stanley

Canadian nickel deliveries this year in all markets will approximate those of the industry's greatest peacetime year of 1937, and shipments in the United States and Canada will show an increase of about 50% over 1937.

Operations of International Nickel at Copper Cliff, its mining and smelting center, were substantially higher than in 1946, despite a continuing labor shortage.

Nickel prices in the United States and the United Kingdom remained unchanged during the year. On Nov. 21, The International Nickel Company, Inc., announced a reduction of 1¼¢ per pound in its price for refined nickel in the United States. The reduction became effective Jan. 1, 1948, simultaneously with a like reduction in the United States import duty on refined nickel provided for in the recently signed reciprocal trade agreement between the United States and Canada. The prices of nickel outside the United States are not affected by the duty and remain unchanged.

Stainless Steels

The largest consumer of nickel during 1947 continued to be the steel industry. Production of nickel-chromium stainless steels in the United States accounted for a major portion of this consumption. The applications of nickel-containing stainless steels in the various industries continue to be numerous and diversified. The chemical, petroleum and transportation industries remain important users of stainless steels. Popular and well-known uses are in such home appliances as sinks, refrigerators and deep freezers, as well as cooking utensils. Likewise, stainless steels serve in industrial and restaurant equipment for the processing and handling of foods and beverages.

Nickel Alloy Steels

The so-called triple alloy steels, containing nickel, chromium and molybdenum, continued to be extensively employed this year, particularly in the automotive, construction, railroad, tractor and machine tool industries. Their tonnages, as in 1946, were again the largest of any single class of engineering alloy steels. Two notable applications of comparatively recent origin for these alloy steels have been for structural aircraft tubing, and for hot coiled and leaf springs by the railroad, automobile and tractor fields. Nickel-chromium and nickel-molybdenum steels of the prewar standard types have also reestablished salient positions in industry.

Of great interest is the growing utilization of high strength low alloy steels. The majority of these steels contain nickel and now contribute materially to the over-all consumption of nickel by the steel industry. They are used principally for engineering applications to permit appreciable reductions in deadweight. Industries which have found their use of advantage include transportation, materials handling, earth moving and heavy equipment. It is expected that as more consumers become familiar with the savings accruing from constructions with these steels, their use as a replacement for the carbon structural steels will increase.

Increases in the use of heat and corrosion resistant cast steels for industrial applications have continued to expand these markets for nickel.

Postwar activities both in the United Kingdom and on the Continent of Europe point to a continuance or an extension of the use of nickel alloy steels. A point of interest in this connection is the extensive use of nickel steels in the British Railton Mobil Special racing car, which exceeded a speed of 400 miles an hour at Bonneville Salt Flats, Utah, in September.

Nickel steels are being employed in lightweight tractors which are particularly important to United Kingdom agriculture. The new Rolls Royce piston type engine, one of the most powerful aircraft engines of its kind, makes extensive use of nickel steels and other nickel-containing materials. On the Continent, where wartime controls resulted in the employment of "ersatz" alloy steels, nickel alloy steels are once more taking a prominent part in the new steel specifications.

Lightweight nickel alloy steel mine cages in coal mines have proved very successful in Belgium and further cages are being constructed in Belgium and France.

The past year saw a further broadening of the use of Monel, Inconel, and other nickel alloys, as well as rolled nickel, for special duty purposes involving resistance to heat, corrosion, wear and other difficult conditions for which their versatile properties are important. As in the past, the chemical and associated industries took the major share of the tonnage, but increased use was noted in other fields, such as power and electronics.

Important applications were found in the production of modern drugs, such as streptomycin and penicillin, in the manufacture of synthetic detergents, and in the handling of fluorine, a highly corrosive agent which is being used on a constantly increasing scale for many new industrial processes.

The rapid advances in jet engines accounted for an increase in the use of Inconel because of the ability of this high nickel-chromium alloy to withstand the high temperatures and corrosive gases. The same alloy has also assumed further importance for heat-treating equipment. A potentially large market for high nickel heat resistant alloy steels for jet engines and rocket developments is indicated by the continuing search for materials to withstand higher temperatures.

The Nimonic alloys, particularly "Nimonic 80," continued to be the standard turbine blading material for all British jet-propulsion engines. These alloys, developed by Mond Nickel's Development and Research Department, are employed for this application because of their high creep-strength properties at red-heat temperatures. In the United States International Nickel has developed another high temperature alloy, Inconel X, which is being used experimentally for gas turbine wheels, forged turbine blades and general sheet metal applications for jet engines.

There was an increase in the application of rolled nickel, Monel, Inconel and nickel-chromium stainless steels as a cladding for ordinary steel. Included were applications in such diversified industries as brewing and the production of pulp and paper.

One of the standard uses for Monel for more than a quarter of a century has been on board ship for applications ranging from pump parts to boiler equipment. Despite the fact that new construction in American shipyards was considerably curtailed during the year, the conversion of wartime vessels to peacetime use continued to provide an outlet for this nickel-copper alloy produced by International Nickel.

Chemical and food industries in Great Britain, France and Belgium have placed substantial orders for pure nickel, Monel, Inconel and nickel silver. Applications include caustic soda equipment and large salt driers. Further developments have taken place with nickel-clad steel, particularly in connection with the soap industry.

The expanding field of electronics has brought many new uses of nickel and nickel alloys, such as in television.

There has been a continuing use of Monel for hot water storage tanks. For the sheathing of heating elements in electric cooking ranges, Inconel continues its commanding position.

The use of "Ni-Rod," a welding rod for making machinable welds in cast iron, was expanded remarkably throughout industry.

Electrical Resistance Alloys

There has been an important growth in the use of nickel-chromium electrical resistance materials. The increasing utilization of electrical energy in the home for domestic appliances, water heaters and ranges has been largely responsible for this growth.

Cupro-Nickel Alloys

The high postwar demand for nickel by wrought copper base alloy manufacturers has continued. It is estimated that 1947 purchases will compare favorably with last year. The nickel-silver alloys are expanding their markets as base metals in the silver-plated tableware field; for springs in electrical and communications equipment such as the dial telephone system; and in slide fasteners. The 70-30 cupro-nickel alloy has proved its position as a superior alloy for heat exchanges and is now being more widely employed in marine and coastal installations, power stations, and the petroleum industry. Cupro-nickel for condenser tubes and other nickel alloys for various purposes continue to be employed in the large shipbuilding program now in hand in the United Kingdom.

Coinage

Throughout the world the general trend has been toward further use of nickel and nickel alloys for coinage purposes. Many of the countries which employed emergency alloys during the war have already returned to the minting of nickel-containing coins, while others contemplate an early resumption of the use of nickel and nickel alloys for their coinage.

India and the United Kingdom are replacing silver with pure nickel and cupro-nickel, respectively, as the standard coinage of those countries. Spain recently adopted pure nickel for the 5 and 2½ peseta coins. New Zealand is replacing silver coinage with that of cupro-nickel. Ecuador has returned to the use of pure nickel for the one-sucre coin, and monetary reforms now under consideration by a number of Latin American countries contemplate the introduction of pure nickel for their standard coins as well as for various minor denominations.

Nickel Alloy Cast Irons

Progress in the field of nickel alloyed cast irons has been well maintained during 1947. Such specialty nickel-containing alloys as Ni-Resist and Ni-Hard have advanced at a sharper rate than that of the over-all development. Sales of nickel this year for the production of Ni-Resist are expected to be 45% greater than the best prior peacetime year and Ni-Hard production, exclusive of rolls, will use almost 90% more nickel than has been consumed in any preceding year.

In addition to very satisfactory progress in the development of Ni-Hard in the mining fields of the United States and Canada, this abrasion resisting alloy is being applied in South America, Mexico, South Africa and India, for grinding, milling and other mining applications.

In Great Britain, as in the United States, most of the rolls in rolling mills now contain nickel.

International Nickel in its constant search for new mineral deposits has employed the airborne magnetometer which is revolutionizing prospecting methods. The heart of this device is a magnetic detector utilizing a high permeability nickel alloy core that is periodically saturated. The changes in the intensity of the earth's magnetic field alters the output from this device and is continuously recorded, making possible the detection of magnetic anomalies in the earth's surface.

Nickel-Plating

Although the record high 1946 volume of nickel for plating purposes in the United States included purchases for re-equipping the facilities of the plating industry, 1947 sales will be still higher and are a truer indication of the increased consumption of nickel for plating. However, consumption in all fields has been limited by the scarcity of other base metals for fabrication.

The automotive industry with increased plated area and specifications for heavier deposits is still the largest consumer, although demands from all other fields have increased.

Considerable interest has been aroused in steel pipe lined with electro-deposited nickel, which was a result of a wartime development. More attention has been given to the salvage of worn and mismachined parts by building up to size with nickel-plating, thus saving on replacement parts.

There has been continued research during the year on methods for nickel-plating on aluminum to simplify and improve prevailing practices. This will expand and diversify uses, which at present are largely in domestic appliances and plumbing fixtures.

Plastic and other non-metallic units with a nickel deposit posses increased rigidity and strength, yet retain lightness of construction. In addition, the nickel provides resistance to abrasion and moisture absorption.

Nickel anode consumption is still maintaining a steady high level in the United Kingdom, being some 100% greater than prewar.

Outlook

The encouraging outlook for business in the many industries which nickel serves indicates a continuance of the favorable showing made by the nickel industry in 1947.

JOHN K. THOMPSON

President, Union Bank of Commerce, Cleveland

The year 1947 has been a generally good one for most business, but it has been a disorderly year economically and we are going into 1948 with many of the upsetting factors continuing. I think that the picture in 1948 will not be greatly different than that in 1947, except for the possibility that we may have a further development of the dangerous inflationary tendencies that have been in existence for the past few years and which made rapid progress in 1947, with resultant dislocations.

J. K. Thompson

The world situation continues to be a serious one and all of the things which the United States has done and is planning to continue to do to be helpful, in Europe particularly, with serious effects on our own economy, may not result in our idea of "Peace on Earth."

The increased demand for foodstuffs and other products for our own people, together with the products to be shipped to other countries, will probably continue to create shortages and increased prices, which will undoubtedly result in further wage demands and further increases in prices.

It would not be surprising to see our national income higher in 1948 than in 1947, but all of us should direct our efforts towards seeing to it that the inflationary price-increase-wage-increase spiral will end in 1948. Some reduction of taxes in 1948 would be helpful in the general situation.

There were substantial changes during the year 1947 in the supply and demand and cost of money. Triple "A" corporate bonds which were selling on a yield basis of approximately 2.60% at the beginning of the year, were on approximately a 3% yield basis at the end of the year with the resultant drop in market values of the issues brought out at the lower coupon rates. Currently, the discount on 91-day United States Treasury Bills is a .95% yield basis compared with ⅜% which had been established during the war. The interest rate on United States Treasury one-year Certificates of Indebtedness has increased during the year from ⅞% to 1⅛%. Demand for money by various corporate enterprises and for municipal projects increased the yield on corporate and municipal bond issues. This and demand for bank loans resulted in substantial selling of government bonds.

While sizeable declines in prices of bonds have taken place, there is an offsetting factor of increased income on new money available for investment. This general hardening of interest rates, together with substantial demand for loans from industry, should result in increased gross income for banks, a factor of considerable importance for 1948 in view of the substantial increases in operating and other costs.

From the standpoint of our economy as a whole, the interest rate increases constitute a favorable factor. While the dislocations caused by the increases may be disconcerting, the move is fundamentally sound.

Controls Affecting Investment Policies

(Continued from page 11)

be deflationary if there were any large volume of Federal Reserve borrowing by member banks.

It is also proposed that the government bond market be allowed to seek its own levels. After considerable change since last June when it was decided to allow the Treasury bill rate to rise, then subsequently, to allow the certificate rate to rise to the present level of 1⅛%, the money market has been in a state of flux. The Federal Reserve and the Treasury have jointly stated that for the foreseeable future the anchors at either end of the government list will be 1⅛% on certificates, and 2½% approximately, on the long-term Treasury 2½% bonds due 1972-1967. An increasing number of thinking people are advocating that the Treasury interest rates be allowed to find their own level. In a sense this would represent an indirect deflationary control, for obviously, if there were no money market controls we would have certain positive action in a deflationary direction.

What About Government Interest Rates?

Probably no question is of greater importance at this time than what is apt to happen to government interest rates, and since all bank loans, corporate and municipal open market financing, are tied to government interest rates, controls, or lack of controls, will be of utmost importance. If the government insists on maintaining the long rate at present levels and will buy Treasury bonds as offered at the pegged prices, then we have a control of the money market which is decidedly inflationary in that the Federal Reserve continues to increase funds available to the banking structure. The government authorities say that by retiring debt, much of which is held by banks, the inflationary implications of pegging will be counteracted.

The banking industry itself through its American Bankers Association, recently has proposed that four objectives be set up as a guide toward anti-inflation plans:

(1) That commodity and inventory loans to withhold essential goods in the hope of anticipation of price rise, should not be made.

(2) Mortgage loans for non-essential building which can be postponed until labor and supplies are available, should be discouraged.

(3) Banks should give priority to borrowers who can create products and services needed here and abroad now.

(4) Drive to sell Treasury savings bonds and to promote other forms of savings, should be intensified.

Then there are such other proposals involving an increase in the gold reserves, the convertibility of paper currency into gold, the increase of Federal Reserve requirements for member banks the changing of requirements on Veteran Loan financing, and FHA financing.

Steps Toward Deflation

The various proposed monetary and credit controls are in the direction of deflation, but are nullified to a certain extent by action on other fronts.

The Anti-Inflation Bill, or voluntary control bill, as I call it, signed by the President on Dec. 30, was just another weak evasive political move to do something, but not in any way whatsoever, to give positive results. A meeting of the steel industries was to be held on Jan. 8 to be attended by 17 executives who were going to discuss how to channel steel to essential uses, under the munificent blessing of the Attorney General's Department. Remembering how the OPA in its last days clearly indicated the difficulties of rationing, and remembering the old NRA days, one questions the value of the effort, but nevertheless, under that Bill, proposals will be made for various voluntary controls regarding essential material. Probably the biggest change will be in the method of allocating export licenses on the so-called list of 600 items which are considered in short supply.

Ask yourselves the question whether or not this so-called Anti-Inflation Bill really will do anything for you or for your company. Would it help those in your industry to get together and try to work out specific allocations for essential users? Who is to determine what an essential user is, and how much he needs. I think competitive pressures will be the deciding factor and not controls. One point with which we should be concerned here today is whether or not these proposals may lead to others more far reaching and involving rigid controls of the police state type.

Industrial Profits

You of course, are all familiar with the way government authorities are screaming about industrial profits, and yet industry does not have enough cash for reinvestment in facilities and adequate working capital in relation to sales and potential apparent capital requirements. It is entirely conceivable that if the proposed credit controls were to be rigidly interpreted, industry would slow down, deflation would set in, and the controls reversed. It therefore, would appear not likely that these controls will be rigidly enforced, especially in an election year.

Everyone wants the deflation to come on somebody else but themselves. If the government really meant what it said, it should abandon food price controls, allow interest rates to seek their own levels, and resist spiraling wage increases, reduce taxes and government costs, and attempt to force more government bonds out of banks into individual hands.

While present commodity, allocation, and rent controls influence a tremendous sector of our economy, they are in existence and most proposals are for abandonment in whole or part. The price support program is on the books until the end of 1948, and because of the farm bloc it is inconceivable that farm prices would be allowed to find their free market levels. Just consider the 1947 bumper potato crop, part of which government agencies bought and then either gave away or sold to industry for a few cents a bushel, while at retail levels the price was $3.00 per bushel. To what degree the supports are changed so will inventory problems develop in many industries, and in turn the overall financial policies will consider these possibilities.

What national, state or local governments may do with rent controls is illustrated to an extreme in France where World War I controls are still in effect. Too many voters are benefited by rent controls. The conclusion is obvious.

At a Critical Point

We are at a critical point and time is running out. The financial policies of corporations must give weight to probable ineffectiveness of many of the proposed controls which have been mentioned, and the longer trends indicate more rigid control. If the Federal Reserve were to get the controls it wants, financing will be more costly and difficult. This forces the development of a financial policy which should involve immediate action to get one's financial house in top flight order, and a well balanced capital structure to meet the requirements of a particular company as far as can be foreseen. The Dow-Jones Industrial Averages are at around 180 level, which is certainly not a low level, and interest rates on high-grade long-term corporate bonds are at around a 3% level, which is certainly not high. If financing is required let it be done now even though the cost may be higher than a year or two ago.

With reference to investment policies, on an individual basis controls, or lack of controls, will contribute to the degree of inflation or deflation, and in turn decide the amounts of so-called "hedge" assets which should be held. With the channeling of the world into two orbits, namely, the Russian and the United States, and with one completely controlled, the other I believe of necessity in order to compete, will tend toward more controls. If inflation continues, more controls certainly will be adopted. If the bubble bursts, then more controls will come to cure the depression. No matter what we do and how much we dislike controls, we won't lose them. From an investment point of view controls tend to limit profits, and therefore, in turn, the outlook for common stocks becomes uncertain. Since one must come to a positive decision, and since no one can say exactly what is going to happen, the individual investment policy should on the average, consist of a middle-ground course, balanced between high-grade bonds and common stocks whose companies which you best believe, can adjust to either inflation or deflation.

Halsey Stuart Group Offers New Haven Eqps.

A group headed by Halsey, Stuart & Co., Inc. won the award Jan. 28 of $6,480,000 New York, New Haven & Hartford 2⅝% equipment trust certificates, maturing $432,000 annually Feb. 1, 1949 to 1963, inclusive. The certificates, issued under the Philadelphia plan, were immediately re-offered by the group, subject to Interstate Commerce Commission authorization, at prices to yield from $1.50% to 2.95%, according to maturity.

Proceeds of the issue will be used to provide for not more than 75% of the cost, estimated at $8,640,000, of the following new standard-guage railroad equipment: 30 all-steel streamlined passenger coaches; 25 all-steel streamlined parlor-chair cars; 20 all-steel streamlined baggage-parlor-lounge cars; 5 parlor-lounge cars; and 10 all-steel streamlined grill cars.

John H. Kasbeer Joins Staff Of Graham, Parsons & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John H. Kasbeer has become associated with Graham, Parsons & Co., 135 South La Salle Street. He was formerly with Kidder, Peabody & Co. and C. F. Childs & Co.

With Illinois Company

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John S. Loomis, Jr., has become associated with the Illinois Company, 231 South La Salle Street, members of the Chicago Stock Exchange. He was previously with Julien Collins & Co.

With William Blair & Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Bowen Blair is now affiliated with William Blair & Co., 135 South La Salle Street, members of the New York and Chicago Stock Exchanges.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

The raising of reserve requirements of member banks in New York City and Chicago to 22% on Feb. 27 is another move by the monetary authorities to restrict the credit base and to combat the forces of inflation. . . . Unless there is a change in the course of loans after this increase, requirements will no doubt be lifted to the legal limit of 26%. . . . The monetary authorities are using up the powers they have at their disposal to curb further expansion of bank credit, and with the exhaustion of these restraints, there is likely to be greater pressure for new ones, such as "Special Reserves" unless the action taken is effective. . . .

REACTION

Upping of reserve requirements in the Central Reserve cities brought in liquidation of Treasury securities with the intermediates and longs again being disposed of in sizable amounts by the member banks in these cities in order to meet the higher requirements. . . . Some shorts were also let out by these institutions. . . . Another element of uncertainty has been tossed into the money markets in the raising of reserve requirements in New York City and Chicago. . . . Although this action was not unexpected, it was not looked for at this time. . . .

The large banks are feeling some effects from the recent credit limiting action, with the smaller institutions not directly involved yet aside from the psychological influence. . . . This could, however, result in the pulling of some funds out of the large money centers by the out-of-town institutions for protective purposes. . . .

WAIT AND SEE

Raising of reserve requirements to 26% in Central Reserve cities, which is the present limit, would mean that this particular control has been used up entirely. . . . The increase in the rediscount rate to 1¼% was taken in order to help tighten the credit base. . . . If loans should continue to expand after these measures, because the banks sell governments to get the necessary reserves to carry on their lending, then the monetary authorities should be in a better position to ask for new powers to stem the inflationary monetary forces. . . . It will be interesting to see whether the Congress will grant new controls as an alternative to letting prices of long governments seek levels that would make borrowing so expensive that it would have to slow down. . . .

PARADOX

The mental make-up of the financial community seems to be more confused now than ever; with jitters running rampant through both the government bond market and the equity market. . . . The declining trend that has been in evidence in both of these markets seems to be a bit contradictory, to say the least. . . . A receding stock market would seem to indicate a down-trend in business which would ordinarily mean less demand for bank loans and other borrowings. . . . A topping out of the inflationary forces, with not so much pressure on the money markets, should be favorable to the government bond market. . . .

Some believe that continued weakness in the equity market might be the tip-off that long Treasuries are on the bargain counter. . . .

SMALL BANKS

Selling by insurance companies of government bonds has been the most important source of pressure on the government market (until the announcement of the increase in reserve requirements in New York City and Chicago brought in bank liquidation) since these institutions continue to shift into higher yielding loans and non-Treasury securities. . . . Some liquidation of longs is being done by out-of-town banks, with the proceeds going principally into certificates. . . .

This shortening of maturities is taking place, partly as a hedge against future uncertainties and partly to offset the increase in risk assets. . . . Also these smaller commercial banks, which are largely savings banks, seem to feel that the examining authorities are going to take a longer look and do much more talking about the quality of assets as well as the ratio of capital and surplus to risk assets, in future examinations. . . . The loan picture, especially mortgage borrowings, is likely to be in for considerable discussion. . . .

Accordingly, these institutions are shifting into shorts in order to be prepared for anything that might happen. . . .

MORE PRESSURE

Continued pressure will be exerted by the authorities in the money markets, at least until the end of March, and it is believed that these developments should have important effects upon the trend of bank loans. . . . Although it is not expected that it will be any hammer-and-tongs affair, because of the political factor, it should be sufficiently forceful to have a limiting influence upon the money markets. . . . While the initiative for creating reserve balances still lies with the member banks, the authorities have some powers left that could still be used to offset a movement to build up reserves that might be used for inflationary purposes. . . .

Treasury deposits with Federal increased $449,000,000 last week, reflecting in some measure the transfer of income tax payments from the commercial banks to the Central Banks. . . . This account is being watched closely by money market followers for clues as to future action of the authorities in their policy toward the money markets. . . . The building up of Treasury balances at Federal would have a tightening effect upon the credit base because it reduces reserve balances of the member banks. . . .

BUYING

Although the partially-exempt bonds are considered vulnerable by many investors because of the premiums involved and their unprotected position, compared with the supported taxable issues, the tax-free yield is so much more attractive than that available in comparable maturities of the taxables, that there have been selective purchases of the exempts by the larger commercial banks. . . .

Buying has not been vigorous, but it is of the type which indicates that the securities bought have been taken out of the market for some time to come. . . . Despite the limited amount of partially-exempts outstanding, practically all purchases have been made at prices well below quoted markets.

Government Bonds Support Vital!

(Continued from first page)

a tendency which arose partly from an excess of funds seeking investment and partly from the playing of the "pattern of rates" by banks and others. In July 1947 we began, in cooperation with the Treasury, to take steps to narrow the spread between the yields on short and long-term government securities so as to reduce the incentive and the tendency of banks to stretch for the higher yields carried by the longer maturities, a tendency which contributed to an undesired growth in the volume of bank credit. In this we were successful.

Later in the year there was a more important change in the demand-supply situation in the investment market. On this development I can do no better than to quote from the last issue of our "Monthly Review of Business and Credit Conditions."

"An increase in the possible alternative uses of funds by nonbank investors, pressure on the reserve position of the commercial banks, and uncertainty about the future course of interest rates, led to a change in the character of the government bond market (and of other security markets) during October which was accentuated in November and continued in December. Whereas during the earlier months of the year the pressure of buying tended to advance prices, and almost $1.8 billion of government bonds were sold to the market from Treasury investment accounts, in addition to about $900 millions of a special offering of long-term bonds which was made available primarily to investing institutions, there now appeared an excess of selling orders which moved prices downward. The likelihood of a continued heavy demand upon the savings institutions of the country, by business and mortgage borrowers, gave support to this trend. At the same time both the power of the commercial banks to help meet this demand, and the desirability of their doing so, were brought into question by the emphasis on the inflationary problem in the President's message to the advanced session of Congress. Subsequent discussion of possible anti-inflationary measures in the field of credit policy and debt management gave the market reason to believe that the large Treasury surplus in prospect during the first months of 1948 would be used in considerable part to retire government obligations held by the Federal Reserve banks, and that commercial banks would be under continuing pressure to sell government securities (or to sell other securities or reduce loans) in order to maintain their reserve positions. The Federal Reserve banks began, in the week ended Nov. 19, to give such support to the government security market as was required to maintain orderly markets in medium and longer term Treasury bonds at about the price levels then prevailing. Reserve Bank purchases were supplemented by purchases for Treasury investment accounts.

"With the prospect of continued need for Reserve Bank purchases of government securities—a need which had to be compromised with restraint on further expansion of bank credit—and in the light of the fact that maintenance of premium prices (rather substantial premiums for some issues) appeared to be encouraging profit-taking sales by some investors, a reconsideration of the prices at which Treasury bonds would be purchased by the Federal Reserve banks was required. On Dec. 24, after the completion of the Treasury's (then) current refunding operations, the support levels were lowered—in most cases to prices slightly above par for medium and long-term, fully taxable Treasury bonds. The fixing of premiums for special features of particular issues, such as partially tax-exempt issues, was left for determination by the market. At the same time, the market was given clearly to understand that the abrupt change in prices did not represent a step in a retreat from a policy of supporting the Treasury bond market, but had been decided upon in lieu of a gradual recession in support prices over an extended period. By word and action it was also made clear that whereas previously the Reserve System had been a reluctant buyer, it would now buy Treasury bonds aggressively, at the new price levels, in such amounts as might be necessary to clear the market."

Federal Reserve Large Bond Buyers

Since that time that is what we have been doing. The most recent published figures show that since Dec. 24 System purchases of Treasury bonds have totaled 2,022,000,000. During the same period, however, net sales and redemption of short-term securities (principally Treasury bills and certificates) have been $2,382,000,000. Consequently, our total portfolio of government securities has been reduced from $21,900,000,000 to $21,540,000,000. I would like to emphasize those figures. Our support of the government bond market, thus far, has not reduced our supply of ammunition—we have more than when we started. And, if all goes well, and if a substantial surplus of Treasury receipts over Treasury expenditures is assured by fiscal policy, we can continue to sell and redeem government securities as well as to buy them, and we shall continue to place restraint upon the expansion of bank credit, while continuing to maintain orderly conditions in the government securities market.

That is the so-called modest program which we have been following for the past year, and it has had a moderate success. Perhaps the most important figure from the standpoint of inflationary pressures is how much money (currency and demand deposits other than government and interbank deposits and cash in bank vaults) belonging to the public has increased. During 1947 this sum rose from $110 billion to roughly $113 billion (estimated). Although the large money supply resulting from the necessities of war financing was already redundant, so that ideally there should have been no increase at all, it seems to me that the small increase indicated by these figures, as well as the slight rise in velocity of use of money which appears to have taken place, was not the major factor in the inflationary developments of the year. Further inflationary pressures were more largely the result, I think, of distortions in relative prices, and jerky adjustments to them, throughout the economy. With respect to interest rates, three-months Treasury bills which were at ⅜th of 1% now earn nearly 1%, one-year Treasury Certificates of Indebtedness are issued at 1⅛% instead of ⅞%, long-term restricted (not eligible for bank investment) Treasury bonds yield 2.48 instead of 2.33 (and a low of 2.12% in 1946), present rates on other government securities have risen at least proportionately, rates on State and municipal securities and on corporate securities have risen substantially, and bank lending rates are up somewhat.

Federal Reserve Credit

The amount of Federal Reserve credit in use, which determines whether we have added to or subtracted from bank reserves, declined from $24,375,000,000 at the beginning of 1947 (Jan. 8) to $22,320,000,000 at the beginning of 1948 (Jan. 7). Since we began giving support to the long-term government security market in November 1947, an operation which coincided with the most recent period of heightened interest in inflation, and which has drawn critical comment from some bankers (not every banker by any means), we have actually shown a net reduction of $464,000,000 in our total holdings of government securities (we sold or redeemed more short-term securities than we bought long-term) and the total amount of all Federal Reserve credit outstanding has changed from $22,689,000,000 on Nov. 12 to $22,227,000,000 on Jan. 21. In other words, we have been taking funds out of the market and exerting a restraining pressure on the banking system. This has been possible because of a coordinated credit and debt management policy designed for this purpose. In my opinion, we are doing as much as a delicate situation will allow toward imposing reserve pressures. It seems to me that we should have the greatest chance of success if we are able to continue this program, and that it is much more important, therefore, that there continue to be a substantial amount of Treasury funds available to retire Federal Reserve held debt than that we take all-out monetary action—aggressively raising discount rates and selling government securities.

I would agree that by exerting aggressive pressure on bank reserves we could set in motion forces which would reverse the trend of prices. Experience suggests that if we chop into this situation with a meat axe we could also start a depression, and this despite the existence of what appears to be an almost insatiable domestic and foreign demand for our products. To use our existing powers, as some critics have implied we should use them, would mean that our action would have to be drastic enough to lower the money income of a large segment of the consuming public. To accomplish this by over-all monetary or credit action would mean a serious decline in production and employment. Otherwise the policy, by hypothesis, fails or else our present modest program stands approved. It seems to me, therefore, that our critics are chiding us for not having used powers, which we would be foolish to use—which are not really available to us in the present state of domestic and international affairs, and in the face of a Federal debt exceeding $250 billion and interwoven into our whole economy.

Price-Support and Deflation

This latter point suggests a subsidiary question which I know is in the minds of some bankers. Why should we support the government security market, and to that extent circumscribe our powers and our actions to control the volume of credit? To me it is not primarily a question of cheap money or low interest rates so far as the government debt is concerned, although it is sobering to calculate how big an increase in the cost of servicing the debt would be involved if short-term interest rates rose, say, to 2 or 3% (a not impossible level if an aggressive credit contraction policy were pursued). It is primarily a question of what good can be accomplished in the present situation by a vigorous, aggressive policy of over-all credit contraction and what are the risks. Our critics say that if a drastic fall in market values of government securities is the price we must pay to bring about deflation now, and prevent a worse "bust" later, we should pay it. I say we can't bring about deflation by general credit action, in this situation, unless we bring about such an indiscriminate reduction in consumers' disposable income as to threaten the kind of disaster we are trying to avoid. To illustrate, the food situation is near the root of much of our present troubles and continued high or rising prices for food makes much more likely another round of wage increases and so on. But how can we expect a reduction in the aggregate demand for food (or other scarce materials) to follow a policy of allowing government security prices to seek their own level—or forcing them down by System sales to contract credit—unless the policy were so vigorous as to reduce substantially production and employment and, therefore, consumers' disposable income.

We are all a little enchanted, of course, with the idea of a modest downturn which would relieve some existing pressures and forestall worse disturbance later. But no one has yet found a sure way of bringing about just a little depression. I think our present program of modest restraints involving a combination of debt management and credit policy is the best course to follow in trying to achieve our objective, which is to prevent bank credit from adding further to inflationary pressures and, if possible, to reduce somewhat the supply of money.

It might still be argued, I suppose, that abandoning our support of the government security market could be encompassed within our modest program and that only moderate declines in security prices would occur, that government securities would reach a "natural" level, and that everything would then be much better. With markets as delicately balanced as our contacts and experience indicate the present markets to be, I cannot agree with this opinion or judgment. Without our support, under present conditions, almost any sale of government bonds undertaken for whatever purpose (laudable or otherwise) would be likely to find an almost "bottomless market" on the first day support was withdrawn. A rapid descent in prices going far beyond any question of the government's credit (which is high) or relative interest rates would be most likely. Uncertainty would almost surely persist for a considerable time after such a development, the government's necessary refunding operations would be made very difficult, and private security markets would be seriously affected. In such circumstances, there could easily be a flight of "cash" out of both markets, and price changes so erratic as to make new financing almost impossible for some time, with what ramifications I do not like to contemplate. In the face of a Federal debt of over $250 billion, in all sorts of forms held by all sorts of holders, and with a high consumption high employment economy, in which there are already severe stresses and strains, we can't treat the government security market as we might a $50 million issue of the XYZ corporation. I am not a believer in more and more government controls, certainly, but this is one control which I would not want to try to let go, voluntarily, under present circumstances.

"Special Reserve" Plan

One possible further means of dealing with the situation by credit measures has been suggested by the Board of Governors of the Federal Reserve System—the so-called special reserve plan. I have summarized my own reasons for opposing this plan in testimony before the Senate Banking and Currency Committee on December 8, and wish only to call your attention again to the broad implications for System policy contained in that criticism. The special reserve plan would authorize a required reserve for all banks, in addition to the reserve balances now required or which can be required, and this additional or special reserve could be made up of short-term government securities. In essence this might be said to be a method of increasing reserve requirements of banks without reducing their earning assets, as would be the case if authority were given to increase primary reserve requirements beyond the presently authorized levels, and no other change was made in our existing reserve arrangements. (The Board of Governors of the Federal Reserve System is now authorized to fix reserve requirements of 14% against demand deposits of "country" banks, 20% at reserve city banks, and 26% at central reserve city banks. As you know the Board of Governors has just announced an increase of 2% in reserve requirements of central reserve city banks, which will make that figure 22% effective Feb. 27, 1948.) In the long view, it may well be that authority further to increase reserve requirements of the commercial banks of the country would be a progressive step in our montary-banking organization, especially if there should continue to be a persistent and substantial inflow of gold. With a modern central banking system operating in a highly developed deposit banking system, and with a decreasing reliance upon gold, much of the need for low reserve requirements and consequent economizing in the provision of money by commercial banks has disappeared. In these circumstances there may well be a balance of advantage in higher reserve requirements, as a means of reducing the dangerous expansibility and, at times, destructive contractability of a money supply based on low reserve ratios of commercial banks. There may be too great an element of leverage in our present system to be left at the disposal of 14,000 banks. If and when such a change is made, however, it should be as part of a revamping of our whole outmoded reserve pattern, which is based too much on geography and too little on existing banking facts. It is time to give serious consideration to a system of reserves related to the character of deposits rather than their location.

But as a method of meeting the present situation and getting us off the horns of the dilemma where we are now perched, not too comfortably, I doubt that further authority to increase reserve requirements of the banks of the country, either primary or special is the answer. Any effective rise in primary reserve requirements would have to result in the sale of government securities by virtually all banks. Any effective imposition of the special reserve requirement would result in the sale of government securities, presumably bonds, by a substantial number of banks. Other sales by frightened nonbank holders might be expected to follow, in addition to the sales by nonbank holders which are already in prospect. It should now be obvious, if it was not five weeks ago, that the market would not absorb such unloading and the Federal Reserve Bank would have to take even more vigorous support measures. It is quite possible, in these circumstances, that more credit would have to be put out than could be locked up by the new requirements. The result would be a further random distribution of Federal Reserve credit at a time when new measures were being taken to tighten reserves.

And when it was all over, would the System have returned to its prewar position; a position in which it was relatively free to pursue aggressive open market operations, and to raise or lower the discount rate by whatever amount seemed warranted by monetary conditions? I think not. The wartime creation of a public debt equal to more than half of all of the indebtedness of the nation makes that impossible. We have a responsibility for maintaining general stability in the market for government securities which cannot be shirked. Probably no easy way will ever be found to relieve the System of this responsibility. Certainly transposing part of the debt into permanent bank reserves does not mean that price and yield fluctuations of the remainder of the debt can be ignored. And if we accept that responsibility, then, under present inflationary conditions, we shall not gain much in terms of our ability to restrain credit expansion by increasing reserve requirements. Most of the banks would still have government securities of some kind which they could sell, and which we would have to buy, if they wished to expand their loans. It may well be that either pressure to maintain secondary reserves, in case of an increase in primary reserve requirements, or a law in case of the imposition of the special reserve requirement, would restrain banks from selling short-term government securities. But they would not be stopped from selling intermediate and long-term securities in order to provide funds for "deserving" borrowers. Such sales would take place if the bank's loss of yield and premium on the security sold was sufficiently less than the interest to be earned on the new loan. The yield sacrifice involved in making new loans might be increased by forcing banks to sell long-term rather than short-term securities and, to whatever extent the interest rate rations lending, some borrowers would thereby be cut off. But a rise in interest rates to the extent necessary to have an appreciable effect on borrowers would threaten the entire structure of interest rates and government security prices and could not be countenanced. After all the turmoil and the risks of imposing new reserve requirements, and barring accidental and capricious effects, we should be about back where we started—still dependent upon the moderate use of our present powers, and of the powers of debt management, to achieve the results we desire.

F. R. Can Do Good Job With Present Powers

I should rather concentrate attention on doing a good job with our present powers, than on trying to get a ticket from Congress for a ride on what seems to me to be a merry-go-round. And I should hope that the campaign for sanity and soundness in lending which is being launched by the American Bankers Association would bring strongly to our support the whole banking community. There I must introduce a slightly sour note, however, if I am to be wholly frank. That campaign will be no more successful than other similar campaigns for voluntary restraint, if the final determinant of a banker's policy is to be what the bank or the insurance company down the street will do. This is a time for some leadership in banking, not for following the practices of those of your competitors who are least conscious of their responsibility for the general credit structure and of the risks to their individual institutions which are inherent in the present inflationary situation. Yet many a good resolution has been broken when the alternative seemed to be the loss of a customer.

Bank loans which enable inefficient producers to pay high prices and divert materials from more efficient producers, and bank loans which enable producers or distributors to withhold goods from the market in anticipation of further price increases are not "good" loans today. And bank loans or any other loans for capital purposes, which are not urgently needed and which do not promise a quick and substantial increase in production have no place in the present situation. And that applies to insurance companies and savings banks, which cannot meet the demands upon them out of current income or current deposits, and maturities, as well as to commercial banks. An insurance company or a savings bank which, in order to make non-essential loans, sells Government bonds at the present time, when the Federal Reserve Banks are the principal buyers, is contributing just as much to inflationary pressures as a commercial bank which expands its loans unwisely.

Question of F. R. Bank Reserves

And now, having spent a good deal of time on the question of reserves of member banks, I should like to refer, briefly, to a proposal which popped up toward the close of the advance session of the present Congress, to increase the reserve requirements of the Federal Reserve Banks. As the law stands at present, and has stood since it was amended in 1945, the Federal Reserve Banks are required to maintain a reserve in gold (gold certificates) equal to 25% of their note circulation and deposits. The proposal recently made was that this requirement should be increased — that the previously existing requirements of a 35% reserve against deposits and a 40% reserve against notes should be restored.

In some way this was tied to an anti-inflation measure, but the knot must have been a "granny" because it was a pretty loose tie. An increase in the reserve requirements of commercial banks of the country could have some immediate anti-inflationary effect, although I have pointed out why I don't think we should try to get further authority to go down that road now. An increase in the reserve requirements of the Federal Reserve Banks would have no immediate anti-inflationary effect. At some remote future time it might interfere with the further expansion of credit by the Reserve Banks but right now they are not trying to expand credit, and if they were a 35-40% reserve requirement would not stop them.

Such a proposal might, of course, have arisen out of the fundamentalist thinking of those who believe that any "strengthening of the gold base" is a desirable check on inflationary developments. I am not going to enter into the area of religious belief and religious disputation. In the area of economics and public policy I can discern, rather dimly, three arguments which might be made for this proposal, none of which, however, has anything to do with the immediate inflationary problem.

First, there is the argument that the reserve requirements of the Federal Reserve Banks were lowered during the war to meet an emergency situation, and should be returned to their former level now that the war is over. Second, there is the argument that somehow, some way, increasing the reserve requirements of the Federal Reserve Banks would sterilize the current gold inflow. Third, there is the sort of catch-all argument that an increase in the reserve requirements of the Federal Reserve Banks, would put desirable restraints on the central bankers, give earlier public warning of critical conditions in our banking system, and bring the whole subject before Congress for review.

On the first argument, aside from pointing out the futility of a different reserve requirement for notes and deposits, in a country with a highly developed deposit banking system in which notes and deposits are completely interchangeable, I can do no better than to quote from a speech made by Senator Taft at the time the present reduced reserve requirement for Federal Reserve Banks was adopted by the Congress in 1945. He said when the bill was before the Senate in April of that year, "I cannot understand why a 25% gold reserve requirement is not a sufficient one for the currency of our country. I think 25% as a gold reserve is adequate. I cannot conceive that gold would be demanded in anything like the amount of 25%. If there were any such tremendous rush it would swamp 40% just as much as it would swamp 25%. I do not see the necessity for a 40% reserve. But I do see great danger involved in constantly agitating as to what the reserve should be." That was good advice when Senator Taft gave it, and it is good advice now. Our people are not afraid of the dollar; they are gravely concerned about rising prices, but they are not rushing to get out of currency into things, as people do when there is a real run-away inflation; and those who risk creating such fears about our currency, no matter how devious the approach, are performing a real disservice.

I might add to this general argument a more specific one. The reduction in reserve requirements of the Federal Reserve Banks was made late in the war as a necessary adjustment to fundamental changes which had taken place and still were taking place in our banking system. The reserve requirement was lowered in order to provide the monetary authorities with sufficient excess reserves to meet any emergency which might develop. I can see no institutional or conventional reason for restoring the reserve requirement to what it was before the war, so long as we cannot happily make a similar adjustment in the public debt and in the assets and liabilities of the banking system. The action taken in 1945 was not solely an emergency action, but if it had been the emergency it was designed to meet is still with us.

No Need of Gold Sterilization

Little time need be spent on the second argument that increasing the reserve requirements of the Reserve Banks would sterilize the current gold inflow. This is really just another way of saying that the Federal Reserve banks now have too much excess reserve, and it follows by definition that any increase in the reserve requirement will reduce the amount of those excess reserves. This is not sterilization, however, since nothing is done about member bank reserves, and it is at that level that the problem currently arises. When gold is imported into this country (and is not placed under earmark for some foreign owner), it is sold to the United States Treasury at $35 per fine ounce, and the dollar proceeds are paid over to the seller from the Treasury's account in the Federal Reserve Bank. The spending of the proceeds puts new reserves, as well as deposits, into the commercial banks, and enables the banks to expand their loans and investments by several times the amount of the reserves created for them by the gold inflow. This is the level at which gold imports need to be sterilized under present inflationary conditions, and fortunately we have the means of doing so. So long as the Treasury has a surplus in its cash revenues, and so long as it uses a considerable part of these surpluses to retire government securities held by the Federal Reserve banks, it 's effectively offsetting the effect of gold imports on the reserve position of the commercial banks. That is what we have been doing to "sterilize" gold imports and, while the inflow of gold is not likely to be so large this year as last, we should continue to keep our fiscal house in order, so that wise debt management will enable us to prevent gold imports from adding to inflationary pressures.

Finally, there is the general argument about tightening up the brakes on our monetary machine. It has a reassuring sound, but it may be a dangerous adjustment. Historically, the chief reason for the suspension of the Bank Act in England was the high fixed gold reserve requirement of the British currency system, and in our own country we established the Federal Reserve System, because we found that when we tried to jam on tight brakes we usually had a money panic.

Theoretically reserve requirements for Federal Reserve banks are unnecessary, but I am not arguing that they are not required by public opinion, and as a broad guide to policy and to necessary changes in our banking system which may require review by the Congress. Granting that Reserve banks should be subject to reserve requirements, however, they should always be permitted to have a wide margin of excess reserves. To be of real service in time of need Reserve banks must be prepared to face the situation as they find it, to maintain broad contacts with the commercial banking system, and to extend accommodation on any sound asset. It is essential that the public have confidence in its ability to obtain money when needed. While the Reserve banks should be in a position to impose restrictions and restraints on monetary and credit expansion, they should not be compelled to refuse demands, by automatic and inflexible mechanical brakes on their powers.

This theory has a particular application in present circumstances, and I am not sure that it was not in the minds of some of those who may have suggested an increase in the reserve requirements of Federal Reserve banks or who applauded the suggestion when it appeared in Congress. We in the Federal Reserve System are presently committed to the policy of maintaining orderly conditions in the government security market and right now that means supporting the government bond market. So long as potential Federal Reserve credit is so large that no one ever stops to think of measuring it, panic swings in prices can be avoided and basic changes in the level and structure of rates can be worked out in an environment of uncertainty without fear. Make our supply of ammunition look scanty, by reducing our excess reserves, and you jeopardize the whole undertaking. If the Congress believes that the Federal Reserve System is pursuing a wrong policy, or is not to be trusted with the weapons of policy, there are more direct and effective ways of dealing with the situation than this proposal to increase the reserve requirements of the Federal Reserve banks. If the proposal has been asleep I hope I haven't awakened it; if it is dead I have no wish to revive it.

Conclusion

If all of these remarks can be marshalled in support of one thesis, it is that general quantitative credit controls are not the whole nor even the main answer to the creeping, jumping price rise which has characterized the kind of inflation we are having. We cannot move forward, without serious interruption, toward our major objectives of increased production and continued high employment at home and without interference with our political and economic aims abroad, if we are going to induce a substantial decline in the purchasing power of a large section of the consuming public, by the drastic use of indiscriminate overall credit controls. We can restrain or prevent further increases in the supply of credit, if we have the cooperation of the commercial banks, and we may be able to reduce, somewhat, the amount now outstanding, by a wise combination of debt management and credit policy. This in turn, will depend upon a fiscal policy which assures a substantial surplus of Treasury cash revenues so long as present inflationary pressures persist. Beyond that we shall have to devise more specific remedies, whether it be in the realm of food supply and food prices, or of wages, or of consumer credit, or of mortgage lending, or wherever the particular bottlenecks and the specific inflationary pressures are. Nor do I dismiss increased production of goods and services so easily as it has lately become the fashion to do. To be sure, with our economy running in high gear and with full employment, there does not appear to be much room to expand production quickly. But who is to say that with new and better plant and equipment coming into use, with more alert management, and with greater output per man-hour on the part of labor, we could not perform another miracle of production. Certainly that is what our own situation demands and what the world needs.

Observations

(Continued from page 5)

apparent refusal to rise, which is so condemned, may now actually be constituting behavior which is unprecedentedly logical and sound from a genuine investment point of view.

Specifically, it may possibly be reflecting intelligence in refusing to capitalize 1947-48 earnings for the long-term future. Perhaps it is looking back at prewar profits and assuming that future earnings will average somewhere between the prewar and the postwar boom levels.

"The market" might be realizing that earnings on the stocks comprising the Dow-Jones industrial average during the 4 years 1936-39 averaged about $9 per share. The 1947 earnings on these issues are estimated at about $18 per share, so a splitting of the difference between the two periods would give us $13½ per share as our future earnings' average. Such average profits of $13½ a share on the recent year-end closing price of 180 show an earnings yield of 7½%; from which an actual dividend return of around 5% could be expected.

Such calculation of future long-term yield based on reasonably-expected earnings, related to the present market price, seems at least to be a realistic and logical way of evaluating market levels—in lieu of the frequent practice of getting off on the tangent of complicated comparisons of present with past price-earnings ratios which were themselves anticipatory.

Of course my assumption of the median between the prewar and 1947 profits as the basis for investment evaluation may turn out to have been grossly incorrect. But it seems to me that it is fully as justified as presuming to assume as permanent the 1947 profits which were double those of prewar. And if, apart from other factors which may properly be conducive to a lower market level (some of which I believe are now popularly exaggerated), investors are looking at such long-term earnings prospects rather than those of the moment, I suspect that quite possibly there may actually be nothing whatever "the matter with the market."

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)	Feb. 2	95.2	96.1	96.4	93.6
Equivalent to—					
Steel ingots and castings produced (net tons)	Feb. 2	1,716,000	1,732,200	1,686,900	1,637,300
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Jan. 17	5,326,137	5,313,137	5,284,489	4,623,950
Crude runs to stills—daily average (bbls.)	Jan. 17	5,344,000	5,289,000	5,246,000	4,711,000
Gasoline output (bbls.)	Jan. 17	16,236,000	16,289,000	16,006,000	14,434,000
Kerosine output (bbls.)	Jan. 17	2,489,000	2,290,000	2,291,000	2,326,000
Gas oil and distillate fuel oil output (bbls.)	Jan. 17	7,496,000	7,471,000	6,520,000	5,271,000
Residual fuel oil output (bbls.)	Jan. 17	8,880,000	8,776,000	8,643,000	8,176,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 17	98,751,000	96,698,000	87,056,000	96,354,000
Kerosine (bbls.) at	Jan. 17	12,975,000	14,536,000	16,866,000	15,723,000
Gas oil and distillate fuel oil (bbls.) at	Jan. 17	44,482,000	46,785,000	51,502,000	53,293,000
Residual fuel oil (bbls.) at	Jan. 17	51,601,000	51,935,000	52,113,000	49,846,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 17	811,286	831,447	832,130	828,060
Revenue freight rec'd from connections (number of cars)	Jan. 17	690,251	675,434	722,498	705,350
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Jan. 22	$118,949,000	$83,284,000	$63,608,000	$73,874,000
Private construction	Jan. 22	67,823,000	32,201,000	36,231,000	50,083,000
Public construction	Jan. 22	51,126,000	51,083,000	27,377,000	23,791,000
State and municipal	Jan. 22	40,171,000	32,615,000	18,837,000	22,522,000
Federal	Jan. 22	10,955,000	18,468,000	8,540,000	1,269,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 17	13,030,000	*13,800,000	13,180,000	13,270,000
Pennsylvania anthracite (tons)	Jan. 17	1,210,000	1,100,000	1,218,000	1,166,000
Beehive coke (tons)	Jan. 17	140,300	*139,300	142,800	124,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 17	233	251	576	223
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 24	5,436,430	5,370,112	4,829,579	4,856,404
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Jan. 22	109	61	38	52
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 20	3.18935c	3.18925c	3.18925c	2.87255c
Pig iron (per gross ton)	Jan. 20	$40.08	$40.08	$37.06	$30.14
Scrap steel (per gross ton)	Jan. 20	$41.83	$40.58	$39.75	$31.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 21	21.200c	21.200c	21.200c	19.225c
Export refinery at	Jan. 21	21.425c	21.550c	21.425c	20.025c
Straits tin (New York) at	Jan. 21	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Jan. 21	15.000c	15.000c	15.000c	13.000c
Lead (St. Louis) at	Jan. 21	14.800c	14.800c	14.800c	12.800c
Zinc (East St. Louis) at	Jan. 21	10.500c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 27	100.69	100.69	100.69	104.47
Average corporate	Jan. 27	110.70	111.07	109.97	117.40
Aaa	Jan. 27	115.82	116.22	114.85	121.88
Aa	Jan. 27	114.27	114.27	113.50	120.22
A	Jan. 27	109.97	110.15	108.88	117.40
Baa	Jan. 27	103.64	103.97	103.30	110.88
Railroad Group	Jan. 27	105.34	105.34	104.48	113.31
Public Utilities Group	Jan. 27	112.56	112.75	112.00	118.60
Industrials Group	Jan. 27	114.85	115.24	113.89	120.63
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Jan. 27	2.45	2.45	2.45	2.20
Average corporate	Jan. 27	3.13	3.11	3.17	2.78
Aaa	Jan. 27	2.86	2.84	2.91	2.56
Aa	Jan. 27	2.94	2.94	2.98	2.64
A	Jan. 27	3.17	3.16	3.23	2.78
Baa	Jan. 27	3.53	3.51	3.55	3.12
Railroad Group	Jan. 27	3.43	3.43	3.48	2.99
Public Utilities Group	Jan. 27	3.03	3.02	3.06	2.72
Industrials Group	Jan. 27	2.91	2.89	2.96	2.62
MOODY'S COMMODITY INDEX	Jan. 27	444.4	449.5	460.5	378.7
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Jan. 24	239.2	244.6	238.4	214.0
Fats and oils	Jan. 24	282.0	300.5	272.7	266.3
Farm products	Jan. 24	274.4	279.9	279.9	226.1
Cotton	Jan. 24	330.2	337.8	336.3	294.6
Grains	Jan. 24	316.2	323.4	304.9	198.0
Livestock	Jan. 24	261.7	266.8	272.6	227.1
Fuels	Jan. 24	216.0	216.0	209.0	157.6
Miscellaneous commodities	Jan. 24	181.5	180.7	180.2	151.3
Textiles	Jan. 24	219.4	220.2	219.7	212.9
Metals	Jan. 24	161.5	161.3	160.4	142.3
Building materials	Jan. 24	233.5	233.2	236.3	212.9
Chemicals and drugs	Jan. 24	155.3	155.3	156.4	153.8
Fertilizer materials	Jan. 24	138.5	138.5	137.5	125.6
Fertilizers	Jan. 24	142.5	*142.5	141.8	133.6
Farm machinery	Jan. 24	134.5	134.5	134.5	124.3
All groups combined	Jan. 24	224.3	226.6	223.2	189.0
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 17	162,359	185,437	157,585	173 85
Production (tons)	Jan. 17	193,150	177,964	183,641	178,556
Percentage of activity	Jan. 17	104	99	100	103
Unfilled orders (tons) at	Jan. 17	431,880	459,989	416,851	577,269
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Jan. 23	150.6	151.2	149.9	151.1
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Jan. 17	165.5	164.5	162.5	140.8
Farm products	Jan. 17	201.5	197.0	196.9	166.0
Foods	Jan. 17	181.2	182.1	178.2	157.8
Hides and leather products	Jan. 17	201.4	200.3	204.4	171.7
Textile products	Jan. 17	145.7	145.8	146.9	135.7
Fuel and lighting materials	Jan. 17	130.0	130.0	126.2	98.3
Metal and metal products	Jan. 17	153.2	152.8	151.6	136.7
Building materials	Jan. 17	191.1	189.7	189.1	164.5
Chemicals and allied products	Jan. 17	140.8	139.0	132.9	127.1
Housefurnishings goods	Jan. 17	136.9	136.7	135.3	122.4
Miscellaneous commodities	Jan. 17	123.0	122.1	120.5	109.5
Special groups—					
Raw materials	Jan. 17	186.0	182.9	183.4	153.3
Semi-manufactured articles	Jan. 17	157.1	158.4	156.9	137.8
Manufactured products	Jan. 17	157.6	157.3	154.4	136.4
All commodities other than farm products	Jan. 17	157.5	157.3	154.9	135.3
All commodities other than farm products and foods	Jan. 17	147.4	146.9	145.4	126.6

*Revised figure.

	Latest Month	Previous Month	Year Ago
AMERICAN GAS ASSOCIATION—For Month of November:			
Total gas sales (M therms)	2,388,005	2,152,536	2,325,863
Natural gas sales (M therms)	2,088,959	1,897,564	2,045,677
Manufacturing gas sales (M therms)	189,777	165,782	176,073
Mixed gas sales (M therms)	109,269	85,190	104,113
AMERICAN IRON AND STEEL INSTITUTE:			
Steel ingots and steel for castings produced (net tons)—Month of December	7,369,596	*7,233,035	5,760,501
Shipments of steel products, including alloy and stainless (net tons)—Month of Nov.	5,216,990	5,681,597	5,404,493
AMERICAN PETROLEUM INSTITUTE—Month of October:			
Total domestic production (bbls. of 42 gallons each)	176,598,000	168,626,000	158,598,000
Domestic crude oil output (bbls.)	164,913,000	157,530,000	148,323,000
Natural gasoline output (bbls.)	11,635,000	11,046,000	10,125,000
Benzol output (bbls.)	50,000	50,000	150,000
Crude oil imports (bbls.)	7,761,000	8,658,000	7,001,000
Refined products imports (bbls.)	4,757,000	3,902,000	3,731,000
Indicated consumption—domestic and export (bbls.)	188,196,000	178,521,000	162,952,000
Increase—all stocks (bbls.)	920,000	2,665,000	6,373,000
AMERICAN TRUCKING ASSOCIATION—Month of November:			
Number of motor carriers reporting	234	234	234
Volume of freight transported (tons)	2,135,692	2,499,883	1,982,143
AMERICAN ZINC INSTITUTE, INC.—Month of December:			
Slab zinc smelter output, all grades (tons of 2,000 lbs.)	70,996	69,682	70,176
Shipments (tons of 2,000 lbs.)	72,151	79,789	90,204
Stock at end of period (tons)	68,011	69,166	175,800
Unfilled orders at end of period (tons)	59,705	43,250	58,057
COAL EXPORTS (BUREAU OF MINES)—Month of November:			
U. S. exports of Pennsylvania anthracite (net tons)	765,123	829,725	556,160
To North and Central America (net tons)	411,911	448,288	379,814
To South America (net tons)	200	1,219	------
To Europe (net tons)	353,012	370,172	176,346
To Asia (net tons)	------	10,044	------
To Africa (net tons)	------	2	------
COKE (BUREAU OF MINES)—Month of Nov.:			
Production (net tons)	6,194,857	*6,411,924	5,326,400
Oven coke (net tons)	5,650,266	5,797,269	4,954,300
Beehive coke (net tons)	544,591	*614,655	372,100
Oven coke stocks at end of month (net tons)	1,151,101	1,077,303	1,034,073
COMMERCIAL PAPER OUTSTANDING—FEDERAL RESERVE BANK OF NEW YORK— As of Dec. 31	$287,000,000	$287,000,000	$228,000,000
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE—U. S. DEPT. OF LABOR—Month of November:			
Earnings—			
All manufacturing	$51.02	*$50.98	------
Durable goods	54.70	*54.06	------
Non-durable goods	47.19	*47.17	------
Hours—			
All manufacturing	40.3	40.5	------
Durable goods	40.8	*40.9	------
Non-durable goods	39.8	*40.2	------
Hourly Earnings—			
All manufacturing	$1.266	$1.257	------
Durable goods	1.341	*1.337	------
Non-durable goods	1.185	*1.174	------
FAIRCHILD PUBLICATIONS RETAIL PRICE INDEX JAN. 2, 1931=100 (COPYRIGHTED) AS OF JAN. 2			
Composite index	138.7	137.8	131.9
Piece goods	140.5	138.7	139.0
Men's apparel	137.5	136.5	128.2
Women's apparel	134.1	132.9	128.4
Infants' & children's wear	128.4	128.1	120.6
Home furnishings	145.5	144.9	138.0
Piece goods—			
Silks	126.6	124.7	139.9
Woolens	135.5	135.3	135.1
Cotton wash goods	163.7	161.5	139.5
Domestics—			
Sheets	174.6	174.2	161.0
Blankets and comfortables	139.5	139.5	136.9
Women's apparel—			
Hosiery	106.8	106.8	116.8
Aprons and housedresses	146.1	145.3	138.4
Corsets and brassieres	132.9	132.6	128.0
Furs	154.1	152.2	149.8
Underwear	133.8	132.9	122.9
Shoes	136.5	133.7	124.7
Men's apparel—			
Hosiery	138.9	138.1	129.6
Underwear	148.3	146.4	133.7
Shirts and neckwear	130.6	130.0	125.3
Hats and caps	126.8	126.8	123.0
Clothing, including overalls	130.0	129.0	123.8
Shoes	164.3	163.2	141.5
Infants' and children's wear—			
Socks	130.2	129.8	121.5
Underwear	119.7	119.7	115.3
Shoes	142.6	141.7	132.7
Furniture	149.5	148.6	142.5
Floor coverings	151.0	149.4	143.3
Radios	123.8	125.0	120.6
Luggage	129.9	129.0	129.0
Electrical household appliances	137.5	137.3	127.5
China	131.4	131.3	124.0
NEW YORK STOCK EXCHANGE—As of Dec. 31 (000 omitted):			
Member firms carrying margin accounts—			
Total of customers' net debit balances	$577,877	*$592,890	$547,552
Credit extended to customers	60,997	75,989	74,769
Cash on hand and in banks in U. S.	400,702	400,007	401,984
Total of customers' free credit balances	613,121	*615,246	704,399
Market value of listed shares	68,312,500	67,026,355	68,594,912
Market value of listed bonds	136,206,807	137,509,338	140,792,541
Stock price index, 12-31-24=100	76.8%	75.8%	81.0%
Member borrowings on U. S. Govt. issues	$57,276	$98,752	$157,807
Member borrowings on other collateral	243,585	214,697	199,222
REAL ESTATE FINANCING IN NON-FARM AREAS OF U. S.—HOME LOAN BANK BOARD—Month of November (000 omitted):			
Savings and Loan Associations	$295,256	$339,991	$266,108
Insurance companies	71,029	85,354	42,979
Banks and Trust Companies	238,334	276,103	236,588
Mutual Savings Banks	55,111	62,682	49,334
Individuals	164,973	185,221	163,866
Miscellaneous lending institutions	129,866	153,679	116,614
Total	$954,569	$1,103,030	$869,489

*Revised figure.

Inflation: A Product of New Deal Blundering

(Continued from page 6)

the principal measures which Congress enacted during that period. It will be helpful to remind ourselves of the fact that most of these laws enacted as "must legislation" by a subservient Congress served to change the basic concept of our whole economic pattern. Beginning with relief measures and the repudiation of our gold contract, thus cutting our currency adrift from any metallic base, we took the following steps:

Civilian Conservation Corps: March 31, 1933.

Federal Emergency Relief Act: May 12, 1933.

Agricultural Adjustment Act of 1933: May 12, 1933.

President signed joint resolution abrogating the gold clause in existing governmental and private obligations: June 5, 1933.

Home Owners' Loan Act: June 13, 1933.

Farm Credit Act of 1933: June 16, 1933.

National Industrial Recovery Act: June 16, 1933.

Commodity Credit Corporation: Oct. 17, 1933.

Federal Civil Works Administration: Nov. 9, 1933.

Federal Farm Mortgage Corporation Act: Jan. 31, 1934.

Emergency Crop Loan Act: Feb. 23, 1934.

Silver Purchase Act of 1934: June 19, 1934.

Emergency Relief Appropriation Act of 1935 (WPA and others). (President signed the $4,880 million work relief resolution providing for the largest single appropriation ever voted by Congress.): April 8, 1935.

Home Mortgage Relief Act: May 26, 1935.

Social Security Act: Aug. 14, 1935.

Undistributed Profits Tax Law of 1936: June 22, 1936.

U. S. Housing Act: Sept. 1, 1937.

Miller-Tydings Act: 1937.

Agricultural Adjustment Act of 1938: Feb. 16, 1938.

Domestic Silver Purchase Law: July 6, 1939.

Servicemen's Readjustment Act of 1944: June 22, 1944.

The net result of these successive acts was to give cumulative effect to the forces of inflation which now so seriously menace our future. Therefore, it seems to me that our Number One problem today is not aid-to-Europe, is not tax reduction, is not the reimposition of wartime controls over our domestic economy, but whether we can lay partisanship aside and, in a spirit of mutual sacrifice, meet this fresh emergency before it is too late.

Mistakes of Anti-Inflation Campaign

Many proposals have been made as to the remedies which should be applied in this anti-inflation campaign. Among the most realistic (although I disagree most heartily with some of his suggestions) is the plan advanced to Congress last week by Mr. Baruch. Mr. Baruch, it seems to me, makes the mistake of tying everything in one big package as a kind of cure-all for our past mistakes.

I think former President Herbert Hoover has made a splendid contribution to the solution of many of these problems in his letter to Senator Vandenberg. Too many of these political approaches to the inflation problem deal with symptoms rather than causes. They prescribe political poultices when the inflation disease has reached the point where drastic surgical treatment may be required. Unless we grapple realistically with these disorders, there may be no European Recovery Plan. We will be so busy with the acute phases of inflation at home that we may need some kind of American recovery plan for our own domestic economy!

The plain truth of the matter is that if we are to shoulder the President Truman has outlined and carry out even a small part of the promise we have made to European nations, American industry will have to function for the next five years at top speed. We are in a situation similar to that of a giant air transport. At full speed of 300 miles an hour it can carry a tremendous load; but at 50 miles an hour it can't lift itself off the ground!

Let me make myself very clear. I am unreservedly for a plan to aid Europe and China—especially China, since we have behaved disgracefully in the light of our promises to that stricken country. But I don't want any program of aid to foreign countries tied in with promises to the electorate—whether it be a $40 cost-of-living rebate on income taxes, the Townsend Plan to pay old-age pensions, or throwing in a plate of ham and eggs every Thursday.

The other half of President Truman's tax proposal makes just as little sense and is just as suicidal. To reimpose a so-called "excess profits" tax would defeat our goal of attempting to stabilize prices by increased production. Even more importantly, it would further dry up the capital markets which are already virtually nonexistent.

Because of their inability to raise fresh capital, corporations are being forced to go to the banks to borrow. In the last 12 months 15 of the largest banks in the country have increased their corporate loans by more than $2 billions—which certainly would not be the case if investors could save anything out of their incomes and had confidence in the future value of the American dollar. We must restore this confidence in the future of the country and reverse a trend which is highly dangerous.

A Broad General Income Tax Reduction

We can make a start in that direction through a broad general reduction in income taxes which will remove some of our present inequities and end a most unfair discrimination. It seems to me that the Knutson bill, now pending before the House of Representatives, offers a constructive approach to the solution of this problem.

Under his plan 72% of the tax relief proposed would go to taxpayers with incomes under $4,000, and 28% to taxpayers with incomes over $4,000. By contrast, the President's $40 per person tax bonus would grant over 93% of the total tax relief to taxpayers with incomes under $4,000. Certainly, if tax reduction is to be undertaken, it should be made applicable to all taxpayers and not merely by conferring special privileges on the largest voting groups!

I am certain that the initiative and energy that will be released will so benefit the economy in the long run that the Treasury will more than make up any loss in revenue, as proved to be the case after the reductions in 1922 and again in 1945.

But tax reduction, desirable as it is to all of us suffering from the present high cost of living, does not stand as a goal by itself. It must be considered as merely one part of a still larger program designed to release the brakes on our system and get business and industry functioning once more at full speed ahead.

President Truman has taken his stand in favor of government controls as an alternative to the full functioning of a free competitive economy. Yet the fact is that these two systems are not only mutually incompatible but are the very antithesis of each other.

The motivation of industry depends upon the assumption of risks by thousands of producers competing with each other in the steady reduction of costs and the improvement of products. It depends on the ebb and flow of profits to regulate supply, upon free markets to fix prices. It lives only in the atmosphere of individual freedom.

On the other hand, the system of government controls necessarily proceeds from a wholly different concept. It envisons the nation's economic life as being essentially static. The rationing, or allocation, of goods among consumers is based upon the belief that shortages of goods are likely to last for a long period of time. For the personal incentives and inventiveness which are the mainsprings of our economic system, it substitutes the wisdom of government officials charged with the responsibility of planning for the future and policing all the complex details that enter into modern industrial life.

There is another important distinction between these two competing systems. Enterprise relies on the consumer's freedom of choice in any number of directions, making whatever personal readjustments may be necessary to meet changes in prices, styles, habits, or individual tastes. State control, on the contrary, reduces such choices to a necessary minimum; it seeks to reduce or to eliminate competition by the standardizing of products on a quantity rather than a quality basis. Abundance and a high level of public purchasing power are essential to the proper functioning of competitive enterprise. Officials charged with rationing scarce goods always dread the return of plenty, for it threatens their jobs and raises new problems.

Finally, tax reduction tends to reduce the percentage of the national income channeled through the government. This in turn reduces the number of non-producers carried on the public payroll who are always a charge against those engaged in production. This leads to a constantly rising cost of government which, in itself, is one of the greatest single component parts in inflationary cycles.

If we accept Mr. Truman's Budget, we will be assessed a total $52 billion next year for all types of government. I don't know how you feel, but I don't think we're getting our money's worth.

Fallacious Fiscal Policies

There are still other aspects of this inflation problem that deserve careful consideration. Ever since World War I practically every government in the world, including our own, has been pursuing fallacious fiscal policies. They have had to deal with an ever-mounting burden of public debt, largely inherited from that first catastrophic conflict, and with an ever-mounting volume of "paper money." Everywhere currencies have been steadily depreciating with the result that in each country capital has either gone into hiding or sought safety in flight to other countries. Right now there is a flight from the dollar just as there have been flights from the lira, the franc, and the pound, though not as apparent.

In the illusion that governments could "manage" currency, there is no yardstick left to measure the true value of any country's money, expressed in terms of other currencies. We have deprived gold of its proper function either in the settlement of international accounts or as a sound anchor for the various currencies. This has driven each country in turn to restrictions and controls over imports, exports, exchange, and every kind of international transaction.

The result is that what foreign trade there is must proceed on the basis of barter, bilateral agreements, or the swapping of credits in so-called "blocked" currencies. This has all been followed by increased economic complications expressed in soaring prices, constantly rising wage levels, and ever-spreading monetary inflation. In each country the political leaders have been obsessed by two fears: (1) the fear of deflation and (2) the fear of telling the people the truth.

There is also the fact that in its earlier stages inflation is pleasant and even intoxicating in its effects. Under the influence of such internationally known economists as Lord Keynes in England, Alvin Hansen in this country, Gustav Cassel in Sweden, and the like there has grown up a strongly rooted philosophy that inflation is a good thing so long as it is properly "managed." It seemed to supply the answer to a lot of problems that otherwise defied solution. It is only in its latter phases that inflation is seen in its true light as a disease far more dangerous than war itself.

We now know that it is far easier to repair the damage to bombed-out cities and destroyed transportation facilities than it is to rebuild the highly complicated economic mechanisms on which all modern nations are so dependent for the support of huge populations.

No Easy Way to Control Inflation

If there is any one lesson demonstrated throughout all history it is that there is no easy way to control inflation. It requires tough and courageous treatment.

Stalin deflated his subjects by as much as 90% overnight. That was his delicate approach to the problem.

If President Truman had the political courage to face the seriousness of this problem, his State of the Union address would have been quite different in tenor from the easy sophistries to which he gave expression.

Instead of painting a picture of an effortless prosperity to be created through government spending, he would have appealed for a truly national effort and national sacrifice in meeting the challenge of this appalling danger to the nation's future. He would have pointed out some of the simple, fundamental steps that are necessary to check the decline in the purchasing power of the dollar. He could have appealed to the patriotism of the country by declaring that the Federal Government itself would set the example and practice some of that same austerity and self-restraint which government officials have been urging upon the public. He would have promised that for every dollar that America was called upon to advance in the effort to rebuild a stable and prosperous world, the Executive branch of the government would match it with a dollar saved from its own operating expenses. That, for example, under the terms of the Marshall Plan, would have meant a promise to save, over the next four years, at least $17 billion—nor indeed is that an impossible promise.

Next, the President would have dealt realistically with one of the root causes of our present difficulties—the excess supply of money. New money was created through the all-out mobilization for war production. We produced unprecedented quantities of goods which were shipped abroad and consumed in the maelstrom of war. That enormous production left behind, excess currency or bank deposits, which were the receipts for wages which could not be exchanged for an equivalent amount of consumer goods. In currency alone we now have in circulation more than $110 billion—five times that which was in use before the war! The effect on prices was obvious and could have been anticipated.

A Sound Money System Needed

The President might then have proposed an immediate return to a sound money system based upon the free coinage of gold and the unlimited convertibility of the currency into gold for domestic purposes — but not for export without proper license. This, in fact, would itself operate as a far more effective ceiling on soaring prices than any return to wartime controls of goods in short supply.

But, above all else, the President could have gone on with a firm promise to restore those incentives to "work and save" which have been the real mainsprings in America's economic supremacy. There are only two ways to induce men to work—often demonstrated throughout history. There is the hope of profit, which is the dominant influence in our capitalistic enterprise. There is fear of death, which is the cardinal principle in the Soviet regime which we despise. A thoroughgoing revision of the tax system is of course necessary to restimulate individual thrift and saving.

The President then could have dealt with some of the more technical phases of the problem of public debt, which now stands at the colossal total of $258 billion! He could have announced a policy providing for the refunding of at least $100 billion of that debt into long-term bonds bearing interest rates sufficiently high to invite investment from trust funds and to get government debt out of the banks.

He could have pledged that social security and payroll taxes would in the future be used solely for the purpose of retiring the Federal debt—not as they are now, mere contributions to the Treasury's general fund. This would help stabilize the purchasing power of the dollar and avoid having to pay such taxes twice—first, when the obligation is created; second, when payments to the beneficiaries are due.

Such a program further would permit interest rates to seek a normal level without governmental interference, and would discourage the over-rapid expansion of bank credit beyond its normal rate of growth. It would also differentiate between the needs of our domestic economy and the strains imposed on that economy through export. This would involve the most rigid control of all exports without the use of discretionary authority in such matters by the State Department.

Such a program would likewise suspend over-elaborate programs of public works and housing, beyond those which are absolutely essential, until Europe's imperative needs have been met. And, it goes without saying, that such pledges for adherence to sound fiscal policy in the future would be rigorously observed, without yielding to pressure from self-interest groups, either on the right or the left. Nor indeed from threats of political revolt, whether led by Henry Wallace or others, who would use America's inheritance and resources in trying to build a completely visionary new world.

I venture to suggest that such a program would win the enthusiastic support of the American people, rebuild their confidence in their own future, and once more set our feet on the path of sound recovery from which we have been diverted. Such a program, raised to a plane far above that of partisan politics, would cement the loyalty and unity of the American people as would nothing else. The country cries out for this kind of bold and courageous leadership at Washington in meeting perhaps the gravest crisis that America has had to face in many generations.

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.

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. Offered to common stockholders of Philip Blum & Co. Inc. of record Dec. 22. Rights expire Feb. 20.

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.

● **Calton Mining Co., Leavenworth, Wash.**
Jan. 21 (letter of notification) 598 shares of non-assessable common stock. **Price**—$100. For mining property development.

Cameron Aero Engine Corp.
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.

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. 3 only one bid, that of Blyth & Co., Inc. and Kidder, Peabody & Co. was submitted and was rejected by the company. They bid $13.75, less $1.75 underwriting commission. **Offering**—To be offered to 6% preferred and common stockholders for subscription on the basis of one-half share of new common for each preferred share and one-tenth share of new common for each common share held. Price by amendment. **Proceeds**—For construction and repayment of bank loans.

Central Power & Light Co.
Nov. 21 filed 40,000 shares ($100 par) cumulative preferred. Underwriting to be determined by competitive bidding. No bids received at competitive bidding Dec. 15. Sale may be negotiated. Groups formed to bid if issue is reoffered include: W. C. Langley & Co., Shields & Co. and White Weld & Co. (jointly), the First Boston Corp. **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**—Common stockholders of record Jan. 15 are given the right to subscribe on the basis of one new share for each 10 shares held at $22 per share. Rights expire Feb. 2. **Proceeds**—To finance construction.

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.

● **Colorado Gold King, Inc., Chicago**
Jan. 20 (letter of notification) 400,000 shares of common stock. **Prices**—Ranging from 15 to 30 cents each. For development of mining properties and equipment. **Underwriter**—H. C. Orton.

Commercial Finance Co., Mount Rainier, Md.
Jan. 16 (letter of notification) $68,000 of 6% debenture bonds. **Underwriter**—Emory S. Warren & Co., Washington, D. C.

● **Conover-Mast Publications, Inc., N. Y. (2/2)**
Jan 26 (letter of notification) 2,250 shares of common stock (par $1). **Price**—$22 per share. **Underwriting**—None. Additional working capital.

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.

Cowles Co., Inc., Cayuga, N. Y.
Jan. 13 (letter of notification) 5,000 shares of capital stock (par $5). **Price**—$30 per share. **Underwriters**—None. **Offering**—4,000 shares to be offered to stockholders of record Jan. 13 in ratio of two new shares for each three shares held. Rights expire Feb. 20. Working capital.

Craddock-Terry Shoe Corp., Lynchburg, Va.
Jan. 9 (letter of notification) 6,168¾ shares (no par) common. **Price**—$48 per share. To be offered for subscription by stockholders on basis of one new share for each 7 shs. held. **Underwriter**—Scott, Horner & Mason, Inc., Lynchburg. To pay bank loans.

● **Crown Finance Corp., Flat River, Mo.**
Jan. 23 (letter of notification) $300,000 of fully paid investment certificates. For development and expansion.

● **Culver Engine Co., Portsmouth, Ohio**
Jan. 19 (letter of notification) 10,000 shares of Class A common stock. **Price**—$30 each. No underwriting. To equip factory to build small gasoline engines and for working capital.

Dayton (Ohio) Power & Light Co.
Dec. 5 filed 170,000 shares ($7 par) common. **Underwriting**—None. **Offering**—Offered for subscription by stockholders of record Jan. 30 on the basis of one share for each nine shares held. Rights expire Feb. 25. **Price**—By amendment. **Proceeds**—To finance construction program.

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.

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.

● **Drico Industrial Corp., New York**
Jan. 26 (letter of notification) 600 shares of common stock (par $1). This is an offer of recession, the stock having been sold in violation of SEC rules.

● **Eastern Gas & Water Investment Co., Phila.**
Jan. 23 (letter of notification) $125,000 5½% debentures, due Feb. 1, 1978. **Underwriter**—Bioren & Co., Philadelphia. **Price**—Par. To advance subsidiaries funds for capital improvement and working capital.

● **Echo Bay Lead-Silver Mines, Inc., Gem, Idaho**
Jan. 16 (letter of notification) 100,000 shares of non-assessable stock. **Price**—10 cents. No underwriting. For development of mine in Kootenai County, Idaho.

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.

● **Finance Corp., Denver, Colo.**
Jan. 19 (letter of notification) 2,500 shares of 4½% cumulative, non-convertible ($100 par) preferred and 5,000 shares ($5 par) common. **Underwriter**—Robert L. Mitton Investments, Denver. To supplement working capital.

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.

● **Gast St. Louis Brewing Co., St. Louis, Mo.**
Jan. 19 (letter of notification) $75,000 of 4% convertible notes. Convertible into $1 par stock at the rate of 50 shares for each $100 of notes by Feb. 1, 1949; 30 for each $100 until Feb. 1, 1950, and 20 for each $100 until Feb. 1, 1951. No underwriting. For working funds and to pay bank loans.

General Instrument Corp. (2/3)
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.

Giant Portland Cement Co., Philadelphia, Pa.
Jan. 12 filed 564,906 shares ($1 par) common and 282,453 common stock purchase warrants. **Underwriters**—Craigmyle, Pinney & Co., New York; Winslow, Douglas & McEvay, New York, and Jenks, Kirkland & Co., Philadelphia. **Offering**—To stockholders on basis of two shares of stock and one warrant for each share of common stock held. Price by amendment. **Proceeds**—To develop a plant and facilities for the company's subsidiary, Carolina Giant Cement Co., Harleyville, S. C.

● **Grassy Creek Coal Co., Denver**
Jan. 19 (letter of notification) 37,600 shares of capital stock for sale to present shareholders at $1 each. No underwriting. To increase working capital and pay loans.

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.

● **Hardy (J. Herschel), Ashland, Wis.**
Jan. 23 (letter of notification) $61,800 of notes, to pay for hotels.

● **Idaho Consolidated Mines, Inc., Seattle, Wash.**
Jan. 22 (letter of notification) 100,000 shares of common stock. **Price**—42½ cents. No underwriting. For mine exploration.

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.

● **Industrial Credit Co., Cleveland, Ohio**
Jan. 22 (letter of notification) 12,820 shares of Class A ($10 par) common stock. **Price**—$10. No underwriting. For working capital.

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. Application filed with SEC Jan. 23 for permission to withdraw registration statement.

● **Interstate Finance Corp., Evansville, Ind.**
Jan. 21 (letter of notification) 14,000 shares of ($1 par) common stock. **Price**—$7.50. No underwriting. For working capital.

Iowa Power & Light Co. (2/9)
Dec. 22 filed $6,000,000 first mortgage bonds, series due 1973. **Underwriting**—To be determined by competitive bidding. Probable bidders: Blyth & Co., Inc.; The First Boston Corp.; Halsey, Stuart & Co., Inc.; Glore, Forgan & Co., and A. G. Becker & Co. (jointly); Harriman Ripley & Co.; Kidder, Peabody & Co., and White, Weld & Co. and Shields & Co. (jointly); Salomon Bros. & Hutzler; Lehman Brothers. **Price**—By amendment. **Proceeds**—Construction. **Bids**—Expected about Feb. 9.

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.

Kaiser-Frazer Corp.
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. Temporarily postponed.

● **Kansas-Nebraska Natural Gas Co., Inc., Phillipsburg, Kan.**
Jan. 23 (letter of notification) 2,200 shares of $5 cumulative preferred stock. **Price**—$104. **Underwriters**—

NEW ISSUE CALENDAR

January 30, 1948

Chicago, Mil., St. Paul & Pacific Noon (CST) ---- **Equip. Trust Ctfs.**

February 2, 1948

Conover-Mast Publications, Inc. ---- **Common**
Ross-Smith Corp. ---- **Common**

February 3, 1948

Chesapeake & Ohio Ry. Noon (EST) ---- **Equip. Trust Ctfs.**
General Instrument Corp. ---- **Common**
Northern Indiana Public Service Co. ---- **Preferred**
Pennsylvania RR. ---- **Equip. Trust Ctfs.**
Southwestern Public Service Co. ---- **Common**

February 6, 1948

Chicago Rock Island & Pacific ---- **Condit. Sales Agreement**

February 9, 1948

Iowa Power & Light Co. ---- **Bonds**

March 16, 1948

Pacific Tel. & Tel. Co. ---- **Debentures**

April 6, 1948

Southern Counties Gas Co. ---- **Bonds**

May 4, 1948

Southern California Gas Co. ---- **Bonds**

Cruttenden and Co., Chicago, and the First Trust Co. of Lincoln, Neb. To pay indebtedness.

Kansas Soya Products Co., Inc., Emporia, Kans.
Dec. 3 (letter of notification) 3,157 shares ($55 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

Kerr Manufacturing Co., Detroit
Jan. 12 (letter of notification) 100,000 shares ($3 par) class A participating stock. **Underwriter**—Carr & Co., Detroit. To purchase machinery and provide working capital.

• **Kuner-Empsom Co., Brighton, Colo.**
Jan. 19 (letter of notification) $125,000 first & refunding mortgage 4½% sinking fund bonds and 5,278 shares of 6% cumulative preferred stock ($10 par). **Underwriters**—Peters, Writer and Christensen, Inc., Denver. For plant improvement.

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.

• **Lic-Rich Co., Cleveland, Ohio**
Jan. 21 (letter of notification) 1,000 shares (no par) common stock and 4,000 shares of Class A ($100 par) preferred stock. **Price**—$1 and $100 respectively. No underwriting. To develop and promote manufacturing and sales.

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**—Stockholders of record Jan. 21 are given the right to subscribe for the new stock on the basis of one for each two shares held at $10 per share in Canadian or United States funds. Rights expire Feb. 18. **Proceeds**—For building expenditures and to repay bank loan.

• **Mammoth Silver Lead, Inc., Spokane, Wash.**
Jan. 21 (letter of notification) 500,000 shares of common non-assessable stock. **Price**—20 cents. No underwriters. For development of mine properties and equipment.

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.

• **Mercantile Acceptance Corp. of Calif.**
Jan. 19 (letter of notification) 2,092½ shares of first preferred 5% series stock. **Price**—$20 each. **Underwriter**—Guardia Securities Corp., San Francisco. For general corporate purposes.

Merchants Acceptance Corp., Worcester, Mass.
Jan. 20 filed 75,000 shares of class A stock. **Underwriter**—G. H. Walker & Co. **Offering**—43,383 shares will be offered in exchange for a like amount of outstanding old class A shares. Unexchanged shares and the additional 31,617 shares will be sold publicly. **Price** — $13.75. **Proceeds**—Toward paying off bank loan. **Business**—Finance business.

Mid-Continent Airlines, Inc., Kansas City, Mo.
Jan. 9 (letter of notification) 30,601 shares ($1 par) common stock. **Price**—$6 per share. **Underwriting**—None. For working capital and equipment.

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.

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.

Northern Indiana Public Service Co. (2/3)
Oct. 29 filed 272,694 shares ($20 par) cumulative preference stock. **Underwriters**—Central Republic Co. Inc., Chicago; The First Boston Corp., and Blyth & Co. Inc., New York. **Offering**—For subscription by common stockholders of record Jan. 19 on basis of one preferred share for each eight common shares held. Rights expire 2 p.m. (CST) Feb. 2. Unsubscribed shares will be offered publicly. **Price**—$18 a share. **Proceeds**—To improve its public utility system.

• **Northern Transportation Co., Green Bay, Wis.**
Jan. 19 (letter of notification) 5,000 shares (no par) common. **Price**—$10 each. No underwriting. To construct a terminal.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

O'Donohue (Joseph J.) IV, New York
Jan. 9 (letter of notification) $150,000 5.5% sinking fund bonds, series 1948-1973. **Price**—Par. **Underwriter**—Bioren & Co., Philadelphia. Personal and business requirements.

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. Expected in February.

• **Park Chemical Co., Detroit**
Jan. 19 (letter of notification) 25,000 shares ($1 par) common stock. **Price** — $4.25 each. No underwriting. For working capital.

• **Parkview Drugs, Inc., Kansas City, Mo.**
Jan. 27 filed 100,000 shares of preferential cumulative 35c participating stock ($4.50 par). **Underwriter**—Straus & Blosser, Chicago. **Price**—$5.25 per share. **Proceeds**—$140,000 will be used to reimburse company for funds used to purchase McFarland Drug Co., Topeka, Kan., and the $332,500 balance will be used for working capital and expansion of business: retail drug stores.

Philadelphia Electric Co.
Jan. 20 filed $25,000,000 first and refunding mortgage bonds, due 1978, and 150,000 shares ($100 par) preferred stock. **Underwriter** — Morgan Stanley & Co. for the stock. Bonds to be offered under competitive bidding. **Probable Bidders Include**—Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.; Glore, Forgan & Co., and W. C. Langley & Co. (jointly); the First Boston Corp.; White, Weld & Co. Price by amendment. **Proceeds**—To finance a six-year program of electric, gas and steam facilities estimated to cost $235,000,000.

• **Phillips Tutch Latch Co., Portland, Ore.**
Jan. 20 (letter of notification) 300,000 shares (1c par) common stock. **Price**—25 cents each. No underwriting. To pay indebtedness and for inventory.

Pittsburgh Steel Co.
Nov. 20 filed $6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co., Inc. and Hemphill, Noyes & Co. Price by amendment. **Proceeds** — To refund outstanding first mortgage bonds. Temporarily deferred.

• **Plantation, Inc., Boise, Idaho**
Jan. 16 (letter of notification) 300,000 shares of non-assessable Class A ($1 par) common stock. **Price**—$1 each. No underwriting. To improve clubhouse and install sports facilities.

Public Service Co. of New Hampshire
Nov. 25 filed 139,739 shares of common (par $10). **Underwriters**—To be determined by competitive bidding. **Probable Bidders**—The First Boston Corp., Kidder, Peabody & Co. and Blyth & Co., Inc. (jointly); Harriman Ripley & Co. **Offering**—Common stock first will be offered for subscription to present shareholders at the rate on 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.

• **Red Rock Bottling Co. of Cleveland**
Jan. 23 (letter of notification) 40,656 shares ($1 par) common. **Price**—$1 each. No underwriting. For working capital.

• **Reiter-Foster Oil Corp., New York**
Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

• **Remington Corp., Cortland, N. Y.**
Jan. 22 (letter of notification) 8,100 shares ($5 par) common stock. **Price**—$6.75. No underwriting. For expansion and working capital.

• **Ross-Smith Corp., New York (2/2)**
Jan. 26 (letter of notification) 2,000 shares of common stock (par 5c). **Price**—$4 per share. **Underwriter**—Cohu & Torrey. Proceeds go to Alban M. Ross-Smith, President.

• **S and S Products Co., Inc., Baltimore, Md.**
Jan. 23 (letter of notification) 400 shares ($3 par) common stock. No underwriting. For materials.

• **Salle-Ann Shops, Inc., St. Louis, Mo.**
Jan. 22 (letter of notification) 175 shares of Series B preferred stock ($100 par). No underwriting. To open additional retail stores.

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.

Southwestern Gas & Electric Co.
Nov. 5 filed $7,000,000 30-year first mortgage bonds, series B. **Underwriting**—To be determined at competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc., Lehman Brothers and Lazard Freres & Co. (jointly); White, Weld & Co. and Kidder, Peabody & Co. (jointly); Blyth & Co., Inc. and Stone & Webster Securities Corp. (jointly); Glore, Forgan & Co. and W. C. Langley & Co. (jointly); Harriman, Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To finance construction program.

Southwestern Public Service Co. (2/3)
Dec. 24 filed 103,113 shares ($1 par) common. **Underwriter**—Dillon, Read & Co. Inc. **Offering**—Offered to common stockholders of record Jan. 21 at $21 per share at the rate of one share for each 11 shares held. Rights will expire 4 p.m. (EST) Feb. 2. **Proceeds**—To retire bank loans and for construction purposes.

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. Expected early in February.

• **Turf Equipment Inc., Minneapolis, Minn.**
Jan. 20 (letter of notification) 300 shares of capital stock. **Price**—$50. No underwriting—For working capital.

Union Trusteed Funds, Inc., New York
Dec. 29 filed 657,500 shares of capital stock. **Underwriters**—Lord, Abbett & Co., Inc., New York, is selling agent. Price based on market prices. **Proceeds**—For investment.

• **Wilson Engineers, Inc., Springfield, Mass.**
Jan. 23 (letter of notification) 1,100 shares ($50 par) 6% cumulative preferred stock, and 5,481 shares ($1 par) common stock. No underwriting. To expand business.

Wisconsin Power & Light Co.
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

Chesapeake & Ohio Ry. (2/3)
Company will receive bids up to noon (EST) Feb. 3 at 3,400 Terminal Tower, Cleveland, for the sale of $4,900,000 equipment trust certificates, to be dated Feb. 15, 1948, and due annually Feb. 15, 1949-1958. **Probable Bidders**—Halsey Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., Harris, Hall & Co. (Inc.).

Chicago, Mil., St. Paul & Pacific RR. (1/30)
Company will receive bids up to noon (CST) Jan. 30 at Chicago for the sale of $5,040,000 equipment trust certificates series CC, to be dated Feb. 1, 1948, and maturing F. & A. 1 from Aug. 1, 1948 to Feb. 1, 1958 inclusive. **Probable Bidders** — Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

(Continued on page 54)

(Continued from page 53)

● **Chicago Rock Island & Pacific RR. (2/6)**
Company will receive bids up to noon (CST) Feb. 6 at its Chicago office for the lowest interest rate at which bidder will provide not to exceed $1,240,000 to finance four Diesel passenger locomotives, under a conditional sales agreement.

● **Commonwealth Edison Co., Chicago**
Jan. 23 reported The First Boston Corp. and Glore Forgan & Co. are forming accounts on any securities company may sell to finance proposed $100,000,000 expansion program. Halsey, Stuart & Co. Inc. may bid on any bond issue.

● **Consolidated Natural Gas Co.**
Jan. 22 reported syndicates being formed to bid on $30,000,000 debenture issue to be offered in near future. **Probable Bidders**—White, Weld & Co. and Paine, Webber, Jackson & Curtis (jointly); Dillon, Read & Co. Inc.; The First Boston Corp.; Halsey, Stuart & Co. Inc.; Morgan Stanley & Co.

● **Gulf States Utilities Co.**
Jan. 28 reported company plans an offering of $10,000,000 new money bonds. **Probable Bidders**—Stone & Webster Securities Corp.; Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **International Bank for Reconstruction & Development**
Jan. 23 reported the bank may launch another bond issue by mid-summer. The purpose of the offering would be to provide funds for loans to South American countries. Applications for such loans are now under consideration by the bank, but the identity of the would-be borrowers is to be withheld pending definitive action on the requests.

● **Louisville Gas & Electric Co. (Ky.)**
Jan. 22 reported possible sale of some $35,000,000 bonds in near future. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers and Blyth & Co., Inc. (jointly).

● **Narragansett Electric Co.**
Jan. 12 company disclosed that it plans the sale of between $6,000,000 and $10,000,000 new first mortgage bonds during the spring. **Proceeds** will be used to pay bank loans and plant expansion. **Probable Bidders**—Halsey Stuart & Co. Inc.; The First Boston Corp.; Kidder, Peabody & Co., and Stone & Webster Securities Corp. (jointly); White Weld & Co. and Lehman Brothers (jointly); Blyth & Co., Inc., and Harriman Ripley & Co. (jointly).

● **New York Chicago & St. Louis RR.**
Jan. 27 company plans sale of $1,400,000 serial equipment trust certificates at early date. Certificates will be dated March 1, 1948, and will mature annually for 10 years.

● **Oklahoma Gas & Electric Co.**
The company has applied to the Arkansas P S Commission for authority to issue an additional $2,500,000 3¼% bonds, maturing in 1971. The proceeds would be used to build a 7,500-Kilowatt generating plant in Scott County, Mo., and a transmission line to connect the new units with present distribution facilities.

● **Pacific Gas & Electric Co.**
Jan. 27 announced company intends to offer 686,953 shares of common stock for subscription at par ($25) by stockholders in ratio of one new for each 10 shares held.

Pacific Telephone & Telegraph Co. (3/16)
The California P. U. Commission has authorized the company to sell $75,000,000 30-year debentures at competitive bidding. The money will be used to retire loans from American Telephone & Telegraph Co. for construction and other corporate purposes. **Probable Bidders**—Morgan Stanley & Co., Halsey, Stuart & Co. Inc. Expected that bids will be opened about March 16.

● **Pennsylvania RR. (2/3)**
Company will receive bids up until Feb. 3 for the purchase of $10,890,000 equipment trust certificates, series S, to be dated July 1, 1947, and due in 15 annual installments. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Rochester (N. Y.) Gas & Electric Corp.**
Jan. 27 reported corporation has abandoned plans to refinance $7,657,000 bonds outstanding, but will proceed with $16,020,000 of new financing. Abandonment of the bond refunding has been decided on because of market conditions. The new financing is said to comprise $9,020,000 bonds which are to carry maximum interest of 3½% and $5,000,000 new preferred stock which is to have a dividend rate of no more than 5%. In addition, the company proposes to sell 60,000 additional common shares to its parent, General Public Utilities Corp., for $2,000,000. Corporation orignally planned to offer the new bonds at no more than 3% interest and the preferred stock at a maximum dividend rate of 4¼%.

Southern California Gas Co. (5/4)
Jan. 16 reported company plans filing with the SEC late in March $15,000,000 in bonds, with bids to be considered on May 4. Proceeds for extensions. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; Merrill Lynch, Pierce, Fenner & Beane; Harris, Hall & Co. (Inc.).

● **Southern Counties Gas Co. (4/6)**
Jan. 16 reported company plans filing with the SEC late in February $7,000,000 in bonds, with bids to be considered on April 6. Proceeds for extensions. **Probable Bidders**—Blyth & Co., Inc; Halsey, Stuart & Co. Inc.; The First Boston Corp. and Harris, Hall & Co. (Inc.) (Jointly); W. C. Langley & Co. and Glore, Forgan & Co. (Jointly).

● **Southern Railway**
Jan. 22 reported company plans sale of $10,680,000 equipment trust certificates about Feb. 20. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Utah Power & Light Co.**
Jan. 28 reported company working on plans for $3,000,000 new mortgage bonds, plus $5,000,000 new debentures.

● **Virginia Electric Power Co.**
Jan. 23 company announced proposal to offer to public $10,000,000 30-year 1st & ref. mtge. bonds (to be sold competitvely) and to offer to common stockholders rights to subscribe at rate of one $100 debenture for each 25 shares held to $11,753,800 of 15-year convertible debentures. Preferred stockholders will vote on proposal March 5. **Probable Bidders for Bonds**—Stone & Webster Securities Corp.; The First Boston Corp.; Glore, Forgin & Co., and W. C. Langley & Co. (jointly); Halsey, Stuart & Co. Inc.; White Weld & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Hallgarten & Co. (jointly).

● **West Penn Power Co.**
Jan. 28 reported company is preparing to enter the market late in March with $12,000,000 of bonds and $5,000,000 of preferred stock. In addition, the company also proposes to sell $2,500,000 of common stock to the West Penn Electric Co., but minority common stockholders would receive subscription rights. **Probable Bidders for Bonds and Debentures**—Halsey, Stuart & Co. Inc.; W. C. Langley & Co. and The First Boston Corp. (jointly); Lehman Brothers.

● **Wilson-Jones Co.**
Jan. 28 directors authorized issuance of rights which entitle stockholders to subscribe, at $12 per share, to one additional share for each eight shares of common stock (par $10) held on March 9, 1948. Early registration with SEC expected. Traditional underwriter, Paine, Webber, Jackson & Curtis.

First Boston Group's Offering of Gulf Oil 1,213,443 Shares Heavily Oversubscribed

The First Boston Corp. and associated underwriters completed at noon Jan. 28 the sale of 1,213,443 shares of Gulf Oil Corp. stock at $59 per share. The offering was heavily oversubscribed. These shares represented the "Mellon interest" in Gulf Oil Corporation's offering to stockholders of 2,269,050 shares of additional stock, and were available to the underwriters through the purchase by them of the Mellon subscription warrants.

The result of the Gulf Oil Corp.'s offer to its remaining shareholders will become known on Feb. 10, 1948, when the subscription rights terminate. The subscription price is $51 per share.

The dollar volume of the entire operation, the largest piece of equity financing in recent years, is around $115,721,550. Also notable is the scope of the underwriting machinery which was set up for its handling. A group of over 500 firms, representing all sections of the country, participated in the distribution of the 1,213,443 shares.

The big public demand for the shares sold and the prospects for an unusually large response by stockholders to the corporation's offering of the remaining shares were attributed in underwriting circles to Gulf's exceptionally strong position in petroleum and gas reserves its substantial earnings, conservative accounting practices, and its outstanding position as an integrated unit in the petroleum industry.

Gulf's major sources of crude oil are in the United States, Venezuela and the Middle East on the Persian Gulf, the three great world concentrations of crude oil. Particular interest attaches to Gulf's production possibilities in the Middle East based on a wholly-owned subsidiary's 50% interest in Kuwait Oil Co., Ltd. Production from the Kuwait property in 1947 averaged 20,000 barrels of crude oil a day and current development points to a daily production of 250,000 barrels daily from this source by 1951. Development costs are expected to be provided out of Middle East earnings.

The offering to stockholders, which is on the basis of one new share for each four shares held of record on Jan. 27, 1948, has been underwritten by a nation-wide investment banking group headed by The First Boston Corp. Rights to subscribe for the shares will expire on Feb. 10, 1949.

Proceeds from the sale of the stock will be added to the corporation's general funds. Among the uses to which the funds may be applied by the corporation and its subsidiaries or companies in which the corporation has investments are the acquisition and development of properties for additional oil and gas production and the expansion of refining, transportation and marketing facilities. During the 11 months ended Nov. 30, 1947, these expenditures amounted to $149,363,000, of which $80,691,000 was primarily for crude oil exploration and production; $5,241,000 for pipe line systems; $17,072,000 for marine equipment; $14,522,000 for refining; $26,720,000 for marketing and $5,117,000 for miscellaneous expenditures. According to the prospectus, present indications are that the corporation's capital expenditures in 1948 will be larger than those of 1947.

After completion of this financing Gulf will have outstanding 11,345,250 shares of capital stock. Funded debt of $187,000,000 at Dec. 31, 1947, consisted of notes held by banks and insurance companies and a wholly owned subsidiary.

Our Reporter's Report

The splendid reception accorded several large new offerings this week certainly proved the wisdom of those in the underwriting business who haven't contended right along that given quality and right-pricing investors can be attracted to new securities.

The big event of the week, of course, was the marketing of New York Telephone Co.'s $60,000,000 of new 30-year refunding mortgage bonds sold on Tuesday. The general setting here contrasted with that which attended the previous financing of the company last July.

This time reflecting, to some extent, the change in money market conditions in the interval, the over-all picture was decidedly more to the liking of the institutional buyers who absorb the bulk of these high-grade issues.

Bankers paid the company a price of 100.85 for the issue and reoffered at 101.43 to yield 3.05%. Getting immediately SEC clearance, bankers were able to announce oversubscription in hardly an hour's time.

While two of the Big Five life companies were reported out of the market, general demand was exceptionally brisk.

Buyers evidently liked the shorter maturity; this issue runs five years shorter than the one sold in July and, likewise, the much more liberal yield, 0.44 basis points better than the 2.61% afforded by the previous issue. The older bonds, it will be recalled, proved decidedly sticky for a long spell.

Big Block of Stock

Proving that equities of well-known companies also can be marketed when terms and conditions surrounding a situation are "right," bankers were able to dispose of a large block of Bendix Aviation Corp. common within a short period.

This block of stock, held by General Motors from the time of formation of the issuer, involved 399,990 shares and was offered to the public at $28 a share or approximately at the prevailing market.

With both the automobile industry and the aviation business offering good promise for the future, investors evidently needed little coaxing on this one.

Rochester Gas

The enforced delay in going through with its financing plans, which included the projected refinancing of $7,657,000 in outstanding bonds, plus $16,000,000 in new money, is proving costly to Rochester Gas & Electric Corp.

Initiated early last year, this plan ran into trouble with the Public Service Commission and wound up in a test suit in the courts which upheld the contentions of the utility in the case.

But now the company has decided to foregoing the refinancing and its $9,020,000 of new bonds may carry a 3½% coupon and its new preferred a dividend rate of as much as 5%, against maximums of 3% and 4¼% originally proposed.

Ohio's Bonus Bonds

Although looked upon as about six weeks away, Ohio's big Soldier Bonus Bond issue is naturally a topic of recurrent discussion in market circles, particularly since New York State decided to get along temporarily via short-term financing.

The issue, now expected about the middle of March, could run to any part of $300 million which it is calculated the market is able to take at that time.

Chances are it will be done in several stages, however. But, already, two large groups, both headed by New York banks, are in process of formation to seek the bonds.

Utilities Prepare Issues

Two utilities are making plans for moderate-sized financing in the near future. Utah Power & Light Co. is understood to be working on plans for $3,000,000 new mortgage bonds, plus $5,000,000 of new debentures and probably will go into registration within a fortnight.

Gulf States Utilities Co. meanwhile is said to plan an offering of $10,000,000 new money bonds. This undertaking may go over until April, depending, of course, on market conditions.

Meanwhile, Pacific Gas & Electric Co. is expected to move soon for an offering of 686,953 shares of its $25 par common stock to shareholders, at par, in the ratio of one new share for each ten now held.

With Carl M. Loeb, Rhoades

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Merton Gettis is with Carl M. Loeb, Rhoades & Co., 1011 Lincoln Road.

With Herrick Waddell

(Special to THE FINANCIAL CHRONICLE)

ST. PETERSBURG, FLA.—Forrest A. MacGibbon is now connected with Herrick, Waddell & Co., Inc., of New York.

Joins Buckley Bros. Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Gaius W. Perkins has become affiliated with Buckley Bros., 530 West Sixth Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market reflects Congress di-does. So watch Washington for market direction.

* * *

Anyone who reads this column regularly is aware that I seldom advise short sales. It isn't that I have any scruples. It is the mechanics that make long distance advice impractical. I try to make profits by trying to foresee trends. If I succeed, fine. If I don't, I try again.

* * *

Going short used to be an ideal way to profits. Back in 1929-32 everything was going into the cellar. There's no need to enlarge on that. Those who were around know what I'm talking about. The fact that my profits came out of somebody else's misery didn't concern me.

* * *

Today my personal profits must be secondary to a national interest, or more specifically, my own interest. I don't mean to wave the flag. But I'd like the business that gave me my beer and champagne to go along on an even keel.

* * *

For that reason the Baruch analysis hits me right where I live. I'm not interested in politics. I don't particularly care who the next tenant will be in the White House. But I do care about what Congress is doing, or gives every indication of doing. The current Congress (both parties) is digging for votes. It has promised me, and the rest of the country things, at a cost I wouldn't touch with a 10-foot pole.

* * *

Cutting my taxes is wonderful. I'm for that. But I'm a big boy now. I can add and even divide. I know that a little more of the hair of the dog isn't going to help me for more than a short time.

Sure, Europe is starving. The Commies are trying to take over. At least that is what the papers say and they're quoting people who should know. But I also know I have a boy in college who'll be called upon to fight, and maybe die in a war because our vote baiting Congress is messing things up.

* * *

I want peace. I also want prosperity. I most certainly don't want inflation and a further unbalance of our national economy. All the hoop-la I read about small profits doesn't impress me. I can read a balance sheet and I can also understand how certain items can be disguised.

* * *

I also know that things are going so high that the little man — the backbone of our national prosperity—is gradually being squeezed out of the market. Giving him more money, in wages, and then raising the prices again is just the old merry go round. Eventually the whole thing will gather a whirlwind pace and we'll all be catapulted off. Well, I don't want to be catapulted. In exchange for that I'm willing to give up something today. That something was succintly expressed in the Baruch report.

* * *

I don't think the Baruch fears are bogey man stuff. I thing they're real and very close. If Congress, and the White House stop playing politics I'll make money. If they don't, and insist on avoiding strong medicine because it'll cost votes, I'll still make money. The difference is that if inflation takes a real hold —I'm referring to the market—I'll make a lot of money in a short time and then will have to give it back in one form or another. If a realistic treatment of the nation's economy is undertaken, I won't make as much money. But what I make I'll be able to keep and eventually build for something more than just soap bubbles.

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.]

T. R. Coradine Is With Gross, Rogers & Co.

Special to THE FINANCIAL CHRONICLE

LOS ANGELES, CALIF.—Reese T. Coradine has become associated with Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange. He was formerly with Carter H. Corbrey & Co. and prior thereto was with Paine, Webber & Co. in Chicago.

With Trusteed Funds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Henry C. Olive, Jr., has become connected with Trusteed Funds of Florida Co., Biscayne Building.

Morgan Stanley Group Offers N. Y. Telephone Bonds. Issue Oversubscribed.

An investment banking group headed by Morgan Stanley & Co. made public offering Jan. 27 of an issue of $60,000,000 New York Telephone Co. refunding mortgage 3⅛% bonds, series E, due 1978, at 101.43 and accrued interest to yield 3.05%. Shortly after the offering it was announced that the subscription books had been closed. The issue was awarded to Morgan Stanley & Co. and associates in competitive bidding earlier in the day at 100.85.

New York Telephone Company proposes to use the proceeds from the sale of the bonds to repay short-term notes aggregating $50,000,000 held by several New York banks. These obligations were incurred in connection with the program of new construction which is the largest in the company's history, according to the prospectus. The balance of the proceeds will be applied toward new construction.

The prospectus states that expenditures for new construction were approximately $83,000,000 for 1946 and $143,000,000 for the first 11 months of 1947. It is expected that such expenditures will continue at a high level during the next few years. Because of the requirements of the construction program, the company sold $125,000,000 of series D bonds in July, 1947.

New York Telephone Company, largest member of the Bell System, furnishes communication services, principally local and toll telephone service in the State of New York and in a small portion of Connecticut. On Nov. 30, 1947, the company was supplying local service in 493 exchange areas, having 3,967,167 telephones in service of which about 61% were located in New York City. Other important cities in New York State served by the company include Albany, Binghamton, Buffalo, Schenectady, Syracuse, Troy and Utica.

After completion of this financing the company will have a total funded debt of $260,000,000. The outstanding 4,213,000 shares of common stock are owned by American Telephone and Telegraph Company.

Cites Obstacles to Bank Credit Restrictions

Guaranty Trust Company of New York in its monthly publication says urgent need by industry for new capital has forced expansion of bank loans.

"The Guaranty Survey," published monthly by the Guaranty Trust Company of New York contains in its January issue a discussion of the proposals to check inflation, and concludes that "the initial break in the inflationary spiral is not likely to come from an increase in output or from a decrease in money supply, but rather from a weakening of demand—a diminished inclination to spend or invest money." Regarding intensification of credit controls as an anti-inflationary move, the Guaranty states:—

"Any attempt to place close restrictions on bank credit at present would encounter formidable obstacles. Industry is urgently in need of new capital; but conditions are not favorable for the issue of new securities, especially equity securities. Individual saving is discouraged by accumulated shortages of consumer goods, rising prices and high income taxes on individuals and corporations. Corporate saving is limited by Section 102 of the Internal Revenue Code. Rising interest rates have weakned the market for fixed-interest obligations. All these factors have tended to force an expansion of bank loans and would militate against the success of any effort at credit restriction. An additional difficulty is that Federal Reserve open-market operations tending to tighten credit will be closely limited as long as it is deemed necessary to support the government bond market."

DIVIDEND NOTICES

The American Tobacco Company
INCORPORATED

111 Fifth Avenue New York 3, N. Y

170TH COMMON DIVIDEND *and* AN EXTRA DIVIDEND

A regular dividend of Seventy-five Cents (75¢) per share and an extra dividend of Seventy-five Cents (75¢) per share have been declared upon the Common Stock and Common Stock B of THE AMERICAN TOBACCO COMPANY, payable in cash on March 1, 1948, to stockholders of record at the close of business February 10, 1948. Checks will be mailed.

EDMUND A. HARVEY, *Treasurer*

January 27, 1948

BUTLER BROTHERS

SERVICE · LEADERSHIP

The Board of Directors has declared the regular quarterly dividend of One Dollar and twelve and a half cents ($1.12½) per share on Cumulative Preferred Stock, 4½% Series, payable March 1, 1948, to holders of record at the close of business February 4, 1948. Checks will be mailed.

EDWIN O. WACK, Secretary

January 21, 1948

Borden's

BORDEN'S 1857

DIVIDEND No. 152

An interim dividend of sixty cents (60¢) per share has been declared on the capital stock of *The Borden Company*, payable March 1, 1948, to stockholders of record at the close of business February 11, 1948.

E. L. NOETZEL, *Treasurer*

January 27, 1948

EATON MANUFACTURING COMPANY

Cleveland, Ohio

EATON

DIVIDEND NO. 93

The Board of Directors of Eaton Manufacturing Company has declared a dividend of Seventy-five cents (75c) per share on the outstanding common stock of the Company, payable February 25, 1948, to shareholders of record at the close of business February 5, 1948.

January 23, 1948

H. C. STUESSY
Secretary & Treasurer

Southern Railway Company

THE SOUTHERN SERVES THE SOUTH · SR

DIVIDEND NOTICE

New York, January 27, 1948.

Dividends aggregating $3.75 per share on the Preferred Stock of Southern Railway Company have today been declared, payable as follows

Amount	Date of Payment	To Stockholders of Record at the Close of Business on:
$1.25	Mar. 15. 1948	Feb. 13, 1948
1.25	June 15, 1948	May 14, 1948
1.25	Sept. 15, 1948	Aug. 13, 1948

A regular quarterly dividend of 75¢ per share on 1,298,200 shares of Common Stock without par value of Southern Railway Company has today been declared, out of the surplus of net profits of the Company for the fiscal year ended December 31, 1947, payable on March 15, 1948, to stockholders of record at the close of business on February 13, 1948.

Checks in payment of these dividends on the Preferred and Common Stocks will be mailed to all stockholders of record at their addresses as they appear on the books of the Company unless otherwise instructed in writing.

J. J. MAHER, *Secretary.*

DIVIDEND NOTICES

CITY INVESTING COMPANY
25 BROAD STREET, NEW YORK 4, N. Y.

January 22, 1948

The Board of Directors of this Company has this day declared a dividend of 15c per share on the Common Stock of this Company, payable February 16, 1948 to holders of record as of the close of business on February 2, 1948.

EDWARD FRAHER, Secretary.

NATIONAL CONTAINER CORPORATION

On January 22, 1948, a regular quarterly dividend of 30c per share was declared on the Common Stock of the National Container Corporation payable March 10, 1948 to stockholders of record February 16, 1948.

HARRY GINSBERG, Treasurer

SOUTHERN NATURAL GAS COMPANY

Birmingham, Alabama

Common Stock Dividend No. 36

A dividend of 37½ cents per share has been declared on the Common Stock of Southern Natural Gas Company, payable March 12, 1948 to stockholders of record at the close of business on March 1, 1948.

H. M. ERSKINE,
Vice President and Treasurer.

Dated: January 24, 1948.

UNITED STATES LINES COMPANY

Common Stock DIVIDEND

The Board of Directors has authorized the payment of a quarterly dividend of sixty-two and one-half cents ($.62½) per share payable March 10, 1948 to holders of Common Stock of record February 25, 1948 who on that date hold regularly issued Common Stock ($1.00 par) of this Company.

Holders of former stock issues of the Company entitled to issuance of Common Stock ($1.00 par) in exchange for their holdings will be paid this dividend when exchange is made.

CHAS. F. BRADLEY, *Secretary*
One Broadway, New York 4, N. Y.

VANADIUM CORPORATION OF AMERICA

VANCORAM

420 Lexington Avenue, New York 17

Dividend Notice

At the meeting of the Board of Directors held today, a dividend of twenty-five cents per share was declared on the common stock of the Corporation, payable February 13, 1948, to stockholders of record at 3:00 o'clock p. m., February 5, 1948. Checks will be mailed.

B. O. BRAND, Secretary.

Dated January 26, 1948.

WOODALL INDUSTRIES INC.

A regular quarterly dividend of 31¼¢ per share on the 5% Convertible Preferred Stock has been declared payable March 1, 1948, to stockholders of record February 14, 1948.

A regular quarterly dividend of 25¢ per share on the Common Stock has been declared payable February 28, 1948, to stockholders of record February 14, 1948.

M. E. GRIFFIN,
Secretary-Treasurer.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

General Eisenhower's withdrawal from the Republican presidential race has stirred up the animals out in the political pasture as much as anything that has happened in months including the Wallace candidacy. This political capital accepts the withdrawal as on the level. It is now reckoned that the General doesn't want the nomination and the boys who are trying to play for a winner had better put their bets elsewhere.

* * *

One of the first results of the General's renunciation is to boost the potential of Harry Truman. General Eisenhower was the man the Democrats most feared. There was considerable apprehension that Eisenhower was a man who would carry the Republicans to victory under presently-foreseeable conditions.

Another result has been to excite a whole herd of dark horses. General Eisenhower was the one big lightning arrester likely to catch the sparks in the case of the conjured deadlock between Gov. Dewey and Senator Taft. Now the big lightning arrester is down, and all the dark horses, some of them not so dark, have got theirs up. This means that the proponents of Senator Bricker, Governor Stassen, Speaker Martin, Gov. Warren of California, are likely to travel around and work harder for their candidates. And a host of local "favorite sons" put forth for trading purposes, will hear their names offered come the Republican convention next July unless by July some one gets set to cop the nomination right off.

* * *

Natural weather also may make some political weather for later this year. All factors relating to world production of grains are looking generally better than they did six months ago.

Officials now confirm the brighter prospects. Southern hemisphere crops now being marketed are good. The Australian crop is especially good. The southern hemisphere will have more to export than a year ago.

In Europe the winter thus far has passed without last year's freezing of fall plantings. In Europe "they are in a great deal better shape" with respect to 1948 crops. In the United States the winter wheat prospects are much better than officials a couple of months ago thought they were going to be. Officials have been saying conservatively that they looked for a one billion bushel 1948 wheat crop (including spring wheat). Now they are coming around to talk 1.1 billion bushels. In Canada the moisture has been good in that country's great spring wheat belt.

Of course the weather to come between now and harvest can make or break the crops. But IF prospects continue favorable throughout the spring wheat planting season in the northern hemisphere, and for the 1948 winter wheat crop, then the strain in grain prices in the U. S. will abate.

* * *

It is upon the prospect of continued rising living costs that the Truman Administration has staked its political fortunes. The Truman bet is that living costs will rise and that the country will be mad at the Republican Congress for not enacting controls. Government economists believe that if food shortages the world over continue into spring, they will constitute the greatest single impetus to a rise in the cost of living.

An easing of the grain situation will not bring up the production of meat to swollen demand — but it could abate much of the feared rise in the cost of living.

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Incidentally, unless conditions change radically, there will be NO government-initiated action to further limit speculation in either grain or any other food commodity. Under the Taft "voluntary" program the grain exchanges could have been called in by the Department of Agriculture and asked to work out a voluntary program to curb speculation.

There is only one way officials figure they could further curb speculation. That would be by again hiking trading margins. The 33⅓% margin adopted by the big grain exchanges at the instance of the Administration has already curbed trading volume "drastically." It is not stated but officials are fed up with the fuss created by the Truman attack upon speculation, and the resulting round of Congressional "exposures." These have probably scared all but the hardiest would-be speculators for a long time to come.

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Officials close to the labor front see signs that labor's habits are beginning to shake down toward a more normal peacetime pattern. The number of quits per month is dropping sharply—indicating that despite the availability of jobs for the asking and little fear of unemployment, people are tending more and more to stick to the jobs they have.

In view of the large acquisitions of producers' equipment by industry, officials look for the curve of productivity to show a sharp rise upward this year and next—when the figures are in.

* * *

Two of the best-known economic minds in this city were asked to diagnose privately the reasons for the apathy of the public toward stocks at present price-yield ratios. These individuals may not be identified, but their combined explanations are listed:

(1) Many persons do not take the present large volume of business as something which will last. They fear a set-back.

(2) Present "high profits" (cited in the President's Economic Report) are in one sense illusory, in that they represent "inventory profits."

(3) In view of the fact that more and more products are coming into supply and hence are becoming competitive, fewer and fewer producers will be able to pass on to consumers in the form of higher prices their prospective added labor costs in the "third round" of wage rises due this year.

(4) Administration request for restoration of the excess profits tax has created a state of mind among potential investors in equities that "if labor doesn't get corporate profits the Government will."

(5) Finally, the tax levels have abolished the capacity of persons formerly of large means, biggest investors in equities, to buy stocks, and also are bearing down on the capacity of the middle class to acquire equities.

* * *

For an election year Congress, which naturally looks for a lot of political wares to peddle, this session of Congress is getting off to a slow start.

Take the matter of social security expansion, for instance. This has been proposed by the Administration and generally has been blessed by the Congressional leadership. This proposition involves the extension of social security coverage to presently exempt groups, such as the self employed, professional people domestics, farm laborers, and perhaps even State and local government employees.

Last year the Senate Finance Committee engaged a group of technicians to survey the whole subject and recommend changes. It will probably be March before that committee comes up with recommendations on only the old-age annuity and assistance features. Then the Senate committee is determined not to turn a wheel until it gets a bill from the House.

Other politically appealing proposals, such as health insurance aid to local education, housing subsidies, statutory minimum wage laws, etc., also are slow in getting under way.

It may mean that the "press of business" near the end of the session may choke off some of these vote-getting proposals.

* * *

There is sure to be a big row over housing legislation. The row may be a double-feature attraction, occurring first within the special joint Congressional Housing Committee, and later between the committee and the legislative leaders.

Certain elements within the special housing committee, named last year when the present housing construction boom had not materialized, have big ideas. Here are some of the proposed recommendations batting around within the special committee:

That Title VI of FHA be extended, but slanted toward financing rental projects (as it is now slanted by FHA in its operation) and toward less expensive houses.

That the Federal Government write some new form of aid for slum clearance.

That Federal aid be provided to municipalities for the installation of utilities for low cost housing.

That the Federal Government develop a form of yield insurance for rental housing.

That the tax laws be modified to provide for more rapid amortization or depreciation of investments in rental housing projects.

The first struggle will be to cut the program down to size, and this will be a tussle within the special housing committee. Then the committee will have a job trying to sell any of its recommendations to the legislative committees and the Congressional leadership.

This leadership is going to go for just about as much housing legislation, if any, as it would have adopted without any special housing committee. The housing committee has made much sound and fury — but it will actually make very little legislation by itself.

BUSINESS BUZZ

"At first I thought it was my imagination — but then I found out he REALLY gets like that every time he gets bullish!"