ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 167 Number 4670 | New York, N. Y., Thursday, February 5, 1948 | Price 30 Cents a Copy

Cites Deflationary Dangers in Use of Treasury Surplus

Northern Trust Co. of Chicago holds use of estimated $6 to $8 billion surplus will have a profound effect on our economy and if employed to redeem debt held by Federal Reserve Banks could cause 9% drop in demand deposits.

The Government has within its grasp a "tremendous anti-inflationary force" in the form of an estimated cash surplus of $6 billion to $8 billion for the current quarter, according to an article in the February issue of "Business Comment," the bulletin of The Northern Trust Co. of Chicago.

"This surplus," the bank states, "and the use that is made of it will have a profound effect on the economy," adding that the present intentions of the authorities indicate that it will be used to retire debt held by the Federal Reserve banks. This would constitute an anti-inflation move of great proportions.

"A cash surplus of $8 billion used entirely to redeem debt held by the Federal Reserve banks could cause a 9% decline in the aggregate demand deposits of individuals and corporations, with collateral effects on interbank deposits," the article points out. Several factors, however, would probably limit these effects and lessen their severity.

Continued heavy gold imports and a decline in money in circulation would increase deposits as well as reserves of the commercial banks. Secondly, expansion of bank loans and purchase of securities from the public by the

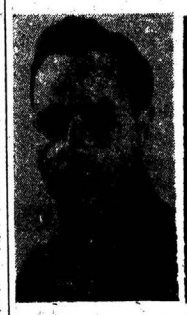
(Continued on page 31)

Demand Performance and the Stock Market—The Finale

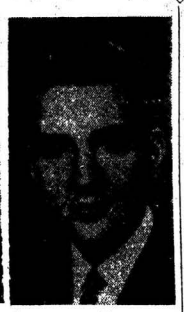
By GILBERT M. HAAS and JAMES J. QUINN
Investment Counsel With Mol & Co., Members N. Y. S. E.

Investment analysts review developments of past year and, on basis of analysis and assumptions, conclude "we are about to enter the distressing phase of decline in the bear market which began in September, 1946, which has potentiality of developing later into a depression of great magnitude." Holds government bonds, despite Treasury's efforts, may be driven below par, and major break in stock prices is distinct probability within next six months.

A year ago, the authors of this article submitted an analysis of the domestic economy, entitled *"Demand Performance and the Stock Market"* (see "Chronicle" of April 3, 1947), in an effort to demonstrate that neither present income nor accumulated savings



Gilbert M. Haas



James J. Quinn

in the hands of consumers would be sufficient to move current production at current prices beyond the early part of 1948. The analysis concluded that the consequent effect of such a condition would result in a profound downward readjustment of the stock market as well as the economy.

While we firmly believe that developments during the past year not only continue to support but greatly reinforce those conclusions, as this article will endeavor to prove, there are many who now assert that the proposed European Recovery Program provides a new

(Continued on page 28)

A Reduced Budget Before Tax Cut

By JAMES D. MOONEY
President and Chairman of Board, Willys-Overland Motors, Inc.

Mr. Mooney urges sharpening of budget axe to reduce taxes 20%, which would sufficiently stimulate business and raise income until total government revenue would exceed present amount. Analyzes important budget items and points out possible reductions and possible economies, and concludes, with high cost of doing business, incentive for risk-taking and new business is being destroyed, and danger signals point to readjustments which may shake our economy and do more harm to our prestige and foreign relations than Communists can do.

Tax reductions will be easy when strong and far-seeing leadership rises to the emergent necessity of reducing the budget to essential needs and eliminating political luxuries. Never before was a strong, forthright determination to solve the economic and financial problems of this country more urgent. It will require leadership with a determination to serve the best interests of the country to cut through red tape and eliminate obstructions.

James D. Mooney

Every one wants a reduction in taxes. This is not altogether a selfish desire. The present inflated prices and costs are making it difficult for workers to meet their daily bills and for many businesses to keep in the black. Political leadership has promised a tax reduction. Economic and business necessity dictate the need for tax reduction in order to hold up purchasing power and reduce costs to avoid a slump in business.

(Continued on page 26)

EDITORIAL

As We See It

Inevitable, of Course, But . . .

It was inevitable, of course, that the French authorities sooner or later would take cognizance of the gross overvaluation of their currency in the markets of the world. There may well be differences of opinion as to the wisdom of the precise measures now adopted in Paris, but that something had to be done no one can well doubt. All this was as true of the franc as it was of the lire and is today of the pound sterling and a number of other currencies whose official "values" are no less than fantastic.

The real question has to do with whether any such steps as those now taken by France and due sooner or later in London and a number of other countries will place the currencies of these nations on a sound basis, or even prove to be helpful in reaching that goal. Upon inquiry the answer to this question is soon found to depend less upon currency devaluation than upon other and far more basic considerations. It, of course, may be taken for granted that what has now been done in Paris, or correspondingly similar action in the other capitals, even if more wisely and expertly devised, will of itself not cure the underlying ills of

(Continued on page 24)

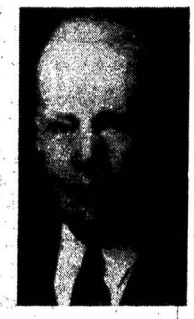
Community Property and the Split Income Tax

By ALBERT HANDY

Formerly Lecturer in Taxation, New York University

Mr. Handy reviews origin and growth of Community Property Laws in the various states, and points out recent adoptions of this principle have been taken in states to obtain Federal tax advantages for inhabitants. Sees dangerous implications in community tax laws if extended to estate taxes, and concludes Congress can remedy situation by annulling community property principle in all Federal taxes.

In one of the world's oldest ethical systems the tenth precept lays down the rule: "Thou shalt not covet." And yet covetousness is one of the motivating sources of economic progress. The desire to keep up with the Joneses is actually a dynamic force for good—or perhaps for evil. Hitler and Stalin have been exponents of it in its most depraved form. Covetousness is after all only envy, and man will put forth tremendous efforts to attain the things which his neighbor has and which he desires. The great inventions, the epic-making discoveries, mostly find their source in this state of mind.


Albert Handy

Because eight States in the Union accorded to married couples a preferred tax position whereby their financial burden was reduced the wedded residents of the other 40 States asked their Congressmen with a greater or lesser degree of fervor, "Why the discrimination?" Why should those who have chosen to live perhaps in California, perhaps in Texas, be favored over us? With the increase in the rates of tax the chorus has grown louder and fewer dulcet tones are heard.

These people are entitled to preference according to the law, as interpreted by the courts, because they live in community property States. Despite a deep-seated belief to the contrary community property has fundamentally nothing to do with tax rates. The chief feature of the community property rule is that husband and wife are regarded as being members of a species of marital partnership. The law provides, as in the case of every other partnership, the acquets and gains shall be divided between the partners. The two spouses again under the law, must be treated as equal partners and hence all income of the partnership must be regarded as consisting of two equal parts: one part belonging to the husband and the other to the wife. That is, when a man marries, he makes his wife not only the partner of his joys and sorrows but also of his income and possessions. This means far more than does the standardized formula contained in the marriage ceremony, "With all my worldly goods I thee endow." Usually the wife never gets anything substantial by virtue of this provision; at least these words confer no legal rights upon her. In the community property States the law is that, as on the dissolution of every other partnership, each takes his or her half. However, in these States property and income fall into two classes, these are community and separate property. In the latter class there are included generally gifts, devises, bequests and inheritances. Also the partners may agree that certain property shall be the separate property of one or the other. But there is no precise rule that governs all cases, as the decisions of the courts of the community jurisdictions vary

(Continued on page 27)

Business Prospects and Distribution Trends

By C. F. HUGHES*

Business News Editor, The New York "Times"

Commenting on current business forecasts, Mr. Hughes reviews trends in 1947, and ineffectual efforts of retailers and manufacturers to balk inflation. Holds boom is at tag end, because: (1) supply pipe lines, with few exceptions, are full; (2) bank credit is jumping too fast, and (3) competitive imports will increase under Geneva Agreement. Sees concern regarding continuation of consumer demand and notes increasing competition and confusion in merchandising. Concludes, with current uncertain international situation, business forecasting "is downright guesswork."

About six weeks ago we were engaged on the paper in putting together a small business and financial annual section—something to accommodate advertisers and not chew up too much newsprint— and we were knee-deep in reviews and forecasts. Some of them got into the paper, others didn't. The paper shortage still persists and we were putting out only a token section.


C. F. Hughes

On the whole I would say that over the years these reviews from trade and industry have improved. They are not the bombastic pieces of pollyanna — long on ballyhoo and short on facts—which once they were in so many instances. They are now more realistic, tell what happens and offer a reasonable appraisal of plans and possibilities.

Business forecasts for 1948 were as a rule optimistic, particularly with respect to the first six months. A good deal of uncertainty was registered concerning the second half of the year. There was only small mention of the influence of a Presidential election, so perhaps it is believed that the test of prices and supply and demand conditions will appear some six or seven months from now.

One notion expressed in some of these forecasts reminded me a bit of that old story of Mike. who fell off the top of a new skyscraper. As he whizzed past his friend Pat on a lower beam, Pat yelled, "How are ye, Mike?" And Mike yelled back, "OK, so far!"

What I mean is that business in some quarters is feeling a little too cocky, perhaps, because a lot of 1947 predictions did not come true. You will recall that something variously called a "recession," a "shakedown," or at least a moderate readjustment, was thought to be quite likely. I think I made a few suggetsions on that order myself, though I find on re-reading of my year-end offering of 12 months ago that I hedged it rather nicely — and without too much playing of the "handy game" which goes like this: "Now on the one hand — now on the other hand."

What Happened in 1947

The fact is that there was the beginning of a readjustment in the late spring of 1947 and it was only saved from growing by three major developments—a short corn crop, announcement of the Marshall Plan, and the quick coal-wage settlement. The crop news pointed to sustained high food prices. The Marshall Plan promised to hold off the sag in exports under the "dollar squeeze." The coal-wage agreement led to higher steel prices which invited

(Continued on page 44)

*An address by Mr. Hughes before the Advertising and Sales Promotion Executive Conference, Ohio State University, Columbus, O., Jan. 30, 1948.

INDEX

Articles and News Page

Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

WILLIAM B. DANA COMPANY, Publisher, 25 Park Place, New York 8, N. Y.
REctor 2-9570 to 9576

HERBERT D. SEIBERT, Editor & Publisher
WILLIAM DANA SEIBERT, President
WILLIAM D. RIGGS, Business Manager

Thursday, February 5, 1948

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

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

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

Subscription Rates

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

Other Publications

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

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

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

Current Business Situation

By WESLEY LINDOW*

Economist, Irving Trust Company, New York City

Contending bullish forces still look stronger than bearish forces, Mr. Lindow points to present capacity production demand still exceeding supply, and rising prices. Sees further shortages of steel, fuel and transportation, and rising demand for more expensive foods as growth of income makes it possible for consumers to spend more. Predicts greater outlays for capital goods to offset higher labor costs, and concludes inflationary pressures will be increased by new round of higher wages.

In the business and financial world for some time we have been having what may be called the battle of the recession. Ever since the end of the war, there has been a recession hanging heavy over our heads. This has been a logical expectation, of course, for after every war we have had a corrective recession. This time, however, the recession is taking a long time to appear.

Wesley Lindow

So today, we are still engaged in a fascinating game of trying to pick the time when the recession will begin. Some people say that 1948 is the year. Others say 1948 is not the year—at least not 1948 before Nov. 2.

I had lunch the other day with a dozen or so economists and we polled ourselves on this question. As you might suspect, the results were just about half predicting a 1948 recession and half on the other side.

The result of all this is that we have talk of inflation and recession at the same time. It is almost as though they were the same thing. And one of the reasons some people hesitate to fight inflation too hard is that they fear they might usher in the recession.

I may as well tell you at the outset that I am one of the optimists. I cast my vote on the side that the bullish forces still look stronger than the bearish forces. To support this conclusion, I should like to review briefly the highlights of our supply and demand situation today.

The present overall situation may be summarized in three short statements as follows: (1) Supply is apparently close to a ceiling because production is at capacity levels. (2) Demand continues to exceed supply. (3) The price barometer continues to show rising pressure. Now, let us review the various supply and demand factors in further detail.

The Production Index

As to supply, the facts point pretty clearly to a ceiling at or about present levels of production. The Federal Reserve index of industrial production apparently has a difficult time going above the 190-192 level under present conditions. In 1947, it reached this range twice — once in the spring and again toward the end of the year. In between, however, the index dropped off to a low of 176 in July, reflecting a broad wave of doubt and hesitation which began in the spring. As you know, this wave has sometimes interpreted as the birth of the long awaited recession. That interpretation soon proved to be erroneous and the index of industrial production reached a postwar peak of 192 in November, to be followed by 191 in December. All of the figures I have cited are seasonally adjusted rates.

This index may move slightly higher in 1948 but it seems unlikely that it can go much above 195 in the near future. The difficulties in further expansion in 1948 are, of course, that many of the component parts of our economic machine present formidable bottlenecks.

As you know, one of the most important of these bottlenecks is steel, although steel production is setting new records for peacetime. Within recent weeks, the output of steel ingots reached an annual rate of almost 90 million tons — which is very near the wartime peak rate reached in the spring of 1944. The steel shortage is complicated by a number of corollary shortages. There is a tight supply situation in pig iron, which in turn is due largely to a shortage of coke. Also, there is a severe shortage of steel scrap, and the steel companies have been torn between the desire to buy up the scrap they need and the desire to stay out of the scrap market in order to keep scrap prices from rising to even new peaks.

Meanwhile, the steel industry has been increasing its plant capacity. During the past year alone, it is reported that steel ingot capacity in the United States was increased by almost 3 million tons. An additional 2 million tons of new capacity is planned for completion in 1948 and 1949. There have also been increases in coke capacity and important new increases are scheduled. Nevertheless, it seems to me that the outlook is for a continuation of the tight supply situation in steel for some time.

Another bottleneck on the side of supply is the general shortage of fuel. Our unusually severe winter has brought this to a head, and everybody knows about the tight supply situation in petroleum and heating gas. Here again, the shortages are occurring in the face of unprecedented production. Demand has simply moved up faster than capacity. The same

(Continued on page 42)

*An address by Mr. Lindow before the New York University Men in Finance Club, New York City, Feb. 3, 1948.

Brokers' Responsibility in Flow of Investment Capital

By JOHN A. MURPHY*

Partner, Reynolds & Co., Members of the New York Stock Exchange

Asserting stockholders are not only paying one-third of their dividends in taxes, but, as group, are getting only about one-half of share of national income as compared with prewar days, Mr. Murphy denies corporate profits are abnormal, and points out need for higher corporate depreciation and inventory charges because of higher prices. Sees more investment capital demanded by all business undertakings, which, because of inability to float securities, must borrow from banks, thus accelerating inflation. Upholds securities salesmanship, and urges investors organize for protection.

The investment banker is the middle-man between the accumulator of savings and those who can use those savings for legitimate business purposes, such as expanding their markets and employing more people. In this basic function of the formation of capital or in the original distribution of securities to the general public, the broker plays very little part, but there is a dual responsibility with the investment banker in the sense that the broker should contribute his part in creating a future liquid market for new securities so that investment bankers can float additional issues that the public will buy with confidence because they know they can be liquidated with ease in a broad, continuous and orderly market.

John A. Murphy

The National Association of Manufacturers in an analysis based on Department of Commerce's figures recently declared that profits of corporate business are proving inadequate to meet the requirements of current business expansion. It was pointed out that while profits are higher than prewar margins, out of the $28 billion of corporate profits, Federal and State corporate taxes absorb $11,200,000,000 and $6,200,000,000 was paid out in dividends that were again taxed to the recipient. Retained earnings amounted to a little over $10½ billion. While the latter figure may seem large, its inadequacy is revealed in Department of Commerce data that estimates business expenditure for producers' equipment and industrial and business construction has been running at an annual rate of around $22 to $23 billion. In addition, there is an estimated inventory increase of about $7,600,000,000 for the year. It was further shown that even if funds from current depreciation charges were included, only about ⅔ of the gigantic outlays necessary can be met out of reinvested earnings. Therefore, corporate business has been forced to seek billions of dollars in new financing.

Stockholders' Burden

Not only are stockholders paying income taxes amounting to about ⅓ of their dividends, but as a group they are getting about ½ the share of the national income they received between 1929 and 1938. Percentagewise, their share has dropped from 6.1% to 3.1%, nor are they benefiting through the enhancement of the value of their equity or shares.

With advanced prices of construction and equipment, current depreciation charges can not take care of more than half of the funds needed simply to replace facilities as they wear out. This situation, on top of the requirements for inventories which have doubled during the past few years, makes the problem more acute.

Recently, there has been heavy recourse to borrowing and risk capital is becoming increasingly difficult to obtain. This is a dangerous trend because in times of prosperity, we should be paying off debt and the portion of equity interest should be rising. This month's National City Bank letter showed that the percentage of capital raised by selling bonds and notes in 1947 rose 50% from 1945. Roughly, the new capital was ¼ of equity money and ¾ of debt money.

The Brookings Institute recently stated that three factors will make for still further expansion in capital requirements: (1) Still further advances in wage and other costs will necessitate a larger supply of funds for payroll and other working expenses. (2) An unusual volume of replacement of worn-out and obsolete plant and equipment is necessary — all of which will have to be constructed on a new high-cost basis. Depreciation reserves that seemed adequate on the low-cost basis of the '30's are not now likely to prove sufficient for the needs. (3) A vast expansion program is indispensable to further economic progress and higher standards of living.

All Businesses Need More Capital

Railroad, utility and industrial companies are not the only companies in need of additional capital. Fire insurance companies and commercial banks are faced with the same problem. The sharp increase in premium volume in recent years has lowered the ratio of capital and surplus to premium volume in many fire insurance companies so that they are forced to seek additional capital. Yet the news of financing to be undertaken by some of the companies has had a depressing effect on the market value of their stock even though many have been selling at a price considerably below the indicated stockholders' equity.

Mr. Marriner S. Eccles, Chairman of the Board of Governors of the Federal Reserve System, not long ago stated that banks with low ratios of capital to risk assets should build up their capital even if they had to sell additional stock. This is not always easy to do because the stocks of many of the largest banks have been selling at prices below their book value.

The heavy rate of individual saving during the war has given way to a present low rate and most of this is channeled through life insurance, U. S. Savings bonds, pension trusts and savings banks, so that these monies are not available for equity financing. The economic consequences of a shortage of equity capital could be serious. Concerns will be unable to expand or will end up with grotesque capital structures that will not survive the test of business depression. One partial solution would be to amend the laws regulating life insurance

(Continued on page 24)

*An address by Mr. Murphy at Forum sponsored by The Investors League, Inc., Philadelphia, Pa., Jan. 29, 1948.

The Franc Crisis and International Monetary Fund

By ERNEST H. WEINWURM

Mr. Weinwurm, in holding franc crisis found both the Fund and American financial high-command unprepared for emergency, urges efforts should be made to improve the Fund's organization and prepare it for future troubles. Sees mistake in acceptance of unrealistic par-value for the franc. Says there was a glaring lack of liaison between Fund and its members and with the American administration, which should be corrected quickly.

Activities of the Bretton Woods organizations were headline news in recent weeks for the first time since they started operations almost two years ago. The franc devaluation and the controversy between the French Government and a majority of the members of the International Monetary Fund brought the latter to the attention of the general public rather than merely a small group of experts as usually.

Ernest H. Weinwurm

There was a flood of reports on day-to-day events in the struggle. Obviously, they were neither designed nor able to convey any full or adequate coverage of so highly technical a subject. It is still far too early to venture an adequate appraisal of the developments during the last half of January. Yet it may be useful to deal with some of the highlights and draw a few important conclusions preliminary to a more exhaustive discussion of the whole problem as will certainly develop during the months to come.

Determination of Franc Par-Value Was Premature

Article IV of the Fund Charter sets the framework for the controversy on the franc devaluation. It provides for both determination of par values of member currencies (sect. 1) and changes in those par values (sect. 4).

When the Fund in December, 1946 published the original par values in accordance with article IV, there were grave doubts whether it had followed the best (though not the easiest) method in accepting the "official" parities without any adjustments. This was particularly true for the French franc which was already overvalued at that time.

Indeed, the Fund expressed its reservations in an accompanying statement as well as in its Annual Reports and emphasized the possibilities of adjustments in the future. However, it defended its decision as sound on the basis of statistical data and economic considerations.[1] There is no doubt that subsequent developments have proved that the policies of the Fund were erroneous with respect to the French franc and perhaps a number of other currencies as well. If the Fund had followed those who recommended postponement of a franc par value the recent dispute would have never arisen in the first place. As a matter of fact, the trends which forced the recent devaluation were apparent a year ago. But they were disregarded for reasons which were explained in terms of economics but were not based solely on such considerations.

The French Devaluation Plan

The French scheme involved two principal features. First, a straight devaluation of the franc by some 80% (from 119 francs to 214 francs to the dollar). Second, a *free market* for convertible (hard) currencies principally dollars for all transactions excepted half of the value of exports and imports to be exchanged at the new *fixed rate* of 214 francs to the dollar.

The Fund did not object to the first part of the plan. But some provisions of the second met with strong opposition particularly from the British who were supported by a majority of the Fund members.

One of the "Purposes of the Fund" as enumerated in Article I of the Charter is

"to promote exchange *stability*, to maintain *orderly* exchange *arrangements* among members, and to avoid *competitive* exchange *depreciation*" (par. III).

The Fund majority agreed with the British contention that the French plan was not in accord with the spirit of these basic provisions and thus had to be disapproved as provided for in Article IV, sect. 4.

Such was the legal position and there was no doubt that it was feasible from a legalistic point of view. But probably more important is an analysis of the real motives of the parties behind their formal argumentations.

There is little doubt that the drafters of the Bretton Woods agreements were opposed to both multiple and fluctuating currency schemes as had been practiced during the 'thirties. There was then a strong recollection of their abuses (especially those of Dr. Schacht and the Nazis) and there was a determination to do away with those practices once and for all. Each currency should have only *one price* and it should be a *fixed price*. Any devaluation should lead to another (though lower) fixed rate. Undoubtedly, the principle was a sound one;

(Continued on page 43)

[1] See "Exchange Rates and the International Monetary Fund" by Lloyd A. Metzler in "International Monetary Policies," one of a series of "Postwar Economic Studies" published by the Board of Governors of the Federal Reserve System (Washington, September 1947) for a thorough presentation of the statistical background supporting the Fund's decision.

Observations . . . .

By A. WILFRED MAY

Public Relations Warfare Is Extended to Investment Banking

Must Political Strategy Also Sabotage the Satisfaction of Industry's Pressing Need for Capital?

This week's urgent call by former SEC Chairman Caffrey on the investment banking industry to embark on a nation-wide self-advertising campaign highlights the growing need for defensive "public relations" effort here as well as in so many other sections of the community. The need for self-protective strategy in this area is made acutely pressing now by the institution of the government's suit against 17 of the most active investment bankers on monopoly charges.

A. Wilfred May

Moreover, the proceedings by the government as well as the bankers, unfortunately quite typical in our present-day political set-up, are dominated by public relations calculations. The Attorney General, it is understood, was given the green light to go ahead by a mere one-vote majority decision of the Cabinet that the suit would produce a net gain for the Administration. Similarly most current comment is concerned with whether or not the bankers are publicly putting their best foot forward; that is, whether their abstention from a newspaper embroglio in advance of the court proceedings is to be commended as ethically and strategically sound, or whether they are perhaps mistaken in habitually "ducking" under fire. At any rate, in one-man protest against this over-emphasis on public relations strategy, this writer herein is going to examine the direct effect on *the objective public interest* of some of the vital issues raised by the Attorney General's suit.

For example, the public may well be worried over the effect of successful hamstringing of our only proven investment banking machinery on the country's imminent financing needs. The Attorney General wants to end the *modus operandi* now effectively making sorely-needed insurance company funds available to industry. He is also asking that the investment bankers be forced to act *either* as an issue-merchandiser *or* as a financial adviser; which such mutual exclusion would, unlike the functioning of a medical doctor or an architect, force the investment banking machinery to act, if at all, in a vacuum.

While the experts' estimates of capital requirements and the paucity of savings run over a very wide range, we need only accept President Truman's figure of $50 billion as needed for industrial expansion, to appreciate the financing difficulties which a successful prosecution by his Department of Justice would impose. In particular key industries, such as the utilities, which will likely require $6 billion by 1952, the problem of new-capital provision would become particularly acute.

The public might also be justifiably concerned over the possible immersion of the status of the investment bankers' functioning in the sea of political trafficking which has engulfed tax policy and so many other of our problems. For it may be asked why, after the oft-repeated airings of the anti-bigness and monopoly thesis in the so-called Pecora investigation leading up to the Securities Act of 1933, again in the much-publicized fulminations from the TNEC arena in 1939, and after long and continuing supervision by the SEC this new show should be scheduled for public production shortly before Election Day in 1948.

Not only has the SEC been clothed with stringent powers to curtail investment bankers' malpractice (as detailed in this columnist's "Observations" of Nov. 6 last), but the Commission has affirmatively given the industry the green-light for its present standards. Is the puzzled public to believe the Commission, or the Department of Justice which, in the words of one of its interested high officials, recently excused the present suit to this writer on the ground that "the SEC is really only a bankers' agency"?

Intra-Government Disagreement

Or on the other hand, how is Mr. John Public to evaluate the following critique of the government's action recently uttered by a member of the Federal Trade Commission, Mr. Lowell B. Mason: "The Comintern loves it when the men of America who govern, put themselves against the men of America who produce. . . . The present anti-trust laws are the basis for certain antique court rituals which have little or no effective connection with the social, economic and democratic needs of our people"?*

This expression from the Federal Trade Commission is in line with the apparently unenthusiastic reaction from the Securities and Exchange Commission toward the Attorney General's action. And like the SEC, the FTC has jurisdiction over at least the fringe of the unfair trade and monopoly spheres concerning which its sister branch in the government is concurrently complaining. The FTC would, for example, certainly seem to cover the matter of a banker's interlocking directorates, and the lessening of competition through his membership on more than one company board; which are cited as a serious abuse in the Attorney General's present suit.

Maximum Cure Would Be Limited

The public may also get to wonder how, even if the charges should be substantiated in the courts and the cited 17 firms estopped from their functioning, the charged "club-ism," mutual back-scratching, and inequitable allotment and apportionment of new issues would be eliminated from the behavior of the remaining 258 investment banking firms who are not defendants in the suit. (This is the number mentioned in the complaint as the total number of non-defendant issue managers; the "Investment Dealers Digest" of Oct. 19, 1948 states that last year alone 317 investment banking firms managed issues, and 820 formally participated in their distribution.)

Moreover, the relief asked for would not touch the conduct of

*From an address by Mr. Mason before the Business Problems School of the Chicago Association of Commerce and Industry.

(Continued on page 47)

The State of Trade and Industry

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

While industrial production held to a very high level the past week and compared favorably with the like week of 1947, scattered strikes through the country, coupled with bad weather and industrial gas shortages, served to retard output to some degree.

In fact, postponement of the scheduled resumption of industrial gas service to plants this week will again work to keep down output of automotive factories another week. Transportation delays, too, are proving to be another stumbling block to production since inability of the snow-bound carriers to get raw materials into plants or finished goods out, tends to slow production lines.

In the steel industry the present lack of scrap and coal is responsible for a loss of close to 5% of the country's steel capacity which is equal to about 5,000,000 tons a year of steel ingots and castings. This loss is causing much concern among steel producers, but the industry's greatest worry is the possibility of labor trouble over wage proposals presently being formulated by the United Steelworkers of America, CIO, to obtain higher pay for its members.

* * *

With severe cold and heavy snows in many parts of the country, consumers generally continued to seek winter items and evidence little interest in early promotions of spring merchandise. The dollar volume of retail trade rose slightly in the week. While dollar volume was a trifle above that of the corresponding week a year ago, unit volume remained a shade below.

A large number of buyers gathered in the wholesale centers throughout the nation. Retailers were generally unrestrained in placing moderate orders, but evidenced considerable caution when large orders were involved. Wholesale volume in the week was modestly above the level of the previous week and moderatly exceeded that of the like week a year ago.

* * *

Outstanding consumer credit established a new record of $13,368,000,000 at the close of December, 1947, the Federal Reserve Board reports. Increasing $739,000,000 in that month, it was up $3,202,000,000 from the end of December, 1946. This form of credit covers charge accounts and loans repayable in a single sum as well as instalments.

According to the Federal Reserve Board there was a substantial increase in each type of credit although instalment deals showed the largest percentage gains.

Instalment credit on automobile sales rose $60,000,000, or 5%, about the same as in November, to a total of $1,159,000,000, and on articles such as furniture, refrigerators and washing machines increased $231,000,000 to $1,684,000,000. Loans repayable in a lump sum increased $20,000,000 to a total of $2,697,000,000.

Charge accounts, the biggest single item of consumer credit, increased by $295,000,000, or 9%, to $3,598,000,000. This was "somewhat more than the customary seasonal amount in December," the Board said.

STEEL OPERATIONS AFFECTED BY SEVERE WEATHER

A major prop contributing to higher scrap prices and gray market activity has been removed in the past few weeks by some steel producers. Steel firms which have converted ingots from outside sources and have been well paid for the processing have become extremely shy towards such deals, according to "The Iron Age," national metalworking weekly.

In some cases the matter has gone so far as to produce outright refusals to accept any more ingots for conversion. This does not mean strictly legitimate conversion operations where a producer and his own customers benefit, states the magazine, but it may mean an abrupt change in the policy of these companies in indiscriminately engaging in the conversion of steel ingots.

It has become apparent this week that as long as fabricators insist on keeping their operations at a high level and the supply of steel falls below total demand, the elimination of gray steel markets will prove difficult. Added pressure on steel deliveries has driven the gray market price of sheets further upward. A few months ago, the trade paper notes, $200 a ton was a rough average price for gray market sheets and $300 a ton is a good median now, which means that in many cases much higher prices have been paid.

Despite extreme pressure for steel deliveries, steelmakers have made friends. Stopping of shipment on certain proprietary shapes long used in manufacturing operations, has produced considerable bitterness in the St. Louis area. Carelessness on the part of some companies in overselling their output and then not being able to make good on delivery promises, "The Iron Age" points out, has provoked suffering consumers, while a policy of complete candidness by other steel mills has made fast friends in spite of reduced deliveries.

In the conflict over scrap prices, consumers have played their

(Continued on page 33)

John H. Anderson With White, Weld in Chicago

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John H. Anderson has become associated with White, Weld & Co., 231 South La Salle Street. Mr. Anderson was formerly vice-president of Harold E. Wood & Co., St. Paul.

With Sherman J. Brown

(Special to THE FINANCIAL CHRONICLE)

RICHMOND, IND.—Howard T. J. Duffey is with Sherman J. Brown & Co., 10 North Eighth Street, members of the Chicago Stock Exchange. He was formerly with Slayton & Co., Inc and in the past was with W. E Shumaker & Co., Inc. of Indianapolis.

With Commerce Trust Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Jack E. Dillard has been added to the staff of Commerce Trust Company, 10th & Walnut Streets.

With King Merritt & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Alvin F. Hansen is now connected with King Merritt & Co., 408 Olive Street. He was previously with Slayton & Co., Inc.

Weinert With du Pont Co.

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL. — Arthur J. Weinert has become associated with Francis I. du Pont & Co., 200 South La Salle Street. He was formerly with Mitchell, Hutchins & Co.

With S. A. Sandeen & Co.

(Special to THE FINANCIAL CHRONICLE)

ROCKFORD, ILL.—Robert P. Wermuth is now with S. A. Sandeen & Co., Talcott Building.

Stock Market Speculation and Venture Capital

By FRANCIS ADAMS TRUSLOW*

President, New York Curb Exchange

Commenting on low ebb of public interest in stock markets, Mr. Truslow points out for this reason venture capital can't be raised and business is relying more on debt financing. Sees danger in this development, and defends speculation as factor in growth of venture capital. Holds stock market speculation is guide to placing of venture capital, and sees need of removal of artificial barriers hampering risk investment. Stresses value of providing data for intelligent speculation.

To open my particular subject, I would like to call your attention to two year-end comments which were published early this month. In its "Monthly Review" for January 1948, the Federal Reserve Bank of New York states: "During the last quarter of 1947 prices of stocks continued their indecisive course, and for the year as a whole they showed virtually no change. Public interest in stocks was at a low ebb, and the volume of trading fell more than a third from 1946."

Francis A. Truslow

The National City Bank of New York in its "Monthly Letter" for January 1948 pointed out:

"Corporate demands for additional long-term capital are manifested in the increased stream of security issues for the purpose of raising new capital. . . . the tendency to rely on borrowing—through sales of debt obligations—for the bulk of new money requirements is striking."

This statement was illustrated by a chart showing that in 1945, 48% of all new capital was raised by selling bonds and notes, but that this percentage rose to 58% in 1946 and reached 73% of the total in 1947.

Public interest in the stock markets is at low ebb. Venture capital—equity capital—can't be raised, so business has turned more and more to debt financing to obtain the capital it must have. Those are the facts. What do they mean? What are the sources of stock market transactions? Is an active interest in the stock market essential to the raising of venture capital? Does an inactive stock market prevent the raising of venture capital? Does any cause and effect relationship exist between these two facts, or are they both merely manifestations of the same conditions—namely, a public unwillingness to risk capital or a lack of capital to risk?

If economics were a science, in any mathematical sense, we could add up statistics and get the answers from the footings. Fortunately, it is merely a commentary on human behavior and just as fallible as any other attempt to add up to the motives of the human units it tries to rationalize. But we can get some help with our questions by enquiring into how the stock market functions and how venture capital is raised.

There has been so much misinformation circulated about the stock market—and when I use the word "stock market" in this talk I mean the market for stocks on the stock exchanges—that I never know what that word means to someone else. Within the last few months I have met people who thought we dealt in cattle, others who thought the exchanges bought securities from one group and sold them to another. Some seem to think that the Governors of an Exchange establish prices. It is not uncommon to encounter the conviction that a small group of men, usually referred to as "they" or as the "insiders," get together and determine whether stock market prices will go up, down or sideways.

Volume on New York Exchanges

The members of the two New York exchanges, the New York Stock Exchange and the New York Curb Exchange, transact on the floors of these exchanges about 90% of the total stock exchange business of the country. The balance of the transactions take place on the several regional exchanges located in other cities. Essentially our exchanges are simply market places to which anyone who wants to buy or sell a stock, which is admitted to trading, can send his order. But because our exchange facilities permit a very great concentration of orders to buy and sell at one place, they have become a major pricing mechanism in our economy. And because 1,397 different issues of stock are dealt in on the New York Stock Exchange and 836 different issues on the New York Curb Exchange, the pricing function of those markets provides a continuous appraisal of the value of shares in a major cross-section of American business.

It is this pricing function that is of interest to us today and it is essential that we fully appreciate the variety of opinion it reflects.

Stock market prices result from the conflict of buying and selling opinion of a literally innumerable group of individuals and institutions who use these markets. It is a common mistake to think that

(Continued on page 25)

*An address by Mr. Truslow at a Forum sponsored by The Investors League, Inc., Philadelphia, Pa., Jan. 29, 1948.

New Era of Prosperity Ahead

By GEN. ROBERT E. WOOD*

Chairman of the Board, Sears, Roebuck & Co.

Gen. Wood holds war greatly improved our industrial technique and, because of increasing wealth, nation can well bear immense National Debt. Says accentuated decentralization in manufacturing and finance is benefiting country and in past decade each section has accumulated resources to finance its needs. Holds immediate currency stabilization in Europe should precede our aid and concludes nation has long period of prosperity ahead.

I am not a banker or economist and presumably I cannot speak with any authority before a gathering of bank officers. But the nature of the business of Sears, Roebuck & Co., which has stores and mail order plants in every section of this country, which deals in practically every line of goods except food products, enables its officers to get a unique cross-section of the business of this country.

Gen. R. E. Wood

I opposed our entry into World War II. Pearl Harbor made that opposition a dead issue, and I, like every other good American, contributed what effort I could toward winning the war. History will decide who was right. But I did rightly anticipate the results of the war. I predicted in 1940 that our national debt would rise to $250 billion as a result of the war, a figure thought fantastic at that time, and also believed that potentially Russia, with its type of government and its resources, would form a far more dangerous power to deal with than Germany and Japan combined.

I was deeply pessimistic after we entered the war, not as to winning the war, which I felt sure we could do, but as to the aftermath on our economy—the effect of this colossal debt. I was wrong, for the war so improved our manufacturing techniques and our farm production that today this nation can produce wealth on a scale unexampled in history and can carry this debt provided we have a reasonably intelligent leadership in our government. I must confess that after I read the President's last message on the State of the Union I was discouraged because that message reached an all-time low of demagogy.

Few understand what an enormous improvement occurred in our tools, equipment and technique during the war. It is true that in some lines of industry productivity per worker has declined, though I believe the extent of this has been exaggerated except in the building industry. It is equally true that in our greatest industry—agriculture—we are getting 25% more production from 25% fewer workers. Those of you bankers who are from towns and cities located in this corn belt know what an enormous advance there has been in the last 10 years in the design and use of agricultural machinery; how completely the farm has been mechanized.

A factor, which has been accentuated during the postwar period, is the decentralization of manufacturing. There has been an enormous increase of manufacturing on the Pacific Coast, a substantial growth in the South and Middle West, and the beginnings of growth in the trans-Missouri region. All this is healthy and to the best interest of the nation.

I believe that we are also seeing a decentralization of finance and of financial power. In the past 10 years, each region of the country has accumulated sufficient financial resources to finance the needs of their own territories. It is no longer necessary for industrialists from every section to run to New York to secure new capital. This change is also to the benefit of our country.

You will recall the gloomy prophecies of our government economists and many of our private economists, that we faced a great overproduction and an insufficient market for our manufactured goods. Now, nearly two and a half years after V-J Day, we still see no signs of overproduction, except in a few minor lines.

We have serious problems before us. One of these problems is the question of our aid to Europe, the so-called Marshall Plan. I am not going to bore you with a discussion of the plan. It is very ably treated in a monograph, "Will Dollars Save the World?", by Henry Hazlitt, which I recommend to be read by every one interested; it is fully treated by Mr. Hoover's recent statement.

Question of Currency Stabilization

There are a few points which might be mentioned briefly. As a *sine qua non* condition, there is the question of stabilization of currencies. Unless the European

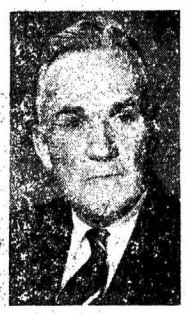
(Continued on page 31)

*An address by General Wood at dinner given by The First National Bank of Chicago at Conference of Bank Correspondents, Chicago, Ill., Jan. 29, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

With so much irresponsible babbling going on, your correspondent has had reason in recent years, occasionally to doubt the wisdom of freedom of speech. At these times of doubt, it seemed to be accomplishing no more than adding to the confusion. But when you think what Henry Wallace is accomplishing in his campaign for the Presidency, you've got to conclude that freedom of speech is a very wonderful thing, indeed. Take, for example, how he is separating the chaff from the wheat, the goats from the sheep and similar expressions by which men so vividly express what they have inexactly in their minds.



Carlisle Bargeron

It is reported around Washington that Henry is pulling Lee Pressman away from the influential position he has long held as the Bergen of Phil Murray. Lee, it is said, is to resign and join up openly with Henry. It is difficult for your correspondent to believe this because I can conceive of no other way in the world that he could have attained the influence he did than by edging close to Phil's side. Yet it may be true and it may have taken place by the time this article is published.

In that event, Henry Wallace will have accomplished a good of no small proportions. It will have justified the freedom of speech which has made Henry and his shenanigans possible. It will, in fact, have justified most anything.

Pressman, of course, is not the only man to make the CIO a vehicle of propaganda and activity for nearly every Leftist enterprise with which the country has been plagued in recent years. Its high councils are saturated with academic minds who have considered the organization their forum instead of a bona fide labor organization. But he has been shoulders above the rest of them. If you could oversimplify the shape this labor movement has taken into the handiwork of one man, after the late Sidney Hillman, you would have to put your finger on him.

It was Pressman's design, to no small extent, that organized labor has been jockeyed into its drive, in which millions are to be spent, against not only the Act but those who voted for it in Congress. If the drive is successful, it will mean, of course, that we shall have almost a completely new legislative body next year, because more than two-thirds of both House and Senate voted for the measure.

Pressman put the idea of the campaign over on the CIO; at least, it was mostly he, and the A. F. of L. and the Railroad organizations, finding themselves up against the proposition of lack of aggressiveness, have tagged along.

They, too, have raised millions and set up separate campaign headquarters in Washington. It's to be a big year for the parasites who make money out of free flowing campaign funds.

But it is apparent to anyone who talks to the A. F. of L. leaders and those of the railroad organizations that they don't relish the undertaking upon which they have embarked. The Big Four brotherhoods of the railroad organizations have always been quite effective in knocking off those to whom they were vigorously opposed but they have used their power sparingly.

The big, unwieldly A. F. of L., on the other hand, has in the past contented itself with circulating the voting records of members of Congress and leaving it to the local units to determine what they wanted to do. These local leaders almost invariably worked at cross purposes. Some of them, indeed, would be found playing ball with a congressman who on his voting record could be classed as 100% "anti-labor," but who had nevertheless done favors for the local leader. You find Republicans and Democrats among the A. F. of L. leadership and it is a great joke in Washington that both political parties always have their labor divisions in campaigns manned by A. F. of L. leaders, each insisting that his man is labor's real friend. It is amazing, too, how they can dig up such convincing arguments.

In those good old days, too, the A. F. of L. lobbyist or the lobbyist for the constituent organizations could go to see and did go to see members of Congress, labeled far and wide as anti-labor, and get favors.

Now, in one fell swoop, organized labor as a whole, has figuratively barred the portals of more than two-thirds of Congress to its representatives. What good is there for the A. F. of L. lobbyist, for example, to go into the office of any Senator or congressman who has already been declared outside the pale, and ask him to do anything? What effrontery, in fact.

The labor lobbyists are ruefully finding this out. Plying their trade through the Capitol corridors day after day, the inconsistency of their position is becoming manifest. Legislation is always pending, not of the headline variety, that affects them. How can they go to a Senator and ask him to vote for or against, when the Senator can logically say: "Why should I listen to you; nothing I can do will get your support."

Perhaps it is significant that the A. F. of L. executive council, meeting in Florida, is now referring to its campaign as one against the Taft-Hartley Act, and also in support of the Marshall Plan. They seem to be diluting their original crusade.

Western Europe in the Balance

By JOHN L. SIMPSON*

Mr. Simpson upholds Marshall Plan as emergency measure to save western Europe from economic and political collapse and from domination by Communism. Analyzes arguments against Plan, and contends they can be overruled. Holds European nations have been working for recovery and their past mistakes should not detract from furnishing them needed assistance. Points out private loans would be inadequate to remedy situation, and Marshall Plan is required to provide needed margin for European economic revival.

The Marshall Plan is designed to promote economic recovery and maintain political independence in the participating countries of Europe. Its aim is to support and sustain those nations most closely allied with ourselves by ties of tradition and common cause.

The very structure and order of the Western world in which we live, are the stakes.

John L. Simpson

These statements are not empty rhetoric but represent a mighty challenge of events. Once more the American people are confronted with the problem as to whether they can safely ignore the fate of Western Europe. The question, which has presented itself in one form or another several times during this century, is always a painful one. Most of us would vastly prefer being left alone to attend to our own affairs. In addition we are inclined to believe that Europe's mistaken policies, both political and economic, are the source of many of her woes.

Nevertheless, at a certain point we are always obliged to face the issue, realistically, as a choice of grim alternatives. Events have a way of rolling on. The great globe has dwindled. We are no longer remote on our glorious new continent but entangled in the destiny of all mankind. We dare not disregard our neighbors' ruin; for ruin breeds despair and rage which overstep frontiers. Today as heretofore Americans must decide, not whether we are glad to act, but whether we dare refrain.

A recent visit to several Western European countries gave me an opportunity to make a few direct observations. As usual the known facts, both business and political, stand in relief when studied at first hand. Never did it seem to me more apparent that the European countries are dependent on a network of interrelationships among themselves and with the world at large. No one of them can stand alone. The traditional role of British and German coal in the European economic system, and its present lack, furnish but one example of this. With Britain weakened and Germany in ruins it is difficult to exaggerate the accumulation of difficulties which beset Europe as a whole.

Nevertheless in my opinion this situation is by no means one of general decadence and decline. Recuperative forces are at work as after World War I. The problems are numerous but specific and the good thing about specific problems is that they lend themselves to specific remedies.

These observations lead back to the vastly important subject of the European Recovery Program, the Marshall Plan. The European nations of course must help themselves if they are to be helped at all. Some people are working hard now; others will have to work considerably harder. Dollars alone will not save them—certainly not! But the equivalent of *some* dollars they must have, in food, commodities and materials, if they are to be tided over this postwar crisis.

Arguments Against the Plan

The foregoing conclusion, which to many seems supported by the facts and circumstances, is not universally accepted. The belief is held by some that despite the havoc of the war European policies followed since the war are primarily responsible for the present difficulties. Hence, it is argued, the Marshall Plan must be regarded as ill-suited to accomplish the desired result and as a sheer waste of good American dollars.

Mr. Henry Hazlitt has expounded this view in a book entitled, "Will Dollars Save the World?" He and those who share his ideas attribute most of Western Europe's troubles to price controls, rationing, priorities, allocation of materials, foreign exchange regulations, overvaluation of currencies, high tariffs and other trade barriers, and unbalanced budgets. All these represent governmental interferences with the natural course of production and commerce. It is contended that such devices smack of Socialism or reckless improvidence or both. At any rate they stifle initiative and hamstring enterprise to such an extent as to render futile any outside help.

Quite to the contrary, goes the argument, such outside assistance is likely to defeat its own end by encouraging—even subsidizing—the ill-conceived policies which are at the root of all the trouble. If Europeans would cease playing politics with economics, and pull up their socks and go to work, they would not need a Marshall Plan. That being the case it is considered, by those who reason thus, far wiser for the United States to refrain from wasting its substance in a hopeless cause. It would be thriftier, and better for Europe in the long run, to confine our aid to private charity and some governmental donations of food when absolutely necessary. If strictly orthodox business conditions could be met, loans might be negotiated with the International Bank or floated in the private capital markets as of yore. Europe should be advised as to the fallacies of Statism and Socialism. And incidentally, the sooner this country sets a really good example itself with regard to such things, the better for all concerned.

There is matter here to appeal to many Americans. Whether one's political leanings be to the Right or to the Left, the criticism of excessively high tariffs and other trade barriers, and of arbitrary and fictitious exchange rates, makes a great deal of sense. Practically everyone agrees that trade should be encouraged, not hampered. Some will no doubt sympathize with other points of the argument. Most of us, certainly most American business men and

(Continued on page 32)

*Mr. Simpson is Executive Vice-President of J. Henry Schroder Banking Corporation, New York City.

Public Utility Securities

Federal Water and Gas

Federal Water & Gas has already liquidated a substantial part of its system as required under the Holding Company Act. In 1945 the company sold its holdings in West Virginia Water Service, Ohio Water Service and Peoples Water & Gas, and in 1946 Mississippi Gas and Chattanooga Gas were sold to Southern Natural Gas. The common stock interest in New York Water Service was lost in that company's reorganization.

Remaining assets consists principally of Southern Natural Gas (about a 54% interest) and Scranton-Spring Brook Water Service (79% interest). In July, 1947 Southern Natural Gas distributed to its stockholders (including Federal) stock of Southern Production Company, which owns gas wells and acreage.

Federal Water & Gas on Nov. 6, 1947 filed a plan with the SEC to distribute to each share of its own stock .78 share of Southern Natural Gas, the same amount of Southern Production, and one-half to .65 share of Scranton-Spring Brook. The variable amount named for Scranton reflects the long-standing litigation over the terms to be accorded to the preferred stock held by certain officers of the company, including President Chenery. The SEC decided that these holdings should be "Deep Rocked," i.e., reduced in value to the cost price plus interest. On certiorari, the Supreme Court on June 23, 1947 reversed the decision of the Court of Appeals in the resulting litigation. On Dec. 12, 1947, the Court of Appeals, pursuant to the mandate of the United States Supreme Court, set aside and annulled its decision of Feb. 4, 1946 and affirmed the order of the Commission dated Feb. 7, 1945, which provided that the preferred stock held by Mr. Chenery and others in the management should be surrendered to the company for retirement at cost plus 4% from the dates of purchase to the effective date of the plan.

Despite the fact that the litigation has twice gone to the Supreme Court, the question as to whether Mr. Chenery and his associates can be paid off at $313,190 (cost plus interest to Oct. 31, 1941) still seems unsettled. The difference between one-half share and .65 share of Scranton represents the approximate amount which is tied up in this litigation.

If the SEC agrees to the smaller fraction of Scranton, and the amended plan is approved by the U. S. District Court, Federal will file a certificate of dissolution in the State of Delaware and will then immediately distribute the three stocks as a first liquidating distribution (stock certificates being surrendered for stamping). After the Chenery and other claims are cleared up a final liquidating dividend will be paid to stockholders.

However, the issue was further complicated by an informal compromise agreement among counsel for various groups of stockholders at a hearing Jan. 20 before the SEC. Under this agreement the company would retain 5% of the assets subject to future rulings of the SEC or the Courts, and would make an immediate distribution of 95%. Percival Jackson, representing the holders of 5,500 common shares, proposed however that distribution should be changed to seven-tenths share of all three companies. The SEC now has the matter under advisement.

It would make relatively little difference as to the value received by stockholders whether the company's proposed distributions, or the Jackson proposal, should be accepted. Federal Water is now quoted about 26-7. The three proposed initial liquidating dividends would be approximately as set forth in the accompanying table:

	Price About	Proposed Distrib. (1)	(2)	(3)	Indicated Values (1)	(2)	(3)
Southern Natural Gas	22½	.78	.78	.70	$17.60	$17.60	$15.80
Southern Production	9½	.78	.78	.70	7.41	7.41	6.65
Scranton-Spring Brook	10½	.50	.65	.70	5.25	6.80	7.35
Totals					$30.26	$31.81	$29.80

Judging from the tenor of the SEC notice of hearings the Commission appears to favor making the larger distribution of the two proposed by company. However, the present price of Federal as compared with the potential break-up values indicates that stockholders are still puzzled regarding the legal ramifications of the Chenery claims, and it seems to be assumed that further delays, including another appeal period after a Federal Court has enforced the final SEC decision, will prove necessary—with the possibility remaining, of course, that the whole affair will remain tied up in the courts for some time.

Wolf & Dessauer Co.

FT. WAYNE, IND.—Wolf & Dessauer Co., 923 South Calhoun Street, is engaging in a securities business.

Ira W. Johnston Opens

FT. WAYNE, IND. — Ira W. Johnston is engaging in a securities business from offices in the Central Building.

Ewing and Danielson With Wheelock & Cummins

Special to THE FINANCIAL CHRONICLE

CHICAGO, ILL. — Herbert N. Ewing and David N. Danielson have become associated with Wheelock & Cummins, Inc., 135 South La Salle Street. Mr. Ewing was for many years with Rawson Lizars & Co. Mr. Danielson was with F. S. Moseley & Co.

COMING EVENTS

In Investment Field

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. 7, 1948 (New York City)
Cashiers Association of Wall Street annual dinner at the Hotel New Yorker.

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. 18, 1948 (Chicago, Ill.)
Bond Club of Chicago 37th annual dinner and meeting of the Chicago Club.

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

Feb. 23, 1948 (Houston, Tex.)
Investment Dealers Association of Houston annual party.

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.

Iowa Inv. Bankers Elect New Officers

CEDAR RAPIDS, IOWA—The annual meeting of the Iowa Investment Bankers Association was held at the Montrose Hotel, Cedar Rapids, Iowa, on Jan. 29 and the following officers were elected for the new year and also four new Directors:

Harry Graefe, Graefe & Co., Des Moines, Iowa, President.

Thomas Crabbe, Thomas L. Crabbe & Co., Cedar Rapids, Iowa, First Vice-President.

John H. Ruhl, Quail & Co., Davenport, Iowa, Second Vice-President.

Sherman W. Fowler, Iowa-Des Moines National Bank, Des Moines, Iowa, Secretary-Treasurer.

New Directors: Ernest Kosek, Ernest Kosek & Co., Cedar Rapids, Iowa; Victor F. Becker, Becker & Cownie, Inc., Des Moines, Iowa; Thomas J. Landstorfer, McCrary-Dearth & Co., Inc., Des Moines, Iowa; Carl Stutz, White-Phillips Co., Inc., Davenport, Iowa.

Ralph C. J. Somers With Shearson, Hammill & Co.

Shearson, Hammill & So., 14 Wall Street, New York City, members of the New York Stock Exchange and other principal stock and commodity exchanges, announce, that Ralph C. J. Somers has become associated with the firm in its main office.

Dealer-Broker Investment Recommendations and Literature

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

Aluminum Industry and the Reynolds Metals Company—Analysis—Reynolds & Co., 120 Broadway, New York 5, N. Y.

Annual Review of Business and the Security Markets and Forecast for 1948—H. Hentz & Co., 60 Beaver Street, New York 4, N. Y.

Bank Stocks — Year-end comparative analysis of group of country's leading banks—Blyth & Co., Inc., 14 Wall Street, New York 5, N. Y.

City of Philadelphia Bonds — Valuation and appraisal—Stroud & Company, Inc., 123 S. Broad Street, Philadelphia 9, Pa.

Also available are a valuation and appraisal of **Railroad Equipment Certificates** and the **Price-Earnings Ratios and Yields on 123 Public Utility** common stocks.

High Grade Bonds—or Cash?—Study of the "worth" of capital—Wood, Walker & Co., 63 Wall Street, New York 5, N. Y.

Income Mortgage Bonds—Analysis—Vilas & Hickey, 49 Wall Street, New York 5, N. Y.

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

Metals 1948—Outlook for the Industry—Bache & Co., 36 Wall Street, New York 5, N. Y.

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

Railroad Earnings—Analysis of estimated earnings of 20 selected railroad companies for the year 1948—McGinnis, Bampton & Sellger, 61 Broadway, New York 6, N. Y.

Railroads and Their Outlook for 1948 — Memorandum — Stanley Heller & Co., 30 Pine Street, New York 5, N. Y.

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

Stocks for 1948—Discussion and Suggested Portfolio—Hornblower & Weeks, 40 Wall Street, New York 5, N. Y.

What's Happening to the Bond Market?—Study of problems confronting bond investors including "Can the Government stabilize the economy and still maintain the 2½% rate? Are we headed toward still higher interest rates? at what point will Corporates be a buy?"—In eight instalments with a trial subscription to Standard & Poor's Bond Outlook—Write for descriptive brochure and complete information—Refer to "A658-127"—Standard & Poor's Corporation, 345 Hudson Street, New York 14, N. Y.

What the International Bank Means to You—Descriptive booklet—Office of Public Relations, International Bank, 1818 H Street, N. W., Washington 6, D. C.

* * *

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.

Canadian Pacific — Memorandum—Zuckerman, Smith & Co., 61 Broadway, New York 6, N. Y.

Cudahy Packing Company — Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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.**

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

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

Northern Engineering Works—Memorandum—Fitzgerald & Company, Inc., 40 Wall Street, New York 5, N. Y.

Northern States Power Company—Analysis—J. R. Williston & Co., 115 Broadway, New York 6, N. Y.

Pathe Industries, Inc.—Detailed description of company and its operations—Comstock & Co., 231 South La Salle Street, Chicago 4, Ill.

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

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

Public National Bank & Trust Company of New York—Year-end analysis—C. E. Unterberg & Co., 61 Broadway, New York 6, N. Y.

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

Standard Gas & Electric—Recent analysis—Hicks & Price, 231 South La Salle Street, Chicago 4, Illinois.

Warren Brothers Company — Review and investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

With Central Securities Co.

(Special to THE FINANCIAL CHRONICLE)

OMAHA, NEB. — Harold Hultman is now with Central Securities Company, First National Bank Building.

Graham & Co., Pittsburgh

PITTSBURGH, PA. — E. W. Sterling Graham has formed Graham & Co. with offices in the Granite Building, to engage in the securities business.

With E. H. Rollins Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—William J. Butler is now connected with E. H. Rollins & Sons, Inc.

Utilities Face Their Greatest Test

By DAVID COWAN*
Utility Specialist, Shields & Co.

Mr. Cowan asserts need for new generating capacity in next four years will take $4-$6 billion of new money, whose raising will require joint cooperation of Federal Government, local rate-making agencies and private lending institutions. Believes bonds and high-grade preferred stocks may be absorbed by life insurance companies. Advocates modified revival of holding company ownership pattern.

Electricity has become essential to our living. We expect immediate delivery of this current to our homes and factories when we need it. Not only do we determine our own time-table, irrespective of the hour, weather or season, but we really don't care much about the other man's needs at the same time. Complex problems stem from this simple fact. They are financial and technical. They are certainly an influence in having made steam and water power the preferred sources of electric energy.


David Cowan

As their part of the franchise contract, utilities then must be ready, always, to give efficient public service. How are they equipping themselves to fulfill this obligation over the next few years? First, let us look at the magnitude of the task.

Between 1948 and the end of 1952, some 23,000,000 kw. of new capacity are projected, of which perhaps 80% will be installed by private companies. It is a boost of nearly 50%. The increase alone measures up to our total generating capacity only 20 years ago. To foot the bill will cost companies $4 billion aside from reinvested earnings. The ultimate figure may prove to be more nearly $6 billion, a yearly average of about $1.5 billion say from here on. Last year, utilities sold a like volume of securities but two-thirds of that for refunding. In comparison, new-money issues were $538 million in 1947 and $173 million in 1946, both active years.

How does the industry propose to tackle the problem? Plainly, we don't know. We do know that on the financial scene, key roles will be played by life insurance companies, investment bankers naturally, by Federal and State Commissions and particularly by security analysts in the employ of all four.

During this period utilities cannot play a passive role. Still living under the shadow of the Holding Company Act, they speak to their public in carefully chosen words; perhaps too much so. The highly mechanized nature of the new-issue market which has allowed utilities to sell $4 billion of securities in three years with a minimum of effort and cost, is not a good conditioner for hardier weather ahead. The next few years may require a sales job and a publicity program the like of which has not been seen since the days of the National Electric Light Association. And there is much to favor such a campaign now in view of the industry's record, its unassailable financial position and because now there is very little abuse possible in the framework of a regulation which overlooks nothing.

The holding company pattern of ownership may well have to be revived and soon. The character of the business makes it frequently desirable to have operations over large areas under single control and the holding company was a convenient way to effect this where actual physical merger often was not. For all its critical undertones, the Holding Company Act of 1935 recognizes this by virtue of its Section 30 which paves the way for future regroupings and consolidations.

Companies are being cut loose from old association in a sweeping divestment program. Is there not here one way to ease the financial problems of the smaller operators by fitting them into newly-created systems?

In 1929, it was possible to show that five top corporations controlled virtually all the power business of the country. To what extent this concentration, so much the target for attack, was in the hands of investment companies rather than holding companies as we understand the term, is probably immaterial. But as an old saying goes: "Desperate evils call for desperate remedies" and in a period of reform, the industry reaped the whirlwind. Now is the time, it seems, to rebuild on old foundations.

Let us also admit quite freely that pyramided companies, if you wish to call it that, created an earnings leverage with the expected results marketwise. There need be no blinking this plain fact. The low rate of return in the utility business is compensated for by the regularity and relative certainty of income. Now, capitalizing on this in a limited way might appeal to a large group of investors who won't cross the street for a straight 4% return or a 25% market play in the next 36 months.

Technical Achievements

The remarkable thing about the utility industry has been its ability to lower the unit price of its product in the face of spiraling costs. There is nothing to equal it in our economy. It still takes only about $4 to produce $1 of revenue. Abnormal conditions may account for part of this achievement; such as for example use of capacity ordinarily held in reserve. Also last year, fuel plants operated on an average nearly 5000 hours and this 56% factor is considered very high for an average figure. But there are more fundamental reasons traceable to engineering and technical refinements.

Just as the old steam engine was displaced by the turbine, so has the turbine itself been greatly changed in design and size. The 60,000 kw. unit of 20 years ago is dwarfed by Commonwealth Edison's 208,000 kw. triple shaft unit at State Line, though the large turbine generally in use today is more nearly in the 160,000 kw. class.

Steam pressures have climbed from 600 lbs. per square inch to an average of 1500 lbs. In the Twin Branch station of Indiana & Michigan Electric pressures are 2400 lbs. per square inch. Steam temperatures have been increased to 1000° F in some cases and finally, transmission voltages were some years ago stepped up from 110,000 volts to 220,000 volts. American Gas & Electric is experimenting now with 500,000 volt transmission.

While it took 3.2 pounds of coal to produce a kilowatthour in 1919 it now takes only 1.3 pounds, at which figure it has remained in

(Continued on page 30)

*An address by Mr. Cowan before the Boston Security Analysts Society, Feb. 2, 1948.

Home Building Costs and Trends

By MYRON L. MATTHEWS*
Vice-President, The Dow Service, Inc.

Mr. Matthews, after analyzing present day construction costs, maintains, because construction costs constitute wages in some form, there can be no reduction until wages drop or productivity increases, or both. Sees inadequate apprenticeship training program. Points out some building costs may be pegged, and contends, with construction costs 104% higher than in 1941, situation is not alarming and present construction costs are not out of line.

Home building costs have been discussed so often it is becoming increasingly difficult to add much of importance to what has already been stated over and over again at such conferences as this one. We will deal today with a discussion of some of the factors concerning costs which have emerged clearly above the fog enveloping the subject. We will introduce some conclusions which have not heretofore been definitely pinned down—matters to which but fleeting reference is customarily made.


Myron L. Matthews

We will talk about home building costs— not housing in the broader sense, which includes rehabilitation, modernization and repairs to existing structures, and apartments and large scale apartment projects and temporary emergency housing. We will talk about that dream house every man and woman and child has a right to assume he or she will one day be able to say is theirs—their very own, provided, of course, they keep up the payments long enough and that at the end of such period the house will still be standing. We will talk about the house which sells today for just under $12,000—the one which sold in 1941 for $6,000. It's a bit smaller today, a little more compact. It's probably prettier to look at, it has more gadgets, it's modern with its air conditioned heat—no coal to shovel or ashes to carry, nice tiled bath and up-to-date average quality fixtures, gleaming white science wall cabinets, sink, cooking range and refrigerator in the kitchen with an all-year round supply of hot water, pretty little bedrooms that the furniture doesn't fit unless you don't mind having it run out into the door or window spaces and such. This is the house for our clinic today. What makes it cost $12,000?—pardon, please—I mean what makes it **sell** for $12,000, or a little under? There is a difference, you know, between (1) selling price and (2) cost. Of necessity we will talk about both.

Let us take a peek at our prewar $6,000 dream house and see how it got to sell for $12,000. Perhaps rather than recite all the lurid details it would be simpler, and certainly much more charitable, to simply say that houses, like most other products of man and machine in the present national economy, are the victims of dollar-chasing—too many dollars chasing too few houses. That's what we're being told nowadays. They told us right along we had to produce more houses, and more of everything. But now it seems that the real culprit has turned out to be we have too many dollars. Too much demand, not enough supply. Take a few of the supporting credit-bricks out of the foundation of the dollar so that it has to hobble along with a cane, and the chasing, the demand, won't be quite so aggressive. Sort of seems to me like attempting to shoot a gun s-l-o-w-l-y. Anyway, it's supposed to reduce the dollar supply thus discouraging further price increases, if not pulling them down.

Analyses of Construction Costs

But the more we get into talking about how to manage the currency the easier it becomes to handle the comparatively simple dissection of construction costs of our dream house.

This presents but part of the story. The 1948 cost of material and labor at the site is 45% and 30% respectively, in relation to selling price and is 95% higher than the $4,500 site cost in 1941. The material cost then is estimated to have been $2,635 and the labor, $1,865. Let us take a look at things which must be added to the 1948 site cost, which, in the aggregate, indicate the sales price—if we keep those over-ambitious dollars walking with a cane:

Estimated Average Charges Over and Above Material and Labor Costs

Design and Supervision	$ 130
Interest and Taxes	220
Builders overhead and profit	1,500
Total	$1,850
Total builder's cost with profit	$10,625
Land and Land development (40 x 100)	1,000
Sale price including land	$11,625

The $11,625 is somewhat below the $12,000 figure used in our opening remarks but the practical difference is slight in relation to the convenience of a round figure. Inasmuch as cost estimates will vary this one could easily reach $12,000, but there is little likelihood it could be whittled below $11,500.

Summarizing this set of figures we find as follows:

Estimated Construction, Management and Land Summary

	1941			1948		
	Mat'l	Labor	Total	Mat'l	Labor	Total
Construction	$2,635	$1,865	$4,500	$5,214	$3,561	$8,775
% Increase	----	----	----	97.9	90.9	95.0
Design, Finance, Overhead, Sales Expense and Profit	----	----	1,000	----	----	1,850
% Increase	----	----	----	----	----	85.0
Land and Development	----	----	500	----	----	1,000
% Increase	----	----	----	----	----	100.0
Totals	$2,635	$1,865	$6,000	$5,214	$3,561	$11,625
% Increase	----	----	----	----	----	93.8

Will Costs Rise?

What will happen to our dream house in 1948, cost-wise? It's hard to say, exactly, but we feel that building costs will **not** come down in 1948. They may go up somewhat. To understand the basis for such conclusions it is only necessary to remember at all times that the "cost to build," whether a house or a 100-story skyscraper, is **all** labor. It is merely a convenience to refer to building costs as being X% labor and the balance materials as we have done here. What we mean to say is the cost of materials delivered at the site of construction is so much and the cost to assemble them is so much. If we look behind the material cost we will see that it is wages of one kind or another, whether or not the components are referred to as wages, salary, interest, insurance, dividends, taxes, freight, depreciation on invested capital, or what have you. The origin of every product is raw material, which prior to acquisition was as free of cost as the air we breathe out in the open spaces. Construction cost starts with the claim of the raw material and the purchase of the land. Therefore, the cost of materials delivered at the site is **all** wages in the broad sense, and, since the assembly cost is also all wages in one form or another, it follows that construction cost is the total product of labor's wages. We can toy with such terms as the cost of management and the employer's overhead and profit as something separate and apart from labor but for purposes of discussing construction costs, these things merely confuse thinking. Carrying this line of reasoning a step further—sale prices of homes being predicated upon a compound percentage mark-up over site cost—what the purchaser agrees to pay is

(Continued on page 35)

*An address by Mr. Matthews at the Management Conference of the Council of Insured Savings Associations of New York State, New York City, Jan. 23, 1948.

THE 1941 $6,000 HOUSE TODAY
(700 Sq. Ft.—21M cubic feet) 25' x 28' x 30'
Estimated Average Site Construction Cost Breakdown

Approx. Trade %		Class Const.	Material Amount	Material %	Labor Amount	Labor %
11	Excavation, Foundation, Grading and Landscaping	$ 965	$ 240	25	$ 725	75
31	Carpentry	2,720	1,822	67	898	33
10	Brickmasonry	878	493	55	395	45
17	Plumbing & Heating (Including Insulation)	1,500	1,000	67	500	33
3	Electrical work	265	145	55	120	45
6	Plastering	544	326	60	218	40
1	Miscellaneous Steel	114	57	50	57	50
4	Painting	368	75	20	293	80
4	Roofing	350	263	75	87	25
5	Bathroom & Kitchen cabinets and equipment	438	328	75	110	25
8	Hardware, accessories, shades, screens	633	475	75	158	25
	Totals	$8,775	$5,214		$3.561	
100 %	Distribution	(100)	(59.4)		(40.6)	

Pennsylvania Brevities

Fuel Shortage Cripples Phila. Industry

According to Hudson W. Reed, President of Philadelphia Gas Works Co., only the fullest measures of public cooperation can prevent a complete breakdown and shutting off of gas service of 4,000 industries, 5,000 commercial users and 480,000 homes in Philadelphia "in a matter of days." Appeals for conservation are being made by newspaper advertising and radio.

Pouring more than 190,000,000 cubic feet of gas into its mains for the second straight record-breaking day last Saturday, the company warned that it was scraping the bottom of its perilously short oil supply. Fuel reserves were reported at about 3,000,000 gallons, with daily consumption exceeding 850,000 gallons. The company is pressing for quick delivery of its February quota of 9,000,000 gallons in order to keep the district's giant production plants in operation.

Last fall the Federal Power Commission approved a program designed to bring natural gas into Philadelphia via the Big Inch pipe line to be mixed with manufactured gas, thus reducing the fuel oil cost of producing the mixture. Before the present oil shortage developed, gas works spokesmen thought that requirements could be met without natural gas for enriching purposes until the coming fall. Hence no objection was offered to the Federal Power Commission's order of last October that, prior to Aug. 1, 1948, Philadelphia should receive only the natural gas that had not been pledged to other communities.

In view of the current critical emergency, an amendment of the earlier order is sought which would give Philadelphia every foot of gas available from Feb. 9 on. The pipeline extension will be far from its 50,000,000 cubic feet a day capacity at that time but will be able to deliver enough to help Philadelphia substantially, it is believed.

The Power Commission has reserved decision. Said Leland D. Olds, chairman, "The needs of Philadelphia for emergency gas supply will have to be weighted in relation to the needs and demands of other communities in the Appalachian area."

Philadelphia Electric Co., which serves 156,000 gas users in adjacent Delaware, Montgomery, Chester and Bucks counties, announces that it is not faced with a similar crisis. The gas distributed by the company is manufactured as a by-product of coke.

* * *

Higher Fares in Pittsburgh

The increased schedule of fares filed with the Pennsylvania Utility Commission by Pittsburgh Railways Co. last December were approved by the Commission and became effective Jan. 5. The principal hike was in a straight 10-cent cash fare, replacing the former 3-tokens-for-a-quarter rate.

The City of Pittsburgh, fighting the fare rise, has petitioned that the new schedule be rescinded, but, in so doing, has brought to light the fact that even higher fares might be justified.

Answering the City's complaints, John Siggins, Jr., chairman of the Commission, has addressed a 4-page letter to all interested parties pointing out that the Pennsylvania Superior Court has established that a public utility is entitled to a return of 6½% on the fair value of its investment.

It is believed that the Pittsburgh Railway's system could establish and prove a rate-making base of about $36,898,147, which is something like $7,000,000 greater than the current established value. "Such a rate base," Mr. Siggins said, "would support an allowable return of $2,393,379 per year." The present schedule is estimated to produce approximately $500,000 less than is "allowable."

The PUC, Mr. Siggins said, has been abreast of developments in the Pittsburgh Railways Co. and the Commission acted on figures that were at hand and had been thoroughly studied.

"We cannot, by law, refuse to permit a public utility to increase its rates if such increased rates do not produce for the company a return in excess of a fair rate," he concluded.

* * *

Water Rate Raise

An increase of approximately 10% in water rates has been asked by Philadelphia Suburban Water Co., serving 100,000 families in parts of Delaware, Chester and Montgomery counties. If granted by the Pennsylvania Utility Commission, the new rates will become effective March 29.

A letter mailed to customers states "This action has been taken only after careful study and due consideration, which have led to the conclusion that in the face of greatly increased costs the company cannot continue to render adequate and satisfactory service at its present rates."

It was pointed out that rates have not been raised since 1920 and that five rate reductions have been made since 1932, the latter saving consumers more than $700,000 annually.

High Bridge

Joseph K. Costello, general manager of the Delaware River Bridge, states that the replacement cost of the present span would be $100,000,000, compared with its actual cost of $37,000,000 in 1926. The statement was made at a meeting of the Joint Commission which discussed the erection of a new bridge or, in the alternative, the widening of the present structure from six to eight lanes. Cost of the latter project is estimated at $3,000,000.

Mr. Costello, in citing the increased cost of bridge or tunnel construction, said that concrete for underwater use had risen from $16.75 a cubic yard to $51 since 1926 and that structural steel has advanced from $4.75 cents to 21 cents a pound. He thought that high construction costs would bar the erection of another bridge for "eight to ten years."

The Commission reported that 1947 receipts of $18,107,133 were the greatest in the bridge's history. The previous record was $16,886,413 in 1946.

* * *

John B. Stetson

Sales for the fiscal year ended Oct. 31, reported at $29,336,257 were 43% above the previous year, according to David H. Harshaw, president of John B. Stetson Co. Export sales were at the highest volume in the history of the company. It is planned that approximately $1,000,000 will be spent for plant improvement and replacements in 1948, comparing with $530,000 so spent in 1947.

* * *

Giant Portland Cement

Stockholders of Giant Portland Cement Co. of record Jan. 30 have received rights to buy units consisting of two shares of common and one warrant entitling the holder to purchase an additional share of common at $2.20 to Oct. 1, 1951. The subscription price of the unit is $4.10.

* * *

Earnings of Pittsburgh Consolidation Coal for 1947 are estimated at about $6 per share, more than double 1946 net.

* * *

The $64 Question

The Pennsylvania Supreme Court is pondering the disposition of 10,000 shares Lukens Steel stock originally "set aside" for sale to employees 32 years ago, but never sold. The question is whether the stock should be returned to the estates of the original holders. Current market value is about $240,000.

An appeal from a lower court decree in favor of the company was brought by Provident Trust Co. of Philadelphia, executor and trustee of the estate of Abraham F. Huston, former company president, who died in 1930. Joining in the appeal are executors of the estates of Benjamin Miller, Charlesanna L. Huston, Robert B. Haines, 3d, and Mary H. Haines.

* * *

CORRY, Pa.—The Corry-Jamestown Manufacturing Co. has announced that it will construct a $1,000,000 plant here for the manufacture of metal office furniture and other equipment.

* * *

Autocar Company

According to C. R. C. Custer, vice-president and treasurer of Autocar Co., earnings improved in the last quarter as the result of increased sales and production trend and company's program to reduce expenses. Counteracting factors were higher material costs and wage increases granted employees last June. Earnings for the 9 months ended Sept. 30, were $3.26 a share, compared with $2.40 a share in the 1946 period.

Output and sales have continued upward trend in January and outlook is further brightened by increased prices posted by the company recently. The advances, ranging from $100 to $700 on truck chassis, do not appear to have had any detrimental effect on sales.

* * *

SCRANTON—City of Scranton's 1% income tax ordinance has been enacted into law and becomes effective Feb. 20.

* * *

Warner Company, sand, gravel, concrete and lime products, reports net income after taxes of $1,580,534 for 1947, equivalent to $3.33 per common share. This compares with $1,391,791 and $2.92 per share in 1946.

* * *

Penn Mutual Life Insurance

Insurance in force of $2,540,947,422 at the year-end marks a new high for Penn Mutual Life Insurance Co., reports John A. Stevenson, president. During the year $273,626,959 in new business was added to the books, an 11% increase over 1946. Net income amounted to $13,912,316, of which $11,200,000 is earmarked for 1948 dividends.

Spencer Trask & Co. 80th Anniversary

Spencer Trask & Co., New York investment and brokerage house, Feb. 1 celebrated the 80th anniversary of its founding. Organized shortly after the close of the Civil War, in 1868, by Spencer Trask, the firm, first known as Trask & Stone, adopted its present name in 1881.

One of the most interesting chapters in the early history of Spencer Trask & Co. is the part played in the commercialization of the electric light. Mr. Trask was one of Thomas A. Edison's financial backers during the 1870's while Mr. Edison was perfecting an incandescent lamp for commercial use. In 1884 Mr. Trask became President of the Edison Electric Illuminating Co. of New York, the company formed to distribute electric current in New York. He was a trustee of Edison Electric Light Co., the concern which manufactured the apparatus for Edison's electric system, and was on the executive committee of Edison General Electric Co., predecessor of the present General Electric Co.

A contemporary of Mr. Trask, Edwin M. Bulkley, who joined the house in 1881 and became a partner in 1887, is still active with the firm. He also devoted much time and attention to the early operations of the Edison Electric Light Co. and the Edison General Electric Co. He represented the firm as a director of a number of the country's major public utility corporations, among them the Detroit Edison Co., Cleveland Electric Illuminating Co., Milwaukee Electric Railway and Light Co., Wisconsin Edison Co. and North American Co.

This Talk About Anti-Inflation

By WILLIAM WITHERSPOON
Statistical and Research Department,
Newhard, Cook & Co., Members New York Stock Exchange

Investment analyst warns proposed anti-inflation measures might lead to disastrous deflation and cause loss of employment and income and lowering of government revenues. Sees need of expanded bank credit offsetting national debt reduction, if business volume is to be sustained.

The President has addressed the Congress on three different occasions during the past week and each time called for anti-inflationary legislation. But why? Why is the spiral of inflation so dangerous to the welfare of our nation? Is it because of the large segment of people who are finding their budget being squeezed beyond recognition?


William Witherspoon

Yes — It is probably motivated by the desire to artificially reverse this upward trend in the cost-of-living and thereby win the plaudits of the public and possibly the necessary number of votes to continue residence in the White House for an additional four years. However, what do you think would happen if, like King Midas, the President's desires were granted and deflation replaced inflation? Would this be good? No! Then we really would have an economic headache!

Consider, for example, the continuation of a high tax rate which produces an abundant income to the Government—so abundant that a substantial block of the Federal debt could be redeemed. This redemption would cause a decrease in the money supply, just as it did from early in 1946 to the middle of 1947. At that time it did no do any particular damage to our economy, but if the reduction in debt had continued for several years at a faster pace than the expansion in bank loans the decrease in our money supply would have had a decided effect on our economy. A reduction of $35 to $40 billion in Federal debt in a few years' time, without a corresponding increase in bank loans might reduce our money supply to a level where it would have difficulty in supporting business. That is, it would have difficulty in supporting business at its present annual volume as measured by $240 billon of gross national product. You cannot expect a deflationary reduction in the money supply without a contraction in the dollar volume of business.

Examine also the prevailing conditions in the retail trade industry. It is reported that stores are not particularly worried about their inventory position this January. "Business Week" magazine says, ". . . stocks are just about in line with current sales . . . and there's not much money tied up in slow-moving items or secondrate merchandise." The public has relieved these stores of their perennial worry about post-Christmas mark-downs to sell an overextended inventory. Of course the buyers were wary in 1947 and held inventory to a minimum (possibly sub-minimum), but the important factor in this healthy inventory position was the spending of the public. This was possible because of the large money supply. Such a volume of business could not have been supported by the $60 to $65 billion of money supply existing in this country prior to the war, but currency in circulation and bank deposits were swelled by the rapid growth of and partial monetization of the Federal debt during the war years.

Now the President wants to step up the demonetization of the debt by the further retirement of bank-held issues through an excess of Treasury receipts over disbursements. This is one reason why he does not want a net reduction in the dollar amount of tax revenue. However the fallacy of this reasoning is seen when viewed in relation to our economy as a whole. If the retirement of the Federal debt is accomplished at a more rapid rate than bank loans are expanded, the main support of our economy will be weakened, and its strength will be impaired in direct proportion to the respective amounts of contraction and expansion. Could it be that the Administration is not aware that a program of anti-inflation, or deflation, will bite the hand that is feeding it with tax revenues? By this, the writer does not wish to imply that the expansion of the Federal debt is a desirable method of increasing the money supply, even though it is based upon an adequate gold stock. The more economically efficient expansion of commercial loans would probably result in a better balanced economy. However, the expansion of the Federal debt is now an accomplished fact. The point that the writer wishes to make is that Federal debt held by banks should at least not be reduced any faster than bank loans are expanded.

What do you think would happen to the Government's income if, because of a deflation in money supply and buying power, a few million people were thrown out of work? Even if present tax rates were maintained, is it not to be expected that the taxes paid by these persons would be cut off, and that other persons would be brought down into lower tax brackets by their relatively lower salaries. However, on the other hand, a possible further enlargement of the money supply through expanded bank loans, and an even greater enlargement of business volumes in terms of dollars through the more rapid turnover of money, will increase personal and corporate income so that the dollar revenue might be maintained at more than adequate levels even in the face of lower tax rates.

The same argument, of course applies to the anti-inflationary characteristics of credit restriction. The Administration is fostering a restriction of consumer credit to prevent further price advances and the Federal Reserve System has raised its rediscount rate from 1% to 1¼%. This last development is almost inconsequential at the present time, but any credit restrictions, beyond the normal restrictions of sound banking practice, will at least hamper the further expansion of business, to say nothing of its effect on the money supply.

If there is something that should worry the President, it is the possibility of deflation in the event that some of his anti-inflation policies be enacted. Inflation of the type currently existing in the United States at least produces a large volume of business and keeps people in jobs. What better vote-getting propaganda is there than a good pay envelope and vice versa? However, votes or no votes, the public should be made to understand this economic principle of money and the votes will take care of themselves. Congressmen and politicians, attention!

Recommends Investment Bankers Publicity Campaign

James J. Caffrey, former SEC Chairman, says public should be informed of functions of investment bankers. Wants oral solicitation of sales permitted in advance of date of registration.

At a luncheon interview held at the Bankers Club of New York on Feb. 3, James J. Caffrey, recently resigned Chairman of the Securities and Exchange Commission, who is now a member of the law firm of Gordon, Brady, Caffrey & Keller, recommended that investment bankers enter upon a nation-wide publicity campaign, similar to that undertaken by the New York Stock Exchange. Mr. Caffrey said the public should be educated in the principles underlying the function of investment banking. This function, Mr. Caffrey emphasized was "the distribution of securities to investors for purpose of raising capital needed by business."


James J. Caffrey

Mr. Caffrey criticized the practices of underwriters in "bunching of sales of securities" and the unwillingness of many underwriting concerns to handle small or moderate offerings of securities. He also stated that changes are required in SEC rules, and advocated the requirement of the filing of reports with the Commission by large corporations whose securities are not listed on the exchanges, but whose shareholders are fairly numerous and widespread. He also favored permitting oral solicitation of sales before the effective date of registration.

James J. Ryan With C. J. Devine & Co.

James J. Ryan has become associated with the municipal bond department of C. J. Devine & Co., Inc., 14 Wall Street, New York City, it is announced. Mr. Ryan formerly was vice-president and manager of the trading department of Lobdell & Co., Inc., and prior thereto was with the Guaranty Co. of New York.

Rodney M. Darling V.-P. Of du Pont Homsey Co.

BOSTON, MASS.—Rodney M. Darling has been elected vice-president of du Pont, Homsey Co., 31 Milk Street. He has been with the firm for many years.

Railroad Securities

New York Central had another notably poor year in 1947, with the December results particularly disappointing. It is obvious from the figures that at least in part the showing for the final month was aggravated by the severe weather conditions. The transportation ratio for the month jumped to 52.9% which was even a little higher than that of a year earlier and more than six points above the November 1947 level. The November transportation ratio, in turn, had increased more than two points over that of October, reflecting incidence of the increased wages for some of the operating brotherhoods.

Even allowing for the influence on December results of the extraordinary storm costs, the record of New York Central last year gives little encouragement to the road's security holders. It is true that the company reported a modest net profit in 1947 in contrast to a net loss of over $10 millions in the first postwar year. This 1947 net income, however, was realized only through the expedient of a credit adjustment for 1943 Federal income tax accruals. For the year 1947 as a whole there was a net credit of $6,072,-223 for Federal income taxes. Including this credit net income for the year amounted to only $2,306,-082, or $0.36 a share on the outstanding stock.

For the year as a whole the transportation ratio stood at 45.4%. This was somewhat better than the 1946 transportation ratio of 47.1%, but was still significantly higher than the 40.0% indicated for the industry as a whole. The overall operating ratio last year was 86.2% which was about eight points above the estimated operating ratio of all Class I carriers. Had New York Central's operating ratio been in line with that of the industry as a whole the pre-tax net would have been increased more than $56 million. The extent to which Central's status in relation to the industry as a whole has deteriorated is apparent from the fact that during the 1930's its operating ratio was running only one or two points above the Class I average.

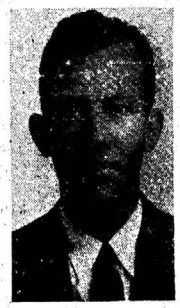
On top of its high direct operating costs, New York Central is also traditionally saddled with other heavy expenses. Even with the net Federal income tax credit of more than $6 million, total railway tax accruals in 1947 amounted to $52,435 502. For one thing the road has a relatively high labor factor which involves a correspondingly heavy debit for payroll taxes. The full year's figures are not yet available but for the 11 months through November this item alone amounted to $29,153,-837. This was up more than $8 million from a year previous. There does not appear to be much hope that these rates will be reduced significantly. The second factor is heavy property taxes, some of them on facilities of dubious productive worth.

Aside from taxes other than those on income, the company has large debits for hire of equipment and joint facility rents. To a considerable degree these net debits actually represent what must be considered as direct operating costs although in railroad accounting they are not included therein. Last year Central's net debit for hire of equipment and joint facility rents was just nominally below $20 millions. The net result of the heavy direct and indirect costs of doing business was that the company was able to carry only 2.6% of gross to net operating income before Federal income taxes.

There is reason to hope that the current year will show some improvement in the road's operating performance although severe weather probably also affected results in the opening month. The road will be reaping the cumulative benefits from the installation of a substantial amount of new equipment, and delivery of other units still on order. Moreover, the second emergency interim freight rate increase went into effect early in January and will materially bolster revenues without any corresponding increase in costs. Even with these considerations, however, the prospects for development of any substantial earnings on the stock do not appear bright and resumption of dividends seems remote.

Chester T. Terrell With Clair S. Hall

CINCINNATI, OHIO — Chester T. Terrell, nationally known in trading circles, has joined forces with Clair S. Hall and Co., Union Trust Building, as Assistant to Henry J. Arnold. The combined experience of the two men extends beyond 40 years.



Chester T. Terrell

Mr. Terrell entered business in the Cincinnati office of the Herrick Co. in 1928 and since, has been associated with several other Cincinnati firms. He is one of the founders, and on several different occasions has served as a trustee of the Cincinnati Stock and Bond Club, an affiliate of the National Security Traders Association. Arnold is a past President of the Association and Hall, head of the firm is a recently elected member of the Executive Council.

Metals – 1948

The success of the Marshall Plan in aiding in the rehabilitation of war-torn economies abroad will be an important factor in governing demands for metals in the world's markets. This is the view expressed in the Annual Metal Review published by Bache & Co., Metal Department.

The publication contends that it is virtually impossible, in view of the conflicting forces at work in both the domestic and world economics, to predict price trends for the coming year. Bache & Co., urges executives that in planning their inventory programs, they must of necessity take every possible step not only to assure themselves of adequate supplies of raw materials, but also to protect themselves against the risks of radical adverse price movements.

Congress and the Materials Shortages

By A. W. ZELOMEK*

Economist, International Statistical Bureau, Inc.

Mr. Zelomek, in commenting on political situation, predicts unless prices continue to rise vigorously into second quarter, there is unlikely to be action by Congress on further domestic controls. Says trend of general business in 1948 will be more important in most markets than government action, and contends voluntary domestic allocations are not likely to be effective, but export allocations can and will be used to hold prices down.

I considered it quite a compliment when you asked me to come here and tell you what the Government would do about material shortages. As soon as I had accepted the invitation, I caught the first plane for Washington. I headed straight for the source of all knowledge, the horse's mouth itself. I knew you wanted the truth, and nothing but the truth, and I was determined to get it. And do you know, gentlemen, it was only after I had left the presence of the oracle that I realized fully how great a compliment your invitation had been. You had called on me to tell you what Washington will do, because no one in Washington knows.

A. W. Zelomek

Well, gentlemen, I don't know either, but I am willing to guess.

You know, some forecasters don't like that word guess. They like to pretend that economics is a science and that they know all the answers. Now I am not afraid to guess, and I am not ashamed to guess, but I don't like to pick guesses out of the air. Good guessing is an art. And as in any art, you must have good materials as well as inspiration before you can create a masterpiece. And naturally, since this is my home town, I feel that nothing less than a masterpiece will satisfy you or do justice to me.

New Controls by Congress Doubtful

I believe our first guess must be about what Congress may do. Will it pass new restrictive laws? Or will it stand pat?

The answer seems to me to be that Congress has already taken its stand, which will be changed only if circumstances force a change. Here is what I mean.

The Marshall program as such was first mentioned late last Spring. At the time, business was experiencing a mild recession. Industrial production declined 7½% between April and July. The wholesale price average declined fractionally, and some commodities were off rather sharply. But between late Spring and the assembly of the special session, there was a rapid succession of stimulating developments:

(1) Bad weather cut the size of the corn crop at the same time that the Government increased its purchases of wheat.

(2) Coal mine wage increases led to price increases in coal, steel and the mass production industries.

(3) Third-quarter new orders by retailers were heavy, in preparation for the Fall and Holiday selling period.

(4) A declining trend of retail sales continued until August, but was reversed when heavy payments were made to veterans in September and October.

(5) Building activity increased after restrictions were removed.

(6) Speculation was renewed and intensified.

As a consequence of these developments, the economic climate was entirely different when the special session met, from what it had been when Secretary Marshall first made his statement about European aid. The date of the Presidential election was some six months nearer; and the domestic situation became the main issue of the day.

On this issue, the Democratic Administration and the Republican Congress took opposing positions. The opening of the political campaign brought about the following line-up:

The President had the first move, and chose the position that inflationary pressures had strengthened; that European aid would cause further sharp advances; that the Republican Congress was responsible for premature removal of earlier controls; that he would have to have broad new powers in order to protect the domestic economy.

Now I do not believe, personally, that this position is quite in line with the real economic prospects for 1948. I believe that some of the Republican leaders are quite sincere when they express the view that the President has exaggerated the inflationary dangers, and that the price level may turn downward well before election, particularly if world weather conditions remain favorable.

But regardless of what I think, or of what Republican spokesmen may actually believe, they had no choice, **politically speaking**, but to line up on the other side. They had no choice but to tell the President that buying of grain was a chief cause of high living costs; that he had not used all the powers he already possessed; and that the situation did not require new and drastic controls.

The politics of the situation indicate that this position will not be changed unless a change is forced. A loophole has been left to institute meat rationing. But unless prices continue rising vigorously into the second quarter, it seems unlikely that there will be any further action by Congress on the question of domestic controls.

Even if prices should continue upward, I am inclined to believe that Congress would go slow in voting really strict controls on materials. I believe that it might be more likely to take new action in the field of credit controls, with the aim of controlling demand rather than supply.

This has a certain amount of logic. We found out in our wartime experience that simplified controls over supply were worse than useless. The only real successful materials control of the war period was the Production Requirements Plan, developed primarily by purchasing executives to overcome the failings of the earlier systems. That worked because it went all the way in controlling and allocating a large number of materials to essential uses, and because non-essential uses were strictly limited.

No one wants to go back to that, not even the Administration. And Congress, I believe, if it is forced by circumstances to do anything more, is likely to calculate that a reduction of over-all demand through some new restriction on bank credit would be a lesser evil and a simpler mechanism than the bureaucracy of supply controls.

My first guess, therefore, is that the Government may indeed influence the supply problem during the next few months, but that it will do so only under the powers it already possesses.

Commodity Purchasing

At the moment, there are three main phases of commodity purchasing carried on by the Government. One is the buying of wheat, flour and other food products for relief. The second is in support of agricultural prices. And the third is stockpiling of strategic and essential materials.

The first two, affecting agricultural commodities, can be lumped together for our purposes. What the Government influence will be in this field can be summed up in two statements:

(1) Purchases of farm commodities come under the influence of the Department of Agriculture, and this influence will continue to favor high prices for the farmer. I think the record is written rather clearly in the recent past history of the grain markets. In ordinary commerce, it is consistently true that the large buyer has a distinct advantage in the market place, especially if sellers are widely dispersed and relatively small. During the past season, the Government has been the biggest single buyer of wheat and flour. Its purchases, in fact, accounted for about 35% of the total crop. But instead of using this buying power to keep wheat prices at around the support level, which last Spring was $2.10 per bushel, it bid the price up, higher and higher, until it reached the present price of $3.00. The record is clear that the Department, at least, wants a high price for the farmer.

(2) Nevertheless, there is a real doubt whether the Government will be as important a factor in the wheat market in 1948 as it was in 1947. World grain crops are off to a good start. Unless weather deteriorates quickly this Spring, last year's price movements seem more likely to be reversed than duplicated.

Stock-piling of strategic and critical materials will probably be a more important factor in the supply situation than it has been in the past. Only $11 million were spent in fiscal 1947. It is estimated that expenditures will be $110 million in fiscal 1948 and $305 million in 1949.

These amounts are not large when spread over the great number of materials that will probably be accumulated. But their expenditure may have a disproportionate effect in some markets, since it will be shrouded in secrecy.

On the whole, stock-piling activities will help to keep tight the supply of many industrial materials. Sellers will make the most of these activities, and rumors of purchases may be as much of a market factor at times as the actual buying is. We have seen during the last 60 days or so how this encourages buyers generally to come in and take a little more just in case.

The ERP

This program will determine the extent to which domestic allocations are needed. I believe personally that this need will be small, particularly if export allocations are properly made.

Your guess may be as good as mine regarding the amount of funds Congress will authorize. I

(Continued on page 29)

*An address by Mr. Zelomek before the Purchasing Agents Association of Rochester, Rochester, N. Y., Jan. 28, 1948.

The Economic Outlook

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

Holding peak has not been reached in either business or prices, Mr. Temple contends, however, there are indications present boom is in its last phase and financial changes portend in long run a decline in capital expenditures. Says banking system is strong and liquid, but foresees brakes on bank lending which increased by $7 billion in 1947.

In either physical terms or dollars, business activity at the opening of 1948 is the greatest in our peacetime history. This is contrary to majority expectations a year or even half a year ago. Then people were expecting high prices to check the movement of goods and the volume of construction. Many looked for a drop in exports, for a halt to inventory increases and for declining capital expenditures.

Alan H. Temple

These predictions went wrong in part because they underestimated the supporting influence of the great strength and liquidity of the financial situation and of the tremendously expanded money supply. They also went wrong because developments around the middle of the year changed business expectations. The short corn crop in this country and short wheat crops in Europe started food prices upward. The second round of wage increases was passed on in prices. Expectations of falling prices disappeared. Development of the Marshall program diminished expectations of an export decline. Business went ahead with capital investment, merchants went ahead with commitments, and builders went ahead with construction.

The upswing in the second half of 1947 acquired a momentum which shows in continued large unfilled orders and a heavy volume of construction contracted for. The strength of steel and automobile demand is reflected in premium prices for second hand offerings. Public utilities and the oil industries are in the midst of great expansion programs. The railroads urgently need equipment. Farmers need machinery and have the means to buy it. Housing continues to be underwritten by a Federal financing program which Mr. Eccles has called "possibly the most inflationary factor in the present situation." Even some of the soft goods industries, including your own, have heavy unfilled orders. It is hardly conceivable that a general state of activity which is so strongly supported can change much in the first half of 1948.

This state of affairs constitutes a boom. The fundamental question before people who must make business dicisions today is when the boom will end and what will stop it. It may end because the incomes of too many people lag behind the rise in prices, thereby shutting them out of the markets, while at the same time the filling up of pipelines and the satisfaction of accumulated needs reduces the urgency of demand. Many thought the boom would end in 1947 for these reasons. The fact that this expectation proved mistaken in 1947 does not mean that it will be wrong through all of 1948 also. Certainly further shifts in consumer expenditures from one line to another will occur in 1948, and some will suffer from them even though others gain.

In the aggregate, however, consumer expenditures may be expected to continue heavy as long as people have jobs and money. Whether they will have jobs and money in the second half as well as the first half of 1948, depends primarily upon the volume of business spending for plant and equipment, the amount of home building, and the volume of exports.

The boom may end because businessmen decide that the cost of construction and equipment is too high in relation to prospective markets and earnings, and cut their programs accordingly, or because people who want houses decide that they had better get along with what they have rather than pay such high prices for new homes. It may end because businessmen decide that they have gone as far as is prudent in incurring debt in relation to the capital they have or can attract. It may end through tightening of credit, insufficient saving, and consequent inability to finance capital expenditures. It may end through a decline in the export surplus, with obvious effects on demand and prices here.

In some degree these restrictive influences are now appearing. These are the most significant business developments of the past few months. Cash and liquid assets held by corporations have declined and the ratio of debt to owner's capital has increased. It has long been difficult to raise equity capital and of late it has become more difficult even to borrow. The banking system is strong and liquid, but banks are now carrying some $7 billion more loans that a year ago and the Federal Reserve and Treasury authorities have made it clear that they believe the brakes should be put on further overall credit expansion. In my judgment these financial changes portend for the long run a decline in capital expenditures. They mark our entry into the last phase of the upward swing of this business cycle.

On the other hand, there is every indication that the last phase will be a long one. The funds available for capital purposes in 1948 will be second only to 1947, and they will be large enough to support a huge volume of business spending. The export surplus, while probably smaller than in 1947, will continue huge throughout the year. The support given by housing, augmented by local government and institutional construction, will be a powerful influence. These things lead me to the opinion that the peak has not yet been reached in either business or prices; and that any declining tendency which appears before the end of 1948 will not produce any considerable recession within the calendar year. Probably most of the accepted business indexes will average about as high in 1948 as they have in 1947.

*From an address by Mr. Temple before annual forum and dinner of the Association of Cotton Textile Merchants of New York, New York City, Jan. 30, 1948.

Schafer 50 Years NYSE Member

Myron Schafer, member of the New York Stock Exchange, has joined the ultra-exclusive list of members of the Exchange who have held their membership for 50 years. He has boosted to eight the half-century roster.

The Problem of Rising Prices

By PAUL H. NYSTROM*
Professor of Marketing, Columbia University
Chairman, Central Council of National Retail Associations

Asserting inflation will continue as long as purchasing power increases faster than production, Dr. Nystom urges a regime of self-imposed economic austerity to stem the tide. Recommends (1) restriction of bank credit and loans for consumption; (2) instalment credit controls; (3) encouraging of thrift; (4) sharp reduction in government spending; (5) careful scrutiny of outlays for relief, pensions and social security; (6) encouragement of imports; (7) reductions of exports; (8) conservative corporate dividends; (9) public resistance to price rises; and (10) granting wage increases only with increase in productivity.

The Extent and Trends of the Present Inflation

The national income has risen sharply since 1939. In 1947, according to the estimates of the Department of Commerce, the total income was well over $200 billions, or more than three times what it was in 1939. This national income is made up of dollars. But, as every one knows, the value of dollars has declined sharply since 1939. The wholesale price index, in which 100 represents the average for the years 1935-1939, for the week ending Jan. 24, stood at 224.3. The index of consumer prices, lagging as it always does behind the trends of wholesale prices, on Nov. 15, stood at 164.9. In other words, the dollar of 1939, as measured in terms of retail prices, is at present worth only about 60¢. As measured in terms of wholesale prices, it is worth less than 50¢.

Paul H. Nystrom

This is inflation. Its trend is still upward. Every month and almost every week since 1939 has shown an advance. The end is not yet in sight. Most people hope that it can be stopped. Nothing has occurred nor has anything been done to stop it.

This inflation, like all inflations, is dangerous. Inflation has a way of ending in a crash. The higher an inflation goes, the deeper the crash.

Unless this inflation is stopped it will carry this nation to disaster. I do not think that disaster is inevitable. Calamity need not occur. If we set about it promptly, properly and vigorously, we can stop it. Let us be realists in recognizing the danger, but let us also be constructive in determining what to do and then resolute in doing it.

To meet an evil, any evil, it would seem good sense to try to find out what its causes are and then, when these have been determined, to correct the evil by removing its causes. This will be an attempt to make this kind of an approach.

The causes of this inflation are simple. There is nothing mysterious about them. They may be easily understood. They are due to the fact that there is, on the one hand, too much money, purchasing power, which people are trying to spend; and, on the other hand, to shortages of goods, that is, too little production.

The Fallacy of Looking to the Government for Controls

Whenever, as a nation, we get into difficulty, whether of inflation or depression, there are many who believe that the government should help us out. In the present difficulty there are some who think that we should again go back to price controls, some form of rationing, or at least priorities and allocations. In spite of the fact that such controls have never been successful in peace times except in totalitarian countries, there are some who would risk the application of totalitarian controls for the sake of meeting the emergency. It seems so easy to correct an economic disease by passing a law, creating a government bureau, setting up a number of regulations and then appointing a few thousand prosecutors to enforce them. We are to see a modified version of such controls, carried out by the Department of Commerce, under the law enacted last December. However, any good that may come out of this program of priorities and allocations will be the result of voluntary business cooperation rather than of police orders. Don't forget, however, that no voluntary cooperative controls are possible under this government without the approval of the Department of Justice.

There are, to be sure, some things that the government can do to help stop this inflation, but not, in my opinion, by placing further restrictions on business, employment and prices, such as price controls and rationing, but rather by removing some of the regulations that still hang over our economy, and which are actually contributing to the inflation. I shall come back to this again.

This inflation will inevitably continue to rise and to spread its threat over this nation just so long as dollars, purchasing power, in the form of salaries, wages, profits and government spendings increase faster than the production of useful goods and services. The tide of the inflation will leave in its wake increasing hardship and tragedy to all who live on fixed incomes such as pensions, income from savings, relief funds, insurance and all persons and institutions whose income generally lag behind, such as white collar workers, teachers, civil service employees, hospitals, schools and churches. Everyone who owns anything bearing the dollar sign, whether money, notes, securities or bonds has already suffered a deep loss, with more loss to come. Every purchaser of a war bond

(Continued on page 22)

*An address by Professor Nystrom before the National Potato Chip Institute, New York City, Jan. 28, 1948.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Bank Stocks

Not everything has moved up in price under inflationary pressure. For example, book values of leading New York City bank stocks are selling nearly 30% lower than they did two years ago. Currently, one dollar of book value can be bought for an average of $0.82, compared with a cost of $1.14 on Jan. 30, 1946.

Table 1 shows the book values and market prices of 17 New York City bank stocks as of today, compared with two years ago.

TABLE I

	B. V. 12-31-45 $	Asked Price 1-30-46	Market Price for $1 B. V. $	B. V. 12-31-47 $	Asked Price 1-30-48	Market Price for $1 B. V. $	% Change B. V. +	% Change Mkt. —
Bank of Manhattan	30.26	35⅜	1.17	32.24	25¾	0.80	6.5	27.2
Bank of New York	436.20	472	1.08	456.05	370	0.81	4.6	21.6
Bankers Trust	47.77	55¾	1.17	50.25	40	0.80	5.2	18.3
Central Hanover	112.63	122	1.08	121.46	92	0.76	7.8	24.6
Chase National	40.57	47	1.16	43.52	36½	0.84	7.3	22.3
Chemical Bank & Trust	40.02	53¾	1.34	43.26	43	0.99	8.1	20.0
Commercial National	54.82	51½	.94	58.81	41½	0.71	7.3	19.4
Continental Ik. & Tr.	22.67	23½	1.04	24.56	20¼	0.82	8.3	13.8
Corn Exchange	53.34	67½	1.27	58.12	53¾	0.92	9.0	20.4
First National	1,333.79	2,010	1.51	1,367.46	1,300	0.95	2.5	35.3
Guaranty Trust	347.42	378	1.09	*400.70	*302	0.75	15.3	20.1
Irving Trust	22.08	21	.95	22.90	15¾	0.69	3.7	25.0
Manufacturers Trust	54.85	66½	1.21	60.03	52½	0.87	9 4	21.1
‡National City	44.59	50½	1.13	48.18	41	0 85	8 1	18.2
New York Trust	99.82	114½	1.15	107.33	86½	0.81	7.5	24.5
Public	48.89	50	1.02	54.25	40¼	0.74	11.0	19.5
U. S. Trust	767.74	815	1.06	†771.82	570	0.74	0.5	30.1
AVERAGE			$1.14			$0.82	+7.2	—22.4

*Adjusted for 11.1% stock dividend. †For comparative purposes, B. V. includes $40 transferred to Pension Fund. ‡Includes City Bank Farmers Trust.

The average increase in book value of the 17 stocks over the two-year period was 7.2%, while the average decline in their asked prices was 22.4%. Maximum decline was the 35.3% of First National, whose gain in book value was the lowest, after U. S. Trust.

Guaranty's book value shows the greatest increase, with a gain of 15.3%, after adjustment for 11.1% stock dividend, while the market decline of its stock was well below average. Corn Exchange, Manufacturers Trust and Public National, made well above-average gains in book value, and moderately below-average declines in market value.

The book value of U. S. Trust is distorted by reason of the setting up of an Employees Retirement Fund to which was contributed from capital funds an amount equivalent to $40 per share.

In order for bank stock prices to bear the same ratios to current book values they bore two years ago to the book values of Dec. 31, 1945, they would have to appreciate approximately 39%. The calculated percent increase for each of the 17 stocks under review is as shown in Table 2.

Maximum calculated potential appreciation, on the basis assumed, is the 58.8% of First National; comparatively, this is an unrealistic figure in view of the banks' slim divided coverage and the consequent drastic decline of its stock during the past two years. The potential percent appreciations shown for each of the other 16 banks appear to be fairly reasonable, on a comparative basis.

TABLE II

	Asked Price Jan. 30, '48	Equivalent Price as of Jan. 30, '46	Potential Appreciat'n
Bank of Manhattan	25¾	37¾	46.6%
Bank of New York	370	492½	33.1
Bankers Trust	40	58¾	46.9
Chase National	36½	50½	38.4
Central Hanover	92	131¼	42.7
Chemical Bank & Trust	43	58	34.9
Commercial National	41½	55¼	33.1
Continental Bank & Trust	20¼	25½	25.9
Corn Exchange	53¾	73⅞	37.4
First National	1,300	2,065	58.8
Guaranty Trust	272	393	44.5
Irving Trust	15¾	21¾	38.1
Manufacturers Trust	52½	72⅝	38.3
National City	41	54½	32.9
New York Trust	86½	123½	42.8
Public	40¼	55⅜	37.6
U. S. Trust	570	776	36.1
AVERAGE			39.3%

With C. A. Botzum Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Walter M. Bohme is now connected with C. A. Botzum Co., 210 West Seventh Street. He was previously with Livingstone & Co.

With G. H. Chance & Co.

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF.—Theodore E Wiberg has joined the staff of G. H. Chance & Co., Helm Building. He was formerly with Bailey & Selland.

Slichter Commends Taft-Hartley Act, but Warns of Abuse

Harvard economist lauds measure as opening union's doors to all and protecting workers against discrimination, but warns provisions dealing with strikes affecting national health and safety may make it political football.

Addressing a campus forum of the University of Cincinnati on Jan. 30, Prof. Sumner H. Slichter stated that although the Taft-Hartley Act had commendable features, the provisions requiring the President to report to Congress on strikes or lockouts affecting national health and safety, after they have been enjoined for 60 days, is the best way of making industrial relations "a football of politics."

"The most important thing about the Taft-Hartley Act," Prof. Slichter said, "is not its specific provisions but the matters which it treats as matters of public concern. The rapid growth of unions during the last 15 years makes the right to belong to a union a matter of public concern and causes the admission rules of unions to be affected with a public interest.

"One of the best features of the act," he continued, "is its attempt to open the doors of unions to all persons without discrimination. The act attempts to protect workers from being denied the opportunity to work for any reason other than failure to pay regular union dues and initiation fees. I think that the act goes too far in this respect, but I think that act is a big step forward in recognizing that the admission requirements of unions are affected with a public interest."

Continuing, Prof. Slichter stated:

"The right to remain in a union is also affected with a public interest because there are 11,000,000 jobs in American industry which may be held only by workers who are in good standing in unions. The act attempts to protect men from losing their jobs because of loss of good standing in the union for any other reason than failure to pay regular union dues. The establishment of the principle that the administration of discipline by unions is affected with a public interest is an important step forward. The law attempts to limit the area of industrial conflict. This is also a step forward. For example, economic coercion on the form or strikes or boycotts should not be used to free men to leave one union and to join another or to punish them for joining the 'wrong' union.

"Some American Federation of Labor unions, for example, refuse to handle goods made by CIO workers. The act makes this an unfair labor practice and also exposes unions which practice it to damage suits. The logical result of an extension of the practice would be to divide the economy into two parts—one part made up of A. F. of L. firms buying from and selling to only other A. F. L. firms, and another part made up of CIO firms dealing only with other CIO firms.

"Workers ar entitled to choose their unions free from economic coercion regardless of whether that economic coercion is attempted by employers or unions. The Wagner Act protected workers only against interferences by employers with their freedom of choice; the Taft-Hartley Act protects them from coercion by unions or employers."

Regarding defects of the Act, Prof. Slichter said:

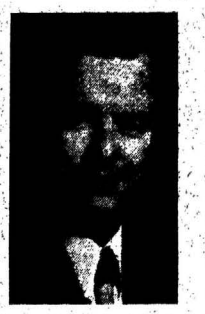
"One of the worst parts of the act are the provisions for dealing with strikes or lockouts which imperil the national health of safety. The Taft-Hartley Act permits such strikes or lockouts to be enjoined for 60 days. At the end of that period, if no settlement has been reached, the National Labor Relations Board is directed to hold a vote among the workers on the employer's 'last' offer. This is a ridiculous proceeding. The workers will surely vote to reject the employer's 'last' offer, because to do otherwise would mean repudiating their leaders. The procedure puts the government in the ridiculous position of conducting a vote on the question of whether the national health and safety shall be imperiled. That is bound to be interpreted by the workers as government sanction for their strike.

"The government cannot afford to be in this position when the national health and safety are at stake. It has the responsibility of protecting the national health and safety. If the men reject the employer's 'last' offer, as they undoubtedly will, the act provides that the President shall submit to Congress a full and comprehensive report of the proceedings with such recommendations as he may see fit. One can scarcely imagine a better way of making industrial relations a football of politics than to throw important unsettled disputes into the lap of Congress. No body of 541 men can be expected to deal with such an issue."

NSTA Notes

BOSTON SECURITIES TRADERS ASSOCIATION

The following committee appointments have been announced by the Boston Securities Traders Association:


Benjamin A. Bailey


John L. Shea, Jr.


Sumner R. Wolley


Anton E. Homsey


Paul B. Monroe


Wilfred N. Day

Membership: Benjamin A. Bailey, Dayton Haigney & Co., Chairman; James A. Morrison, Ballou, Adams & Co.

Quotations: John L. Shea, Jr., Shea & Co., Chairman; Frank S. Breen, Schirmer, Atherton & Co.; T. Edmund Williams, Hooper Kimball, Inc.; Lloyd B. Waring, Kidder, Peabody & Co.

National Committeemen: Sumner R. Wolley, Coffin & Burr, Inc.; Anton E. Homsey, du Pont, Homsey Co.; Paul B. Monroe, Hunnewell & Co.; Wilfred N. Day, Chas. A. Day & Co.

A Year of Decision

By HON. LEVERETT SALTONSTALL*
U. S. Senator from Massachusetts

Senator Saltonstall cites as the pressing issues before our government: Long-range aid to Europe and China, strength of our Armed Forces, taxes, inflation, rent control, minimum wages, housing, trade agreements, and health and education; in settling of which we must remember that "government is something to live *under* and not *for*." Asserts necessity of Marshall Plan, but it must be backed up with our armed strength and economic might.

"Now, sir, what is the condition of the money market at present? Last year it was most flourishing. An unfortunate famine in Europe created a great demand for our agricultural products. The balance of trade was in our favor. If money poured out of one end of the subtreasury, it poured in at the other. But, how stands the case now? We stand now with a drain both ways . . . there is very great danger that at last your treasury will be drained to the bottom. . . ."

Sen. L. Saltonstall

I ask you to guess when and where this statement was made. It could have been in the United States Senate in January *1948*, but it wasn't. It was Senator Calhoun speaking on the floor of the Senate Jan. 6, *1848*, 100 years ago. We were then at war with Mexico. Yet, how truly do his words apply to present-day conditions. The government is asked to spend more heavily than ever before in peacetime; the demands upon our agriculture and our industry are the greatest in our history. Let's take a look at the year '48 in history.

One hundred years ago, in 1848, we signed a treaty of peace with Mexico on Feb. 2; yet in that same year there were revolutions in Vienna, Budapest, Poland, France and Sicily—insurrection in Berlin, Prague and Rome. Prussia was at war with Denmark. The Hungarians were preparing for war against Austria, and there were disorders in Ireland. Beginnings were made that year toward greater political unity and greater freedom in Italy, France, Germany, Austria and Hungary, and the events of 1848 had the effect of contributing toward the resurgence of political unity and individual freedom. What is under debate in Europe today is not entirely dissimilar.

In 1849 the immigration from Europe to America was at the rate of 1,000 a day. People wanted to get out of Europe 100 years ago AND COME TO AMERICA. I saw plenty of people in Europe last autumn who want to come to America in 1948.

Two hundred years ago, in 1748, the Peace of Aix-la-Chapelle was signed. Spain and Prussia were the only gainers by that war.

Three hundred years ago, in 1648, the Peace of Westphalia was signed, and principle of the balance of power in Europe was first recognized; yet the Khan of Crimea raided Russia and Poland and carried off 40,000 prisoners. The Ukraine Cossacks revolted and defeated the Poles.

In the year '48, for the past 300 years, peace and war have been the vital issues. So we can truly say today "history repeats itself."

In 1948 we have peace treaties signed with Italy, Bulgaria, Rumania, and Hungary. We have tried to work out treaties with Germany and Austria but have failed to date. We have yet to work out a treaty with Japan.

We are proud that we live in a country where we are free to choose the men we want to run our government. If we don't like what these government officials do, we can vote to kick them out of office without fear of violence. Likewise we have always abided by the will of the majority whether it is a big majority or a very small one. I personally know this to be true because I was elected Governor of Massachusetts by a plurality of less than one-third of 1%; yet no one ever disputed my authority to act as the Governor. Thus, in a year of decision in a country where such a government still exists and where individuals are free to think and act, decisions that affect us all must be made by government and must be made by individuals. Under our system, government cannot and must not make *all* the decisions for *all* of us on *all* subjects. For this we thank God!

Imminent Government Decisions

What are some of the decisions that must be made by your government in the year 1948? Long-range aid to Europe and China, the strength of our Armed Forces, in particular the future size of our air arm, taxes, the whole question of inflation, rent control, minimum wages, housing, health and educational programs, reciprocal trade agreements, protection of individual rights and necessarily, all appropriation bills making it possible for our government to carry out the decisions made on these vital problems that affect us all. In considering these problems we want to remember that our government is something to live UNDER and not ON.

Last autumn, as a member of the Senate Committee on Appropriations, I visited England, France, Germany, Austria, the free city of Trieste, Greece and Italy. In all these countries we talked with the Prime Ministers and other officials. We went into the factories and chatted with men and women on the streets. We came home to a special session of Congress and approved an appropriation of over half a billion dollars to carry these countries through the cold and hungry months of this winter. We approved Interim Aid because we knew that if we did not, there would be no chance for a decision in 1948 on a long-range European recovery plan. Now we have that plan before us. On the Senate side it is being actively considered under the leadership of Senator Vandenberg, who has proved himself to be a truly patriotic, thoughtful and understanding American citizen in the handling of all these great problems. Personally, I feel that our government must aid Europe in an understanding way—in a way that is administratively and financially sound—over the next few years. I am firmly convinced that it is a far better risk to attempt to go ahead with some plan than to do nothing. As James Reston of the New York "Times" wrote recently, "The big thing that is really happening, therefore, is that through the initiative of the descendants of European immigrants, the divided, uneconomical, conflicting nations of Europe have been brought together in a common enterprise that has possibilities even

(Continued on page 34)

*An address by Senator Saltonstall before the Economic Club of New York, Jan. 15, 1948.

Problems of Postwar Monetary Policy

By WOODLIEF THOMAS AND RALPH H. YOUNG*
Director and Assistant Director, Division of Research and Statistics, Board of Governors of the Federal Reserve System

Research officials of Federal Reserve Board review System's credit policies arising out of war financing, stressing the effects of war loan drives and wartime expansion of bank credit and money. They analyze financing policies in transition period and consequences of low interest rate policy. Discuss proposals for additional credit controls, and conclude credit situation in postwar period is likely to be unstabilizing influence upon the economy and some further credit controls are required.

Federal Reserve policies have evolved from experience in coping with the changing problems of the 30-odd years of the System's existence. This evolution has developed from the endeavors of the Federal Reserve authorities to perform the public duty for

Woodlief Thomas

Ralph A. Young

which the System was established.[1] Founders of the System could not have foreseen all the exigencies with which monetary policies would have to deal during the years to follow. They were impressed with the needs for an elastic currency, for the mobilization of the scattered reserves of the banking system, for reducing the reliance of that system upon stock-market credit as the central money market, and for avoiding money panics. To accomplish these purposes the Federal Reserve System was given power to create new money. This power is exercised through the lending and investing activities of the Federal Reserve Banks, which make available funds that can be used by member banks to obtain currency or to add to their reserve balances with the Reserve banks. The Reserve banks in turn can influence the lending and investing activities of commercial banks by regulating the supply and cost of funds which serve as the reserve base for commercial bank credit.

Certain largely automatic limitations upon the System's operations were imposed by the Federal Reserve Act through requirements as to reserves, collateral for notes, and types of assets to be held. The System was also given certain discretionary powers, as in the fixing of discount rates. It appears from the discussion preceding and accompanying passage of the Act and from its grant of broad powers to the Federal Reserve Board, that some degree of judgment and discretion was expected to be exercised in the determination of the System's policies and that the general objectives of these policies were to be the maintenance of sound banking and monetary conditions in the interest of economic stability. It was widely recognized at the time that the previously existing banking and monetary system in this country had intensified the development of booms and depressions and had been responsible for the spectacular panic phase of those cyclical variations.

Automatic and mechanical limitations in the Act apparently were designed with the thought that, by setting bounds to the exercise of discretionary power, excessive and unsound credit expansion would be prevented. History of the Federal Reserve System has shown, however, that these mechanical limitations have in practice not operated in that manner. They have often been most restrictive when restriction was undesirable and have contributed little or no restraint at times when restriction was needed. As a consequence, during the life of the System there have been many alterations in these statutory limitations to meet changing banking conditions.[2]

Experience has demonstrated that effective limitation on excessive and unsound bank credit expansion under changing economic and banking conditions must be accomplished primarily by the exercise of discretionary authority rather than by automatic or mechanical means, for the reason that it is impossible to provide specifically in any credit and monetary statute for all future contingencies. Consequently, policies formulated and pursued by the Federal Reserve authorities for the purpose of influencing the total supply, availability, and cost of bank credit and money, as well as the specific availability of bank credit in particular strategic sectors, must be the main reliance of the System, rather than fixed rules and limitations.

The use of discretionary powers by the Federal Reserve System in efforts to meet the ever-changing requirements of the credit system has brought about the development of Federal Reserve policy. Various limitations on the effectiveness of credit policy have been discovered in practice, and attempts to eliminate or moderate them have found expression in many amendments to the Federal Reserve Act. Taking the history of the Act as a whole, it can be said that its evolution has been in the direction of making increasingly explicit the authority granted to the Federal Reserve System implicitly by the initial

(Continued on page 36)

*Reprinted from "Postwar Economic Studies, No. 8," November, 1947, entitled "Federal Reserve Policy" and issued by the Board of Governors of the Federal Reserve System.

[1] For a description of this development, see the "Three Decades of Federal Reserve Policy," by Karl R. Bopp, the first paper in this pamphlet.

This paper represents the results of study and work by many persons within the Federal Reserve System. In general, it aims to present the thinking behind many of the policies followed by the System during recent years, although the explanations given are those of the authors and should not be considered as representing the official views of the System authorities collectively or individually.

[2] Critical defects in these mechanical limitations on Federal Reserve powers, as well as in the scope of the System's discretionary authority and in certain aspects of the banking structure not dealt with in previous legislation, were sharply demonstrated by the financial and banking crisis of 1929-33. Correction of these defects was a major objective of the Banking Acts of 1933 and 1935 and of the Securities Exchange Act of 1934.

Barbour, Smith Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Barbour, Smith & Co., 210 West Seventh Street, members of the Los Angeles Stock Exchange, have added Dorothy J. Reilly to their staff.

Mutual Funds

By HENRY HUNT

Assets Gained $98,000,000 During 1947

Net assets of leading mutual funds rose from $1,311,000,000 to $1,409,000,000 during 1947, an increase of $98,000,000, despite a shrinkage in market value of portfolios (after distributions of some $22,000,000 in security profits) of $80,000,000. Gross sales of new shares totaled $267,000,000 as compared with $370,000,000 in 1946. However, liquidations reduced net sales to $178,000,000 as compared with $226,000,000 in 1946.

Although the overall gain in net assets was only 7½%, the following funds with assets in excess of $20,000,000 each showed well above average growth:

Fund—	Sponsor—	Net Assets at 1947 Year End	% Increase During 1947
Affiliated	Lord, Abbett	*$32,877,000	49%
Wellington	W. L. Morgan	48,908 000	34
Fundamental Inv.	**Hugh W. Long	27,589,000	28
E. & H. Balanced	Eaton & Howard	31,408,000	22
George Putnam	Putnam Fund Dist.	23,062,000	17
Nat'l Securities Series	Nat'l Sec. & Res. Corp.	45,538,000	16
Boston	Vance, Sanders	27,987,000	16
Investors Mutual	Investors Syndicate	108,612,000	14
Manhattan Bond	Hugh W. Long	26,673,000	14
Chemical Fund	F. Eberstadt & Co.	23,365,000	12

*Excluding $9,000,000 bank loan.
**Sponsors distribution of shares only.

Generally speaking, balanced and income type funds enjoyed the best demand last year. However, it is interesting to note that the three funds which showed the largest percentage growth during 1947 were quite dissimilar in character. In the number one position, Affiliated Fund is currently invested in common stocks, and the only mutual fund with direct leverage, i.e., bank loans. Wellington Fund, the runner up, is an ably managed, fully administered fund (bonds, preferred and common) that has maintained for several years a sizable cash position which it is now beginning to invest. Fundamental Investors as a rule is fully invested in common stocks and has an excellent long-term performance record.

Here's to 1948, may it witness continued growth in the Mutual Fund business.

Required Reading

"Let's Stay Free," by **Charles E. Wilson,** President of **General Motors,** copies of which may be obtained from the company without cost. The following is an excerpt: "What is this record of what Americans have accomplished as compared with the rest of the world? Briefly, with 6% of the world's area and 7% of the world's population, we have 46% of its 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 modern bathtubs."

We would like to see comparative statistics on the U. S. S. R. with an area 2⅔ times ours and a population some 50% greater than that of the U. S.

Mexican Weather Report

Chili today and hot tomale.

Taking the Pilot Aboard

The following is a good example of the facile writing of **Charles M. Werly** of **The George Putnam Fund:**

"Old as the history of sea trade itself is the tradition of 'taking the pilot aboard' while traveling in strange waters. Actually, to shipmasters charged with the responsibility of their cargoes—representing in many cases great fortunes—the sight of a pilot clambering up the ladder was a welcome one, **even in familiar channels.** But the sea is not alone in this tradition.

"Investors, too—whether they be large or small—are charged with responsibilities. Times have not . . . nor will they . . . change for them. For always 'these be strange waters' in which they sail. Even the most familiar courses are beset with hidden shoals, adverse tides and changing currents.

"We like to think of those who have invested in shares of The Putnam Fund as having taken a pilot aboard. For whether their invested savings be but a few hundred, or many thousands of dollars, they have in effect said this: 'This is my cargo. I have gathered it not only for myself but for my family. I know my destination—my course is planned. The security of a safe harbor can be mine. But I know I need a pilot aboard—some one to help guide my investments through the rough waters and ill winds.'"

College English

According to the New York "Herald Tribune," in reply to a survey among coeds as to why women go to college one wrote: "I came to college to be went with, but I ain't."

Notes

Over 99% in market value of the stocks now held by **M. I. T.** paid dividends last year and over 81% have paid dividends consecutively for the last 10 years or longer.

According to **"Selections,"** published by **Selected Investment Co. of Chicago,** if we are in a bear market it already is longer than the average of the preceding 12 bear markets. The historical odds are beginning to favor strongly a termination of the down-trend some time this year.

As of Dec. 31, 1948, **The New England Fund** reported net assets of $2,855,000 divided as follows: cash and governments, 23%; other bonds, 1%; preferred stocks, 8%; and common stocks, 68%.

In a recent bulletin on mutual funds, **A. M. Kidder & Co.,** members of the New York Stock Exchange states: "In our opinion, the open-end type of investment trust provides a most suitable security under current circumstances for the average person who has idle funds."

The Change in London Stock Exchange Organization

By A. M. SAKOLSKI

Dr. Sakolski points out proposed change in London Stock Exchange Organization is not a measure to reform it, but simply to merge the two governing bodies operating it and to effect a more efficient and compact administration structure.

Reports are coming from London that the stock exchange, there, probably the oldest organized securities exchange in the world, will soon undergo a reorganization. This proposed reorganization should in no way be interpreted as a "reform measure." It is merely a move to change an original plan of structure which has existed for almost a century and a half, and which at the present time serves no useful purpose to the Exchange members or to the public.

A. M. Sakolski

In the year 1802, the London Stock Exchange, which is said to have been formally organized in 1773, but whose activities as an organized body does not go back of 1798, was meeting in the Rotunda of the Bank of England or at the Stock Exchange Coffee House on Threadneedle Street. Because of unsatisfactory facilities, the members decided to build their own structure for transacting business. But it was necessary to obtain the necessary funds for the purpose. As the Exchange itself was an unincorporated body, it could not, as an organization, erect the structure or borrow money for the purpose. Accordingly, a plan was conceived of forming a corporation to build and own the structure. A group of the Stock Exchange members having acquired "a centrical location" in Capel Court raised £20,000, which they divided into 400 shares of £50 each and founded what is today known as the London Stock Exchange. The capitalization and number of shares of the venture have been increased from time to time, as the size of the quarters was enlarged. Moreover, the shares were distributed among the members as well as outsiders. These shares have paid relatively handsome dividends.

The shareholders are in effect the proprietors and operators of the building, which is occupied by "The House" (the membership of the Exchange). Through initiation fees, assessments and dues obtained from Stock Exchange members they operate the structure and pay the wages and salaries of the employees of the Exchange.

The Government of the Exchange

The general membership of the Exchange has its own separate organization and has been governed by a "Committee of General Purposes," consisting of 30 members that are elected annually. This committee elected its own Chairman, Deputy Chairman, and a Secretary. The Secretary is more or less a permanent officer and handles the affairs of the organization. To him aplications for membership are made and he promulgates and executes the rules and regulations governing the members.

"The Dual Control"

This "dual sovereignty" as the system has been called has been attacked on a number of occasions during the last century, but in line with the British Government policy to interfere as little as possible in the affairs of the London Stock Exchange as a self-governing body, no definite action has ever been taken to abolish it. However, for some time past it has been held that if the interests of the shareholders and the members could in some way be amalgamated it would give a capital value to the Stock Exchange membership which would afford more security to engagements between members and assure a greater community of interest and more solidarity to the institution. Considerable progress has already been accomplished toward this end by the requirement put in force that each Stock Exchange member subscribe to shares in the company owning and operating the organization's premises. At the present time there are 20,000 shares with a par value of £720,000 ($2,880,000) but with a market value of around $15 millions. 90% of the shares are held by members of the Exchange.

Though there is still no actual accomplishment of the London Stock Exchange reorganization, there has been a practical merger since 1945 on a provisional basis of the two traditional bodies—the "Trustees and Managers of the Stock Exchange" and "The Committee for General Purposes" into a new general administrative body, known as "The Stock Exchange Council."

As stated in Harold Vincent's recently published little book on the London Stock Exchange, "The Stock Exchange Council is the full body responsible for major decisions on policy. To deal with routine matters, it sets up a number of committees, which handle such matters as admission of members, commissions, country exchanges, the Stock Exchange Lists, new issues, disputes and so on. Finally, I must mention the Share and Loan Department. This oddly named department does a mass of routine work, the volume of which was greatly increased during the war years by reason of the securities control duties undertaken on behalf of H. M. Treasury and the Bank of England. But it does a great deal more than routine work. Its Secretary, Francis Cooke, is a surprising young man in more ways than one. He is, among other things, a connoisseur of pictures, and he hangs his favorites on the walls of his office. At one time, they included a portrait of Joe Stalin, of all people. Hardboiled Tory stockbrokers found the picture a somewhat disconcerting influence in their interviews! Cooke it is who maintains contact with the Press, handles Stock Exchange public relations generally, and is responsible for 'ideas' at large. He has a habit of blinking at you sleepily through horn-rimmed spectacles. But, believe me, there's nothing sleepy about Francis Cooke."

No Major Reform

As already stated, this change in the London Stock Exchange administrative structure is not a measure of reform nor does it indicate any pronounced change in the present British Labor Government's attitude toward the institution. It may lead to the in-

(Continued on page 40)

Calls Swollen Budget National Security Threat

First National Bank of Boston says National Debt and Budget are so staggering, we are more vulnerable than quarter century ago.

The "New England Letter" of the First National Bank of Boston, in its latest issue scores the Administration's 1948 budget as "staggering," and holds "every conscientious effort" should be made to trim items, or our national security will be threatened. The bank contends our fiscal capacity will be so impaired by the size of the budget "that we might not be able to meet the financial requirements in the event of another war."

Commenting on the budget, the "New England Letter" states:

"The President recently submitted a budget of nearly $40 billion for the fiscal year beginning July 1, 1948. It amounts to about $2 billion more than for the current fiscal year, and is more than four and one-half times as much as in the prewar year 1939. In fact, the amount to be spent in the next fiscal year is 62% more than was spent in the first 124 years of our Republic. The proposed Federal expenditures are so staggering that they must be subjected to the closest scrutiny, and every conscientious effort be made to trim them down.

"It is to be expected, of course, that Governmental costs will be considerably higher than before the war because of interest on a huge debt, international tensions, and the providing of aid for world recovery. Similar conditions prevailed after the close of the first World War although on a much smaller scale. At that time, immediate steps were taken to place the nation's finances on a sound basis. Federal expenditures were reduced from $18.5 billion in 1919 to $3.4 billion by 1922, or a decrease of more than 80%. Furthermore, Federal indebtedness was reduced almost 40% during the period 1920 to 1930.

"It is true that times have changed, that our burdens are now much greater. But inasmuch as our debt and budget are so staggering, we are in a much more vulnerable position than we were a quarter of a century ago. We should therefore face our fiscal problems realistically and challenge all items, with the objective of eliminating waste, extravagance, and non-essentials which in the aggregate run into several billion dollars. In the make-up of the next fiscal year's budget, about $31 billion, or nearly 80%, represents expenditures for defense, veterans' benefits and services, foreign aid, tax refunds, and interest on debt. That leaves only about $9 billion for other purposes. But the only 'untouchable' items are interest charges and tax refunds. If we are to make any real progress toward getting our financial house in order, it will be necessary to shave all the other items.

National Defense

"National defense constitutes the largest single item of the budget. It is placed at $11 billion, or 28% of the total. As Senator Byrd of Virginia has said: 'There are vast opportunities for economy in the Army and Navy, and while we admire, respect, and have great confidence in our military leaders, yet we in Congress must realize that these leaders are accustomed to the waste of war, and it is easy to continue such waste, even though it be in lesser degree, in time of peace.' The Senator goes on to point out that in 1947 the Army and Navy had five times as many civilian employees as in 1939, and that the average cost of maintaining a member of the armed forces was two and one-half times as much as before the war. Furthermore, the over-all cost per man in the armed services—including all expenditures for ships, planes, ammunition, and all other items—was only slightly below that of the war period.

"It would be folly of the first magnitude to spend beyond our means in peacetime only to find that our fiscal capacity has been so impaired that we might not be able to meet the financial requirements in the event of another war. We have reached the stage where fiscal policy is inseparably linked with national security. Or, as Senator Byrd has phrased it: 'We cannot allow wartime extravagance perpetuated in time of peace to devour the primary military requirement, namely, the credit of the nation.'"

N. A. S. D. District 11 Names Meade Chm.

BALTIMORE, MD.—W. Carroll Mead, Mead, Miller & Co., has been elected chairman of District No. 11 of the National Association of Securities Dealers, Inc.

J. Murray Atkins, R. S. Dickson & Co., Charlotte, N. C., was chosen vice-chairman, and Martin J. Bayly of Philadelphia, secretary.

The District also announced the election of Richard P. Dunn, Auchincloss, Parker & Redpath, Washington, and C. T. Williams, Jr., C. T. Williams & Co., Baltimore, as members of the Committee representing the district for three year terms. They succeed George D. List, Robert Garrett & Sons, Baltimore, and James H. Lemon, Johnston, Lemon & Co., Washington.

Butler, Moser & Co. Formed in New York

Formation of Butler, Moser & Co., 44 Wall Street, securities dealers, as successor to Shepard & Co. is announced. Principals in the firm are William J. Candee, George A. Butler and Edna Moser, the latter a former partner of Shepard & Co. Messrs. Candee and Butler have been in the investment field for over 20 years. Herman Frankel will continue with the new company as trader.

Two With Hutton Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Arlene L. Du Four and William F. Groszkruger have joined the staff of E. F. Hutton & Company, 623 South Spring Street.

Model, Roland & Stone To Be NYSE Members

Herman H. Stone on Feb. 10 will acquire the New York Stock Exchange membership of Herbert A. Cone and the firm of Model, Roland & Stone, 76 Beaver Street, New York City will become members of the exchange. Partners are Leo Model, Rolf R. Roland, Herman H. Stone, and Frits

Joins Bailey, Selland Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Ellis O. Thorwaldson has become associated with Bailey, Selland & Davidson, 155 Sansome Stret. He was formerly with Livingstone & Co. and Blyth & Co., Inc.

Bond Club of Chicago Gets Slate for Officers

CHICAGO, ILL. — The thirty-seventh annual dinner and meeting of the Bond Club of Chicago will be held at the Chicago Club on Wednesday, Feb. 18. At that time members will vote on the following slate for officers and directors for the coming year:

George L. Martin

President: George L. Martin, Burns & Corbett, Inc. Secretary: Hempstead Washburne, Harris, Hall & Co. Treasurer: E. Cummings Parker, Glore, Forgan & Co.

Directors to serve one year: Officers, and Leo Doyle, Doyle, O'Connor & Co., Inc.; Perry Dryden, Paul H. Davis & Co.; Austin Jenner, First National Bank of Chicago; William D. Kerr, Bacon, Whipple & Co.; Nathan D. McClure, Harriman Ripley & Co., Incorporated; Nelson M. Utley, Halsey, Stuart & Co. Inc.

A proposed amendment to the constitution and by-laws will also be voted on.

The Club does not plan to have a guest speaker at the dinner. However, a program of "self-generated and intramural entertainment" has been arranged which will be announced at the dinner, and which the directors feel will be greatly enjoyed. Dinner coats will be worn. Cocktails will be served at 6:15 p.m., with dinner at 7:00 p.m.

Members of the nominating committee presenting the new slate were D. Dean McCormick, Kebbon, McCormick & Co.; James P. Feeley, First Union Trust & Savings Bank, and T. E. Hough.

G. Hamilton Beasley VP OF Wm. R. Staats Co.

LOS ANGELES, CALIF. — G. Hamilton Beasley has become associated with William R. Staats Co., 640 South Spring Street, members of the Los Angeles Stock Exchange, as vice-president in charge of the underwriting department.

Securities Salesman's Corner

By JOHN DUTTON

Are you interested in the future of your country? Are you interested in the future of your business? Do you care whether or not a future depression catches up with the follies and the foibles of this day and age, and as a result, even the basic freedoms which we Americans have come to take for granted may some day be washed down the drain? If any group of citizens should know and understand the dangers which lie ahead it is those of us who are in the investment business. If organizations which represent our industry such as the Investment Bankers Association, the Security Dealers Association, the various Bond Clubs and Dealer's Associations, the Associations of Customer's brokers, and the Organized National Exchanges, do not realize these dangers—WHO IN THE WORLD CAN WE EXPECT TO GIVE US LEADERSHIP?

One of the most comprehensive, fair, and unbiased reports ever issued by any fact finding organization regarding the dangers to our economic survival as a free enterprise society, was issued by the National Association of Manufacturers. It is entitled "Capital Formation, Key to America's Prosperity." It is not an alarmist's document. It has been written by a group of leading economists, and the findings are based upon recognized source material. The conclusions are definite and the logic unassailable. UNLESS TAXES ARE REDUCED SUBSTANTIALLY ON INCOMES ABOVE $10,000 per annum, WE WILL CONTINUE TO HAVE A WIDENING DEFICIT OF NEW CAPITAL FORMATION IN THIS COUNTRY. Under such circumstances inflation can only become more violent real production will decline, and an economic debacle combined with a flight from the dollar, is the final end in sight. This report makes no such conclusions—but anyone who knows history, who has seen the results of France's version of our existing New Deal economic policies, or who knows anything about the way England destroyed her own ability to produce through her refusal to accumulate better tools and machinery, can come to only one evaluation of the future. . . . UNLESS OUR TAX LAWS ARE AMENDED SO AS TO ENCOURAGE THE INVESTMENT OF VENTURE CAPITAL TO A MUCH LARGER EXTENT THAN EXISTS TODAY, WE ARE GOING BACKWARD AS SURE AS NIGHT FOLLOWS DAY.

Here are some very enlightening figures taken from the NAM report. Do you wonder why the new issue market for common stocks is in the doldrums, or the stock market . . . here's your answer.

On incomes below $5,000 the PERSONAL INCOME TAX DOLLAR, represents 80 cents that would be spent, and 20 cents that would be saved. BUT ALL OF THE SAVINGS GOES INTO NON-VENTURE INVESTMENTS, such as savings banks, insurance companies, postal savings, etc.

On incomes between $5,000 and $10,000, the tax dollar represents 40c of consumption and 60c of savings. Again all savings are NON-VENTURE.

On incomes ABOVE $10,000, the tax dollar represents 20c of consumption and 80c of savings. **But these 80c of savings are practically all VENTURE SAVINGS.** In other words they go into risk-enterprise (common stocks).

The foregoing conclusions are based upon what would have happened to the dollars, the various groups paid in taxes, if these tax dollars could have been retained by them, instead of being paid over to the government. The source is two studies made by the U. S. Bureau of Labor Statistics.

So go ahead if you like it that way . . . sit tight and do nothing . . . go to the meetings of your various associations . . . but be sure to sit still and keep quiet. Let the New Dealer's, the Reds, the Pinks, the Commies, the left-wing, politico-economic advisers, who surround the President, and all the rest of the congenital haters of Wall Street and private capitalism, continue with their destruction of the very thing that makes American capitalism work. By your silence, give consent to those who keep on saying, "SOAK THE RICH." That is what they are doing . . . soaking everybody with an income of over $10,000 a year. Soak them until they have no incentive left, even to fight back. And that day is almost here . . . LOOK AT YOUR NEW ISSUE MARKET . . . LOOK AT YOUR STOCK MARKET!

Are you going to do anything about this . . . you leaders of the various Associations and Organizations who represent Wall Street? Are you going to send some qualified men before the Congress to explain what is happening to your business? Are you going to tell them what lies ahead for this country if PEOPLE REFUSE TO BUY COMMON STOCKS, OR DO NOT HAVE THE MONEY TO BUY THEM? You have a Congress today that is composed of men who are predominantly believers in our enterprise system—both Democrats and Republicans alike. . . . WHY DON'T YOU MEN THAT HEAD DEALER AND BROKER ASSOCIATIONS AND EXCHANGES TELL THEM? You are SUPPOSED to be the leaders of our industry? What are you waiting for? ? ?

Write to the NAM and ask them for a copy of their report on Capital Formation. Their address is 14 West 49th Street New York 20, N. Y.

Proposes a New U. S. Currency to Reveal Hoarding

Rep. Sundstrom introduces bill in Congress calling for exchange of present dollars for new currency. Treasury officials view proposal as impractical and costly.

Congressman Frank L. Sundstrom (R-N. J.) on Feb. 3 introduced a bill in the House of Representatives directing the Secretary of the Treasury to call in all United States currency and give new currency equal in exchange therefor. Mr. Sundstrom claims that if the bill is enacted into law, it would greatly strengthen financially the governments of those nations to which we are sending dollars in aid; would increase confidence in these strengthened government; thereby enabling them more effectively to resist Communism and help to avert a Third World War; would determine with greater accuracy the ability of these governments to help themselves; and would save the United States government a huge sum which would otherwise be required for European relief.

Frank L. Sundstrom

In making his announcement, Congressman Sundstrom said:

"As of Sept., 1947, $28,567,000,000 in U. S. currency was in circulation. No one knows how much of this amount is hoarded abroad by persons and private foreign business interests. Estimates are based partly on pre-War American properties; military expenditures by our government and by our overseas military personnel in World War II; current tourist expenditures, and international exchange manipulations. Competent authorities believe that this amount will run into billions of dollars.

"Europeans and Asiatics always have hoarded American dollars, both while in their native land, and after arrival here, should they enter the United States. There is not a European or Asiatic government today which commands the unreserved confidence of its own nationals. My plan would rob no hoarder, but it would require that, within a certain time limit, these hoardings be turned into the central government, which would turn them over to our government and receive new currency, dollar for dollar, in exchange therefor."

Commenting on Rep. Sundstrom's proposal Treasury officials are reported to have termed it highly impractical and costly, pointing out that the supply of the necessary paper, as well as the work of engraving would present unpreceded difficulties.

Estimates 1948 Life Insurance New Capital Absorption at $5 Billions

Stephen M. Foster, Economic Advisor of New York Life Insurance Co., holds $800 million of amount will come from sales and redemptions of government bonds and remainder from excess of receipts over payments, together with interest accruals. Sees large sums committed to mortgages, building operations and loans to business.

Speaking at the Conference on Finance of the American Management Association in New York City on Jan. 14, Stephen M. Foster, Economic Advisor of the New York Life Insurance Company, gave a favorable estimate of the role of life insurance companies as a source of new funds for business expansion. In discussing the situation, Mr. Foster stated:

Stephen M. Foster

"I estimate that during the year 1948 the life insurance business should be able to make available for the purchase of new issues of corporate bonds, loans and stocks, State and municipal bonds, and real estate mortgages, for both new money and refunding, something like $5.0 billion. But since this figure is somewhat higher than most estimates of the availability of life insurance investment money, I should like to break it down to show you its constituent parts.

"The first part of the total figure is very simple. It represents merely the new funds which the life insurance business has to invest—these new funds being the difference beetween the life insurance industry's total receipts from all sources and its total expenditures for all purposes In 1946 this excess amounted to $3.5 billion; in 1947, it is estimated at $3.2 billion; in 1948 it will probably be much the same at about $3.2 billion.

"The question of how to handle, for the purpose of this discussion, the liquidation of existing assets is a little more difficult. Of course, to the extent to which we sell some of our assets, we are, in a sense, providing funds for reinvestment. However, such sales normally have the effect of diminishing the investible funds of other investors. Accordingly, it seems important to distinguish between our disposal of assets through sale or other voluntary means, on the one hand, and, on the other hand, our disposal through amortization, maturity, call, prepayment or other causes beyond our control, where the security that we dispose of is bought in or extinguished by the obligor.

"First as to mortgages. The life insurance business held about $8½ billion worth of mortgages at the end of 1947. Judging by the rate at which mortgages in this group have in the past few years been amortized, matured or otherwise repaid, one would expect that something in the neighborhood of $1.0 billion might be returned to the life insurance industry from this source, for reinvestment in the capital markets during 1948.

"Next, as to bonds and stocks other than those of the Federal Government. At the end of 1947 the life insurance business held almost $18 billion of corporate, State and municipal and foreign bonds, and a few stocks. We might have, from this source, something like an additional $200 million available to put into new capital issues.

"I am going to come to the Government security part of this analysis in a moment, but while I am

still on the subject of the accrual of investible funds for reasons other than through the voluntary sale of existing assets it is only fair to point out that the life insurance business is now apparently in the process of increasing its loans to policyholders, whereas for the past many years such loans have been decreasing. One would probably expect that only about $100 million of the total funds available within the life insurance business would be required for this particular purpose. In addition the life insurance business will apparently require for its own operations in the field of residential and other rental properties some $100 million in 1948.

"If these various estimates are correct, then thus far in the discussion we have accounted for the following funds: $3,200 million from increase in assets, plus $1,000 million from reduction of mortgages, plus $200 million from liquidation of 'other bonds and stocks' minus $100 million for increase in policy loans, and minus $100 million for expenditures on rental properties—a total of $4,200 million.

"That brings us finally to the question of the amounts that the life insurance business can logically expect to make available for the purchase of new private securities, mortgages, bonds and stocks—through the disposal of Government securities. At the end of 1947 the life insurance business held $20 billion of Government securities. While it appears that only some $100 million of these securities were due or callable during the next 12 months, nevertheless there is, I think, a real possibility that we should think of our holdings of Government securities as likely to be reduced by something like $800 million or more during 1948.

"It seems logical to expect that the life insurance business as a whole may very properly and appropriately give up, either through maturity, call or sale, something like $800 million of Government securities during 1948, and that it may do so without having the decline in its holdings of Government securities any more rapid than the decline in the balance of the privately held Government debt.

"If the $800 million proceeds of such moderate disposals by the life insurance business are added to the $4,200 million amount that we had previously accounted for, we arrive at a grand total of about $5.0 billion as the amount which the life insurance business may be able to supply to the capital markets mostly for the financing of homes, other construction, new plant, new equipment and new capital requirements of other kinds—for improving the standard of living of our great country.

"One further point. While it is true that these funds will probably become available, it is also true that to a very considerable extent, they are already committed for mortgages, building operations and loans to business. Some estimates are to the effect that most of the funds may be already committed as they become available, through the first three to six months of 1948. I offer this final remark lest you might jump at some erroneous conclusion as to the immediate ability or inability of life insurance companies to invest the dollars that are coming into their possession."

Suggests Three Moves to Avoid War With the Soviet

Col. H. Murray-Jacoby proposes: (1) swift and unemasculated inauguration of Marshall Plan; (2) meeting between President Truman and Marshal Stalin; and (3) if reconciliation should fail, formation of protective alliances by democratic powers.

Col. H. Murray-Jacoby, former U. S. Ambassador-at-Large, in an address at the Delray Beach Women's Club, Delray Beach, Fla., on Jan. 20, on "A Policy With Respect to Russia," suggested three alternative moves that could be advantageously made to avoid danger of conflict with Russia.

The former envoy believes that three moves could be made to advantage to avoid the danger of open conflict with Russia.

The first move he felt would be a swift and unemasculated inauguration of the Marshall Plan. "We can expect," he said, "new pressures in the spring when fighting in the Balkans is apt to accelerate; and particularly if the Czechoslovagian elections would, as they are likely to, go against the Communists, thus inviting counter measures of the Hungarian type." "This year is the 100th anniversary of the inauguration of Communism by Karl Marx," Col. Murray-Jacoby stated, "and we can expect a test of his doctrine on the external level." "Under these circumstances," he said, "the prediction of Congressman Eaton and Senator Ball that the Marshall Plan cannot be expected to get out of Congress before June or July is ominous."

"Our principal hope," continued the former envoy, "is that a large entrepreneur group of small shopkeepers, business men and farmers in Western Europe could see a new hope for themselves. The main street of Europe has to be put back on the beam of prosperity, and mere feeding will not do the trick. Just as in the early '20's, Europe is now a vast machine without lubricating oil and with its plant partly destroyed. After World War I, the Quakers fed over a million children a day in Central Europe and Ex-President Herbert Hoover engaged in the greatest and most miraculous relief program ever undertaken. Yet, the fundamental reconstruction of Europe had to wait for such moves as the French short-term industrial credits; the Dawes loan to Germany; the Jeremiah Smith loan to Hungary; the Charles Dewey loan to Poland and the League of Nations sponsored loan to Austria plus earlier subsidiary functions.

"The Jacoby-Stillich Index Number, published annually by the Cambridge Associates and of which the speaker was then a co-author shows that European production rose from a low of around 60 in 1921 to above 120 by the end of 1928. In other words, it doubled in those eight years. The composite agricultural-industrial index rose in the same period from 80 to 120. We have therefore every reason to believe that the curing and stimulating potentials of the Marshall Plan will be highly successful provided the timing is right."

"In regard to the timing," Col. Murray-Jacoby continued, "the Harding Administration blundered by sending Dawes to Europe in 1924 instead of 1922 at which time the Central European currencies could still have been successfully stabilized." The former envoy then read from a statement of his in the New York "Times," dated Aug. 21, 1922, in which he predicted that if currency stabilization were not carried out immediately, a vast army of malcontents would arise in Central Europe with all the danger that this implied. "In other words," said Col. Murray-Jacoby, "we could have prevented the eventual rise of Nazism and a second World War had we not dilly-dallied. Even the subsequent loans were not sufficient to counterbalance the bad timing. With this lesson of history before us and the explosive dangers that surround us at present it is imperative that our legislators must once again as they did patriotically during the war achieve fast and decisive action, proving again that democracy can successfully meet the test of crisis.

As a second remedy, Col. Murray-Jacoby suggested a direct meeting between President Truman and Marshal Stalin. "The implied invitation by Mr. Truman to receive Mr. Stalin at any time in Washington could have been improved upon if a neutral point would be chosen where both parties could explore differences with a sincere attempt to get back to the pre-Stettinius fairly satisfactory relations with Russia," he stated. "This could do no harm," said the Colonel, "but might clear the atmosphere and produce a better climate. A meeting where President Truman could personally interpret the feelings of American main street to the Communist Chief, and its burning desire for peace. Where he could say that we are not the country of the robber barons but the country of Thomas Jefferson, Benjamin Franklin and Thomas Paine; that we have our revolution behind us and not ahead of us; that we have enjoyed 154 years of practical experience in applied liberalism which incidentally protects us against the impact of doctrines resting on a passing period of temporary despair. That we now have a budget of $40 billion which is about the equivalent of the total national income from all sources in one of our recent depression years and that on that basis, were we theoretically to return to such conditions, not a living person in the U. S. A. would have a dollar income; and that if in addition to this showing and our $260 billion debt we would now pile up another such due to a costly new war, that all our annuities, savings deposits and the economy in general would go haywire. That if we, the wealthiest of all countries with a steel capacity three times the size of Russia, cannot afford another war, how can Russia just recovering from its 10 million dead afford one.

"And so to get together on a basis of hardheaded national interest with the full realization that different economic and political systems can exist side by side as they have always done and as Mr. Stalin himself acknowledged in his Stassen interview, but got off the beam with his Hungarian adventure. We should in such an attempt at reconciliation have a bit of confidence in the efficacy of the principles of the Sermon on the Mount, particularly if the alternative is a renewed human slaughterhouse.

"Third," continued Col. Murray-Jacoby, "if we would find that such an attempt at reconciliation would fail and end up in another Godsberg, we should then with top speed create a system of protective quasi-alliances among the democratic powers. The conduct of Mr. Bidault at the recent London Conference and the recent courageous statements of Mr. Bevin and Mr. Morrison would indicate that this could be done. We could either proceed under the Armstrong Plan within the framework of the United Nations, i.e., invoke Section 51 of the Charter where a two-thirds majority can function ex the Veto; or we could create these concrete understandings by direct diplomatic negotiations if we are pressed to it through the course of events, and only then.

"We could have prevented both World Wars, continued the former envoy, had we formed large enough coalitions ahead of the crisis instead of after. The German General Staff would have been too realistic to attack had it ever known the eventual potential confronting it in advance. We could have stopped the second World War cold had we made a defensive treaty with Great Britain during the phony war period as suggested by this speaker at the time. We likewise could have retarded it had we made a multilateral treaty guaranteeing the independence of Ethiopia as suggested by the speaker in the New York "Herald Tribune" of Sept. 11, 1935, which if carried out would have liquidated Mussolini internally with corresponding repercussions on the Hitler regime in Germany. This time the Russian General Staff should know in advance just what the potentials are; for in that manner the Russian revolution could, as was true of the Mexican one, eventually stabilize itself through an evolutionary process into sounder, humane and middle of the road channels, with peace still hovering over a prostrate and suffering world."

Manufacturers Trust Promotes Ohlmuller

Manufacturers Trust Co., New York City, announces that Frank P. Ohlmuller, formerly Assistant Secretary has been made an Assistant Vice-President and has been placed in charge of the bank's Security Analysis Department.

Mr. Ohlmuller was associated with George H. Burr & Co. from 1926 to 1934 when he came to Manufacturers Trust Co. He was made an Assistant Secretary in 1942 and placed in charge of the Collateral Loan Department. He was later made an Assistant Trust Officer in charge of the bank's Trust Investment Division.

For the past two years, he has majored in investments at the Rutgers University Graduate School of Banking.

With Hayden Stone & Co.

Hartwell P. Morse has become associated with Hayden, Stone & Co., 25 Broad Street, New York City, members of the New York and Boston Stock Exchanges, as assistant manager of the dealer and correspondent department. Robert C. Cease, William G. Connaughton and Claude Z. Hilmer have become registered representatives in the investment department.

Canadian Securities

By WILLIAM J. McKAY

In the final analysis the maintenance of the existing sterling parity is in the best interests of Canada. Similarly as far as this country is concerned the stability of the pound and the avoidance of a world-wide currency war, is also of paramount importance. The question of British financial prestige and the mixed blessings which would result from devaluation would suggest that the holding of the sterling line would likewise prove in the long run to be beneficial from the British point of view.

The Bretton Woods schemes have proved impotent to cope with the problem of international exchange stabilization and it is logical in consequence to endeavor to rebuild on the foundations of previously successful exchange systems. From the Canadian standpoint the breakdown of the time-honored U. S.-United Kingdom-Canadian exchange triangle has created an urgent problem.

As matters now stand the situation is too pressing to permit a drastic change of policy which would involve an embarrassing choice between outright association with the sterling bloc or something approaching an economic union with this country. The latter course has much in its favor but opposition on both sides of the border is still too great to permit its early accomplishment. Likewise the participation of Canada in the sterling area at the present time has many political and economic drawbacks. Neither of these solutions moreover would represent a step in the direction of freer multilateral trade but on the contrary would tend to divide the world into two competitive groups.

It would appear therefore that only the re-establishment of a practical currency arrangement between Canada, the United Kingdom, and this country would successfully solve not only the immediate Canadian exchange problem but it would also obviate a devaluation of the pound, and at the same time assure a smooth flow of trade between the sterling and dollar areas.

By thus placing once more on a working basis the old U. S.-United Kingdom-Canadian exchange triangle a long step forward would be taken towards the goal of world-wide exchange stabilization. In place of a global plan based largely on idealistic theory and involving vast expenditures to bolster up a series of artificial situations, the establishment of a U. S.-U. K.-Canadian exchange pool would prevent the collapse of the systems that now sustain the vast foreign trade area constituted by the sterling and dollar groups of nations.

During the week the external and internal sections of the market remained dull and inactive. Free funds were irregular and the movements were governed by the cross-currents represented by the sales of the proceeds of bond redemptions on the one hand, and purchases for fresh industrial investment in Canada on the other. In the latter connection it is interesting to note that as a result of mounting apprehensions in this country concerning the possibilities of acute shortages in basic industrial requirements, the recent important oil discoveries in Alberta and the vast potentialities of the Quebec-Labrador iron deposits have taken on added significance.

The Canadian stock markets staged a substantial rally led by the paper, liquors, and utilities. Following the French devaluation the gold issues also rallied and this movement was assisted by promising new drilling results in the Yellowknife area.

Seeks Test of Status of Federal Reserve Notes

A. F. Davis furnishes "Chronicle" with correspondence with Treasury in connection with his request that a Federal Reserve note be redeemed in lawful money as stated on its face.

A. F. Davis of Cleveland, Ohio has sent to the "Chronicle" copies of letters sent to and received from the Treasury arising out of his request that a $10 Federal Reserve note be redeemed "in lawful money" at the Treasury or at any Federal Reserve Bank. The correspondence follows:—

Dec. 9, 1947

Honorable John W. Snyder
Secretary of the Treasury
Washington, D. C.

Dear Sir:

I am sending you herewith via Registered Mail one $10 Federal Reserve note.

On this note is inscribed the following:

"This note is legal tender for all debts, public and private, and is redeemable in lawful money at the United States Treasury or at any Federal Reserve Bank."

In accordance with this statement, will you send to me $10 in lawful money.

Very truly yours,
A. F. DAVIS.

TREASURY DEPARTMENT
Fiscal Service
Washington 25
Office of Treasurer of the United States
In replying please quote JLS:mw

Dec. 11, 1947

Mr. A. F. Davis
12818 Coit Road
Cleveland 1, Ohio

Dear Mr. Davis:

Receipt is acknowledged of your letter of Dec. 9 with enclosure of one ten dollar ($10) Federal Reserve Note.

In compliance with your request two $5 United States notes are transmitted herewith.

Very truly yours,
(s) M. E. SLINDEE,
Acting Secretary.

CC: Mr. Russell J. Weisman
The Cleveland "Plain Dealer"
Cleveland, Ohio

Dec. 23, 1947

Mr. M. E. Slindee
Acting Treasurer
Treasury Department
Fiscal Service
Washington 25, D. C.

Dear Sir:

Receipt is hereby acknowledged of two $5 United States notes, which we interpret from your letter are to be considered as lawful money.

Are we to infer from this that the Federal Reserve notes are not lawful money?

I am enclosing one of the $5 notes which you sent to me. I note that it states on the face:

"The United States of America will pay to the bearer on demand five dollars."

I am hereby demanding $5.

Very truly yours,
A. F. DAVIS.

TREASURY DEPARTMENT
Fiscal Service
Washington 25

Dec. 29, 1947

Office of Treasurer of the United States
In replying please quote JLS:mw

Mr. A. F. Davis
12818 Coit Road
Cleveland 1, Ohio

Dear Mr. Davis:

Receipt is acknowledged of your letter of Dec. 23, transmitting one $5 United States Note with a demand for payment of five dollars.

You are advised that the term "lawful money" has not been defined in Federal legislation. It first came into use prior to 1933 when some United States currency was not legal tender but could be held by national banking associations as lawful money reserves. Since the Act of May 12, 1933, as amended by the Joint Resolution of June 5, 1933, makes all coins and currency of the United States legal tender and the Joint Resolution of Aug. 27, 1937 provides for the exchange of United States coin or currency for other types of such coin or currency, the term "lawful currency" no longer has such special significance.

The $5 United States note received with your letter of Dec. 23 is returned herewith.

Very truly yours,
(s) M. E. SLINDEE,
Acting Treasurer.

Vance, Sanders & Co. Admits Four Partners

BOSTON, MASS.—Vance, Sanders & Co., 111 Devonshire Street, have admitted Thomas A. Baxter, John A. Carter, Jr., Herbert I. Shaw and Kimball Valentine to partnership in the firm. All have been associated with Vance, Sanders & Co. for some time.

Can. Exchanges Open Sats.

MONTREAL, QUE., CANADA—The Montreal Stock Exchange and Curb Market will resume Saturday morning sessions, starting Feb. 7th and until further notice, it has been announced.

The Toronto Stock Exchange will also resume Saturday morning sessions on Feb. 7th, except during the months of June, July, August, and September.

N. Y. Chamber of Commerce Committee Urges Delay on Return to Gold Standard

Group, headed by John M. Schiff, advises action be deferred until some headway has been made in stabilizing foreign exchange relationships. Sees difficulty in world-wide scramble for the dollar.

The Committee on Finance and Currency of the Chamber of Commerce of the State of New York, headed by John M. Schiff of Kuhn, Loeb & Co., on Feb. 2 reported, after a year's study, that it was not advisable or feasible at this time for the United States to return to the gold coin standard. This view was taken on the ground that present currency relations among the nations of the world are confused and unstable, and until international exchange operations of the principal countries are normal, the privilege given to the public to exchange paper money for gold coin "would be unwise at this time."

John M. Schiff

The Committee, however, following a fixed policy of the Chamber in past years, expressed its approval of a return to the gold standard when conditions were proper.

Text of Report

The text of the Committee's report on the gold standard follows:

The suggestion has been advanced from various sources[1] that the many organizations and groups that protested abandonment of the gold standard by the U. S. Government in 1933 should now urge a return to this system.

The Chamber of Commerce of the State of New York has been the champion of sound money for nearly two centuries. Its conviction that "a gold standard is the most satisfactory monetary system from the standpoint of the American people as a whole"[2] is unequivocal and uncompromising. However, your Committee believes that it is premature to advocate the return to the gold standard at this time. The monetary systems of many nations of the world are fraught with uncertainties and confusions and, with the U. S. dollar now acting as the principal currency base, any change that would upset the present money situation must consider the effect such action would have on the currencies of other countries.

In the past year, many recommendations pertaining to the gold standard have been made by economists, monetary experts and government officials. Some seek the immediate return to this system by the U. S. Government; others take the view that the present is too uncertain; and a few believe that the gold standard should be abolished.[3]

On Jan. 22, 1947, at the direction of the Chamber, the Committee on Finance and Currency began a study of the feasibility of a return to a gold standard. In the months following, much time and sober thought have been given to a responsible answer.

The basic philosophy underlying the recommendations for a present return to a gold-coin standard is the re-establishment of confidence in our monetary system.[4] The implied lack of confidence in U. S. money seems to stem from the misapprehension that there is a wide gulf between our dollar and our gold reserve. Such a gulf does not exist. Walter E. Spahr, Professor of Economics at New York University, writes as follows:[5]

"The U. S. Government has little so-called 'free' gold at its disposal. Most of the gold held in the Treasury already has claims, as Treasury liabilities, against it. Against the $21,755,000,000 gold stock of the United States on Sept. 3, the Federal Reserve Banks held claims on $20,534,115,000 in the form of gold certificates. Even the difference, $1,230,885,000, is not 'free' gold at the disposal of Congress, since there are some specific offsetting liabilities in the form of U. S. and Treasury notes of 1890. The so-called 'free' gold, carried in the general fund of the Treasury, was $1,027,782,071.17 on Sept. 3, but even this is really not free since it is an asset item helping to offset in part other liabilities of the Treasury.

"Against the gold certificates held by the Federal Reserve Banks, the latter, on Sept. 3, had outstanding $24,622,738,000 of Federal Reserve notes and $18,236,215,000 of deposits—a total of $42,858,953,000 which is more than twice the gold stock of the United States."

Another increasingly prevalent observation is that a gold-coin standard provides the people with direct control over the government's use and abuse of the public purse. This system provides the people with a choice between gold, silver, other coins and paper currency. If the public lacks confidence in our paper money, it can under a gold-coin standard so register its doubts by demanding gold; every individual has the power to express approval or disapproval of the government's management of fiscal affairs.

The basic right of the people to register their confidence or lack of confidence in the dollar is not to be questioned. However, your Committee believes that the restoration of this privilege at a time when the dollar is being sought the world over, and the United States' efforts to control inflation of the money supply not yet demonstrated, would be unwise at this time.

The question of whether the United States should go back to its former gold standard, but on the basis of gold values at $35 an ounce, is constantly being brought forward by those who have been studying our monetary position. However, with the conditions which prevail in the world at the moment, it would seem better to hold this matter up for consideration until some headway has been made in straightening out the foreign exchange relations of the principal countries of the world as it is entirely possible that at some such time, action taken by the United States in connection with its gold position might be tremendously helpful in stabilizing the whole world monetary position.

Respectfully submitted,
Committe on Finance and Currency,
JOHN M. SCHIFF,
Chairman,
JOHN E. BIERWIRTH,
ALEXANDER C. NAGLE,
JOSEPH P. RIPLEY,
ERNEST STAUFFEN, JR.

1 Letter of Dec. 9, 1947, Economists National Committee on Monetary Policy. Resolution by Colonel Proffitt, March 6, 1947.
2 Chamber Bulletin, November 1933.
3 "Monetary Notes," Dec. 1, 1947; Thomas I. Parkinson, Commercial and Financial Chronicle, Oct. 30, 1947; "Findings of Discussions with Government Departments."
4 "Monetary Notes," Dec. 1, 1947.
5 The Commercial and Financial Chronicle of Sept. 11, 1947.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

The death on Feb. 2 of Thomas W. Lamont, Chairman of the Board of J. P. Morgan & Co. Inc., removes an outstanding figure from the financial and business world. Born on Sept. 30, 1870, Mr. Lamont was 77 years of age. Mr. Lamont died in his sleep at 11:55 p.m. at his Florida home, at Boca Grande, where he had gone from his New York home, on Jan. 8. His departure for the South followed the meeting of the Morgan directors which he had attended on Dec. 17.


Thomas W. Lamont

Mr. Lamont's boyhood, was spent in a parsonage; he was born at Claverack, N. Y., where his father, Rev. Thomas Lamont, was a Methodist minister. A sketch of the son's career points out that his activities were by no means confined to finance and business. He was a conspicuous figure in many different fields. It is further noted that in the world of affairs his career was one of constant application and effort through two great wars, and numbers of booms and panics.

In 1903 Mr. Lamont, then 32 years old, entered the banking business as Secretary and Treasurer of the newly organized Bankers Trust Co. of New York. Less than seven years later J. Pierpont Morgan made him a partner in J. P. Morgan & Co., and in a short time he became one of the world's leading bankers. For 20 years before the death of the late J. P. Morgan in 1943 he was second only to Mr. Morgan in shaping the policies of the Firm, and after the latter's death he became Chairman of the Board and Senior Officer.

Mr. Lamont graduated from Phillips Exeter Academy in 1888, and from Harvard in 1892. In his college holidays he took jobs on newspapers, and after his graduation in 1893-4 he worked as a reporter on the New York "Tribune" After serving as Secretary and Treasurer of the Bankers Trust Company from the time of its organization, Mr. Lamont later became a Vice-President. At the end of 1908 he entered the First National Bank, and after two years there as Vice-President, he became a Morgan partner on Dec. 31, 1910. In the 1907 panic he was one of the younger bankers who under Henry P. Davison worked on the details of the financial rescue directed by J. Pierpont Morgan.

When the first World War came, Mr. Davison and Mr. Lamont, under the younger Morgan, were largely responsible for negotiating and handling the loans made by the American public to Great Britain and France prior to the entry of our country into the war in April, 1917.

Following the ending of the first World War, the Secretary of the Treasury asked Mr. Lamont to go to Paris as one of the two representatives of the Treasury upon the American Commission to negotiate peace. Later he was intimately associated with the efforts made under the auspices of the Allied powers to finance the recovery of Austria and strengthen the Germany of the Weimar Republic.

In 1918 Mr. Lamont bought the "New York Evening Post" from Oswald Garrison Villard. He turned the direction of the newspaper over to three trustees. He backed the paper financially until he sold his stock in Jan., 1922 to a syndicate. He sold the bonds of the paper that he still held to Cyrus H. K. Curtis of the "Saturday Evening Post" on Jan. 1, 1924. Mr. Lamont took a keen interest in the American School of Classical Studies at Athens, of which he was a trustee and Vice-President. During the second World War, from 1942 to 1945, he was a member of the Research Committee of the Committee for Economic Development. He was active as a trustee of The Academy of Political Science and of the Metropolitan Museum of Art, and as President of the Board of Directors of the John and Mary R. Markle Foundation. He frequently interested himself in welfare and educational drives.

A year ago, on Feb. 4, 1947, he placed at the disposal of the Archbishop of Canterbury, the sum of $500,000 for the fund for restoration of Canterbury Cathedral, made necessary by the destruction wrought in the late war.

Mr. Lamont was made an officer of the Legion of Honor in 1918. In 1937 Pope Pius XI bestowed upon him the Grand Cross of the Order of Saint Gregory Magno. He held honorary degrees (LL.D.) from Union College (1921), Rochester (1929), Harvard (1931), Columbia (1932), and New York (1934).

When Mr. Lamont was 75 years old, he wrote his reminiscenses of his childhood. "The Atlantic Monthly" published them in abbreviated form under the title, "My Boyhood in a Parsonage," in May, 1946, with Harpers to bring them out as a book some months later.

Mr. Lamont married Florence Haskell Corliss in 1895. His children are Thomas Stilwell, a director and Vice-President of J. P. Morgan & Co. Inc.; Corliss, well-known for his activities on behalf of friendlier relations between the United States and the U.S.S.R.; Austin, a physician and research worker in medicine at Johns Hopkins, Baltimore; and one daughter, Eleanor, married to C. C. Cunningham, Director of The Wadsworth Atheneum Art Museum, Harford, Conn.

Of his 15 grandchildren, one, Thomas W. Lamont II, was lost in the submarine Snook during the Second World War.

* * *

Albert J. Egger, for the past 14 years a Vice-President of the **Chase National Bank of New York** was appointed Vice-President and Cashier of the bank by the by the board of directors on Jan. 28. Mr. Egger, senior personnel officer of the bank, has been a member of the staff for 38 years. He joined the Equitable Trust Company as a junior clerk in 1910, was appointed an Assistant Secretary in 1924 and became Equitable's first personnel officer. He was elected an Assistant Vice-President in 1930 and a Vice-President of Chase in 1934. He is Chairman of the bank's personnel committee and of the advisory committee of the Chase Bank Club. William H. Moorhead, formerly Cashier, continues as a Vice-President of the bank.


Albert J. Egger

* * *

Charles Diehl, President of the **Empire City Savings Bank, New York City,** and John S. Roberts, President of the **Flatbush Savings Bank, of Brooklyn, N. Y.,** were re-elected Chairman and Vice-Chairman, respectively, of The Savings Banks Retirement System at a meeting of the Trustees of the System on Jan. 21. Robert Matherson, Jr., Walter R. Williams, Jr. and William W. Sullivan were reappointed Executive Vice-President and Treasurer, Secretary and Assistant Treasurer, respectively. The Trustees reported the System's assets, as of Jan. 1, 1948, of $6,100,000 and participation in the plan by 76 banks and 3,600 employees. This participation represents increases during 1947 of $1,850,000 in assets, 11 in the number of participating banks and 700 in the number of participating employees.

Other Trustees of the System, in addition to Messrs. Diehl and Roberts, are: William H. Colestock, Vice-President of The Western Savings Bank, Buffalo; George C. Johnson, President, The Dime Savings Bank, Brooklyn; Thomas J. McCouliff, President, The Oneida, N. Y., Savings Bank; Ralph J. Mills, President, Yonkers, N. Y., Savings Bank; Daniel T. Rowe, President, Kings Highway Savings Bank, Brooklyn; Harold D. Rutan, Executive Vice-President, Bank for Savings, New York City; William A. Scott, Executive Vice-President & Treasurer, Cohoes, N. Y Savings Bank.

* * *

Manufacturers Trust Company of New York, announces that Frank P. Ohlmuller, formerly Assistant Secretary has been made an Assistant Vice-President and has been placed in charge of the bank's Security Analysis Department. Mr. Ohlmuller was associated with George H. Burr & Company from 1926 to 1934 when he became associated with the Manufacturers Trust Company. He was made an Assistant Secretary in 1942 and placed in charge of the collateral loan department. He was later made an Assistant Trust Officer in charge of the bank's trust investment division. For the past two years, he has majored in investments at the Rutgers University Graduate School of Banking.

* * *

A new booklet entitled "A Brand New Mortgage Plan" has been issued by the **City Savings and Loan Association, of Jamaica, Queens, Borough of New York City.** The plan, known as the "City Savings Mortgage Thrift Club," explains in simple language how regular savings money may be combined with mortgage payments. The announcement says:

"All home owners are eligible to join the club whether City Savings and Loan hold the mortgage or not. While the savings draw dividends and may be withdrawn at any time, it also acts as a 'cushion' for emergency purposes and may, if the individual elects, be used for home modernization, repairs, education, medical expense or any other purpose."

* * *

Through a stock dividend of $300,000, the **First National Bank of New Rochelle, N. Y.** has increased its capital from $300,000 to $600,000 effective Jan. 22, it is learned from the weekly bulletin of the Office of the Comptroller of the Currency.

* * *

Lincoln Rochester Trust Company of Rochester, N. Y., absorbed the **Corning Trust Company of Corning, N. Y.** on Jan. 14, the Board of Governors of the Federal Reserve System has announced. In connection with the absorption, the former main office of the Corning Trust Company as well as the branch formerly operated by the Corning Trust Company will be operated by the Lincoln Rochester Trust Company. Plans for the merger were referred to in our issue of Jan. 1, page 19. The stockholders of the Corning bank approved the plans on Jan. 12.

* * *

Frederic A. Potts, President of **The Philadelphia National Bank, of Philadelphia, Pa.** announces the resignation of Louis W. Bishop as Vice-President, effective Feb. 15. Mr. Potts said the bank has suffered a real loss through Mr. Bishop's entrance into another field of endeavor. Mr. Bishop will become director of the "Research, Planning and Development Board of the State of South Carolina", his native state.

* * *

The **Corn Exchange National Bank, Philadelphia,** recently announced to its depositors the availibility of a new type of check book which it states simplifies the finding of bank balances and facilitates the keeping of simple records for income tax or other purposes. Officials of the bank believe that the "plus" features of the check book will be of practical help to individual depositors particularly, and that its usefulness to the depositor will be reflected in some measure of increased goodwill toward the bank. The bank further says in part:

"The new checkbook, for which patent application has been made, is named 'STUBFAX' and is designed on the same principle as a 'visable record' binder. Through an unusual positioning of check stubs, as many as 15 stubs are visible at a glance for a run-down or check-back on previous checks. This minimizes both the carrying forward of balances and the need of leafing through many pages of stubs for data on a previous payment by check. The 'STUBFAX' check book is made up of a series of units consisting of five pages of checks, with 3 checks to the page. The stubs for these checks, however, are not placed immediately to the left of each check as in conventional check books. Instead, they are confined to one-fifth of the overall depth of the page. When the last check on a page has been used, the blank perforated section at the lower left is detached, thus uncovering the stubs for the following page of checks. When the fifth page is reached, the stubs of all 15 checks in the unit are visible at a glance. The Corn Exchange National Bank is making 'STUBTAX' check books available at cost to depositors in all of its 11 offices.

* * *

At the annual stockholders meeting of **Land Title Bank and Trust Company of Philadelphia, Pa.** on Jan. 26 Van Horn Ely, Jr., was elected a director. Mr. Ely is Secretary and Director of the Philadelphia Surburban Water Company; Director of the Indianapolis Water Co. and the American Water Works Co., Inc., of New York, and a member of the Board of Trustees of Jefferson Medical College and Hospital."

* * *

The Board of Directors of **The Bryn Mawr Trust Co., of Bryn Mawr, Pa.,** announced on Jan. 27 the election of William R. Mooney as Chairman of the Board and DeHaven Develin as President. The Philadelphia "Inquirer" states that Mr. Mooney had been President since 1935; Mr. Develin has been connected with the bank since 1931.

* * *

The **Western National Bank of York, Pa.,** has increased its capital from $225,000 to $540,000. Part of the increase was brought about by a stock dividend of $225,000 while the additional $90,000 was realized through the sale of new stock. The Bulletin of the office of the Comptroller of the Currency reported that the enlarged capital became effective Dec. 17.

* * *

Following the action of the **District National Bank of Chicago** in reducing its capital on Dec. 23 from $108,000 to $100,000 it also on the same day took further action whereby the capital was increased from $100,000 to $200,000 by the sale of $100,000 of new stock.

* * *

15,000 shares of additional stock of **The Bank of Virginia at Richmond** was placed on sale on Feb. 2 to the 743 stockholders of record as of Jan. 31, at $33.33 per share, according to an announcement made by Thomas C. Boushall, President. Rights to purchase additional shares have been allotted on a pro-rata basis, whereby each share of stock owned by present stockholders entitles the owner to purchase one-fifth of a share of additional stock. According to the terms of the transferable subscription warrants which accompanied the letter sent to stockholders on Feb. 2 all rights under the warrants must be exercised on or before 12:00 o'clock noon, (EST), on Feb. 28. Sale of this additional stock will bring the capital and surplus of the bank to $3,000,000. The undivided profits of the bank amount to $528,096 and total resources as of Dec. 31, 1947, stood at $57,842,-781.

* * *

Effective Jan. 28, the name of **Iowa-Des Moines National Bank & Trust Company of Des Moines, Iowa,** has been changed to **Iowa-Des Moines National Bank.** Announcement by the institution of the change states that the operations of the trust department will not be affected, the shortening of the name being made simply for the convenience of our customers.

* * *

The **First National Bank of Omaha, Neb.,** has increased its capital from $1,500,000 to $2,000,-000 by a stock dividend of $500,-000. The weekly bulletin issued by the Office of Comptroller of the Currency at Washington reports that the increase became effective Jan. 20.

* * *

According to the St. Louis "Globe Democrat," W. M. Harlan, Jr., was recently elevated from Vice-President to the Presidency of **Manchester Bank of St. Louis,** succeeding John S. Wood, who was elected Chairman of the Board of Directors, Elmer J. Nonnenkamp was made an Assistant Vice-President, and the Following were elected Assistant Cashiers: William E. Kennedy and W. Clyde Johns.

* * *

At the annual meeting of the Directors of **Mercantile-Commerce Bank and Trust Company, of St. Louis, Mo.,** on Jan. 15, Joseph C. Ganser, Jr. was elected Cashier and Treasurer. Mr. Ganser has been employed by the bank continuously since 1916. He was appointed an Assistant Cashier in 1941 and promoted to Assistant Vice-President in 1944. The following appointments were also confirmed: Henry E. Jenkins, Jr. was appointed Assistant Cashier. He came to the bank in May, 1947, having previously served in the Farm Credit Administration and Federal Security Agency in Washington and as a Lieut. Colonel in the office of The Assistant Chief of Air Staff for Personnel. Herman A. Orlick was appointed Assistant Cashier. He has been employed by the bank since 1924; Thomas L. Ray was appointed Assistant Manager of the bond department. He has been with the bank since Dec., 1945; William R. McIver was advanced from Assistant Cashier to Assistant Vice-President. He came to the bank from the Cleveland Trust Company in Jan., 1945, and was appointed an Assistant Cashier in Jan., 1946.

The Problem of Rising Prices

(Continued from page 13)

back in the war days has to date been robbed of $40 in value on each $100 bond by this inflation. There are at least 10,000,000 and probably more nearly 15,000,000 people in this country who have already been seriously hurt by these price increases. Their normal purchases have been sharply curtailed. They have been "priced out of the market" for many kinds of goods.

If this inflation continues, if it is not stopped, others will find their purchasing power restricted. Those who are hurt will go to 20,000,000 and then to more. The demand for units of goods will decline. Costs per unit of production will go up. Prices will go still higher. Unemployment will increase. Unemployment insurance reserves will be used and finally exhausted. The government may then attempt to bolster the vanishing standards of living of the unemployed by the establishment of some sort of WPA such as we had back in the 1930's. If that comes we shall have to begin with a much larger government debt than we had then. Confidence in government financing will be likely to wane, and then the crash will be due. This is not a pretty picture, but this is just what the economists of Soviet Russia are now predicting for this country. They not only believe that we are headed for a smash, but this seems to be just what they would like. If and when our economy goes to smash, the Soviet system expects to be on hand to pick up the pieces and to build a world communist economy.

None of this needs to happen. If it does it will be because employers, employees and consumers simply will not follow the dictates of common sense. If the responsible people of this country will but bend their every effort to the restraint of purchasing power and to the increase of production, the tide can be turned the other way.

If and when the production increases sufficiently to take care of the demand, the inflationary movement will have come to an end. Not before. If, after the inflation is checked, production continues to rise it may be reasonably expected that the ordinary forces of competition coupled with improvements in technology will thereafter lead to a gradual decline in prices in line with the historic trend of our economy.

Let us consider now some of the things that can be done to stop this present inflationary trend. Let us look at both the demand and the supply sides of the present situation. First, let us enumerate some of the things that would restrain the inflationary effects of too much purchasing power.

How Purchasing Power May Be Restrained

(1) Bank credit and loans for consumption purposes should be severely restricted. A beginning has been made in such restrictions by the Federal Reserve System. This type of restriction deserves national support.

(2) Installment and credit selling controls should, I believe, be reimposed, but preferably by voluntary action of those engaged in the credit business, rather than by the government.

Both of these controls may slow up certain types of sales somewhat at present, but in doing so, this will help to preserve the entire country from further inflation.

(3) Widespread thrift should be encouraged by urging increased purchases of both public and private bonds, stocks and insurance, and by setting aside more money as savings in the regular banks, savings banks, postal savings, and so on.

(4) Government spending should be sharply restricted to the most urgent needs. All government spendings sooner or later reappear as purchases that compete with current demands and are, therefore, inflationary. Several hundred thousands of government employees should resign their government jobs and go out to work on farms, in factories, in offices and stores where their work would be helpful in raising production.

(5) All relief expenditures now need to be carefully examined and reexamined to make sure that every dollar for this purpose is spent for essential human welfare. Expenditures for this purpose should, in a time such as this, be kept to a minimum. Every one who can do any productive work, even only a little, should do so now. This is no time for men to retire or for workers to take extended vacations.

(6) Imports should be encouraged. Our tariff laws should be revised to permit increased imports at least for such time as will permit productive mechanism to catch up with demand. Imports should be paid for, so far as possible, with American dollars and with the understanding that these funds should be used in making purchases elsewhere, or in building up long-time credit balances against this country. Every nation that owes this country money should be urged to pay its debts by the shipment of goods rather than by the shipment of cash or gold.

(7) Exports should be curtailed to the bare necessities of taking care of the most urgent needs of people elsewhere, and for the purpose of maintaining our international position among the nations of the world. Exports of automobiles both new and second-hand, of household equipment, of expensive textiles including nylons, of food products where they are not actually needed, and of mechanical equipment that should be set up and put to work in this country merely postpone the balancing of our own economy or stimulate further inflation.

(8) Corporations should pursue a conservative policy with reference to payment of dividends to stockholders. This is not time in which to increase dividend payments. Corporation profits should, so far as possible, be held for use in making needed extensions in plan and equipment, extensions which may in turn be used to increase production. The Bureau of Internal Revenue has a policy, at present, to force corporations to pay out a large part of each year's profits in dividends. For an economic period such as we are now in, this policy is dead wrong.

(9) There should be every possible resistance to price increases on every hand and at every inch of the way. If you are going to fight inflation you can't do it by raising prices. You must keep prices down. You must resist every unnecessary addition to costs. This is the time for serious review of every expense of doing business and the sharp elimination of every burden that can be justifiably cut out. Ransack your business for possible economies so that you can sell for less, or at least so that you can hold to your present prices. This is not only good business, but it is also patriotism.

(10) All wage and salary increases that are not accompanied by more than proportionate increases in productivity should be discouraged. The drives of organized labor for higher wage rates at the present time without relation to present or future increases in productivity are purely inflationary.

Ever since 1939 wage costs, per unit of production, and in most lines, have gone up. When wages rise faster than productivity, as they have done since 1939, they become inflationary. Pay rolls in the manufacturing industries which may be taken as typical for all employment are now over 3 times as high as they were in 1939. Wherever wages have gone up faster than production, production in units of goods have gone up, prices have gone up and inflation has been increased.

The increases in wages since 1939 have not been the only cause of our present inflation, but they have been an important cause. Further wage increases without increases in production, or what amounts to the same thing at increased cost per unit of production, are purely inflationary. Wage increases without proportional increases in productivity are now the most important cause of further inflation. Such wage increases should be discouraged.

The Inflationary Effect of the Minimum Wage

The current demand in Congress and in several of the States for an increase in the minimum wage has a bearing on inflation and deserves attention. At the Federal level there are powerful interests seeking to raise the present minimum wage from 40c to 75c, or at least to 65c, per hour. The same influences are at work in the States. Where the States already have minimum wage laws the effort is to increase the minimum wages for marginal workers up to 75c, or at least to 65c, per hour. In the 20-odd States in which there are no minimum wage laws you are certain to see an intensive and concerted drive for the enactment of such laws. If and when they are passed this will be followed by the setting of minimum wage rates at or about the same as the Federal levels. This movement both at the Federal and the State levels is not something merely incidental or sporadic. It is well planned and carefully organized. If it goes through it will have far-reaching economic effects.

There is much more to a minimum wage regulation than appears on the surface. The original purpose of the minimum wage was to increase the incomes and to improve the standards of living of the least skilled, least employable, the lowest paid, in other words, the marginal workers, in our economy. Most people of good-will have been favorablly impressed by, and are sympathetic to, this purpose. To some it has seemed an easy solution to the problems of low paid workers. All that seemed necessary was to pass a law prohibiting employment at any rate below a fixed minimum wage, a wage high enough to cover the necessities of life.

Unfortunately this idea has not worked in just the way that its advocates would have liked. The establishment of a minimum wage, particularly if widely applied and enforced, sets off an entire series of effects which in the long run leave the intended beneficiaries, the marginal workers of our economy, as badly off as they were before, but with other effects that hurt a great many other people.

Here is the way that a minimum wage, or an increase in a minimum wage actually works. A minimum wage, however it may be set, whether by law or by the processes of market bargaining, constitutes the base wage rate. This is the wage of the marginal worker. All wage rates above the basic minimum wage rate constitute differentials paid for differences in skill, experience, efficiency, dependability, responsibilities carried, special abilities, and so on. Wherever there is a wage that is higher than the basic wage the differential is due to factors of value in production for which the employer is willing to pay. The differentials in wage rates in excess of the minimum basic wage rate paid to such employees constitutes the economic measure of need, desirability, or productivity of such workers, as compared to marginal workers. There are always some, and there will always be some, employees who are worth twice, or many times, as much as the marginal workers. If you want them to work for you, you will have to pay them what they are worth.

Let us consider the effect of changing the present minimum wage rate from 40c to 65c per hour. Such an increase means the raising of the base wage rate more than 50%, (62½% to be exact). First there is the effect on employment. An increase in the minimum wage rate arbitrarily fixed by law provides no guarantee of employment. The advocates of minimum wage legislation say that it provides protection. This is obviously inaccurate. No minimum wage law offers any protection. Those who are employed at the former rate may be laid off at the new rate. Raising the minimum wage arbitrarily does not increase the productive efficiency of, or the worth of the employee. A minimum wage law can not compel any employer to pay higher wages and to keep all of his former employees. Whether marginal employees will be employed at a higher wage rate depends entirely upon whether the employer can in some way secure increased productivity from such employees, or on whether he can secure increased prices to cover the increases in wages fixed by the law.

Clearly, if there is a sellers' market, such as there is at the present time, and if goods can be sold at higher prices, then, since all employers are subject to the law, even though competitive in all other respects, they will all raise their prices to cover their increased common labor costs. Under these conditions employees whose wages have been arbitrarily increased by law may continue to hold their jobs.

But under conditions of a buyers' market, when customers are indifferent as to making purchases at present prices and unwilling to pay higher prices, then it is inevitable that some, if not most, of the marginal workers whose wages have been arbitrarily raised by regulation will be thrown out of work.

Within three months after the effective date of the present Federal Wage and Hour Law in 1938, when the minimum wage was fixed at only 25c per hour, in spite of increasing demands for goods and increasing employment, there were, according to Elmer Andrews, then Administrator of the Wage and Hour Act, from 30,000 to 50,000 persons thrown out out of work because of the minimum wage. If the minimum wage were now to be increased at one fell swoop by 50% or more, it seems inevitable that this would be accompanied by considerably greater disemployment.

Another inflationary effect of the establishment of a minimum wage at a higher amount is the consequent necessity for adjusting other wage rates to this new base rate. When a basic minimum wage is increased from 40c to 65c per hour, it also becomes necessary to change all of the previously existing differentials above 40c per hour to higher rates of pay.

When the base rate has been moved up from 40c to 65c per hour, employees who formerly received 45c, 50c, 55c, and 60c per hour, are entitled to have their wages raised not merely to 65c, but to differentials above 65c, corresponding to their differentials above the preceding base rate. After the establishment of the new base rate, such employees would, therefore, be entitled to wage rates of 70c, 75c, 80c, 85c and more per hour.

But following these adjustments for the wage earners who previously earned more than 40c, but less than 65c per hour, it would also be necessary to raise the wages of those who formerly earned more than 65c per hour. After marginal workers have had their wages increased more than 50%, and after those employees who formerly earned from 40c to 65c per hour have had their wages proportionately increased, it would be neither fair nor practicable to expect workers of higher competence to continue their employment without similar increases in their pay. They, too, would have to have their wages increased. Within a relatively short time, following the increase in the minimum basic wage level, wage increases would have to be made all along the line up through the entire wage structure.

It is not to be assumed that these far-reaching adjustments in wage differentials, following the adoption of a new or a higher minimum basic wage rate, occur with the precision and accuracy of a mathematical formula. There are very few, if any, economic situations that may be described with complete mathematical exactness. Economic effects are nearly always the results of pressures more or less unevenly distributed and more or less unevenly operative.

There will, of course, be a time lag between the establishment of the basic minimum wage rate and the adjustments of all the differentials. This time lag would certainly vary somewhat from industry to industry, from geographic area to area, from community to community, and even from concern to concern.

Not all of the differential wage rates would be adjusted in the same proportion as the minimum base rate. Some employees entitled to differentials would undoubtedly get more, while others would get less than the proportionate increase. There would undoubtedly be some employees who would feel that whatever increases they might obtain are inadequate. Consequently an entirely new set of arguments about inequities would arise accompanied by employee irritation and industrial dissension which would require considerable time for correction.

Finally, there would certainly be black market violations of the minimum basic wage law as there have been in the past and as there are at the present time. There will also be evasions of various kinds from paying the proper increases in differentials. Don't think that there won't be. The annual reports of the Federal Wage, Hour and Public Contracts Division for the past two years, the years of greatest employment and highest wages we have ever had, shows that more than three-quarters of all the employers operating under the Federal minimum wage of only 40c per hour, a 40-hour week and time and one-half for overtime are guilty of more violations and more than half of "major violations." One desn't have to be very sagacious to foresee that raising the minimum wage by more than 50% will increase the violations. What do you want, another prohibition fiasco? Or will this law be followed by the establishment of an overpowering inspection and enforcement government department?

When a new and higher minimum basic wage rate is established, it simply creates a situation that makes it persistently and logically necessary to pay similar increases throughout the entire wage structure. When confronted by a new minimum wage regulation intelligent and fair-minded employers will promptly recognize the logic as well as the

need for raising wage differentials of their more competent and highly skilled workers if they can possibly do so. If they fail to do so, their better employees will, sooner or later, seek employment elsewhere. If the adjustments in wage differentials are not corrected by the employers themselves, the need for such corrections will very soon be explained to them by representatives of the CIO and the AFL.

From this it will be seen that the establishment of a higher minimum wage rate is, in fact, a powerful and effective lever for hoisting the wage rates not merely of marginal workers but of all workers throughout the entire wage structure. After the basic wage rates have been increased, all persons who formerly received differential wage rates are entitled to and should have proportional wage rate increases. Every employee who formerely earned a differential wage rate will, under the new condition, have a logical claim for a wage increase, which may be effectively urged either individually or collectively. Such wage demands, based, as they are, on what is both logical and fair, will sooner or later have to be granted.

The minimum wage law is, in fact, one of the most potent devices ever invented for securing wage increases, not merely for marginal workers, but also for all other higher skilled and better paid workers. This, I suspect, may be one of the reasons why the unions, especially during recent years, have been so eager for minimum wage legislation. It makes their job in bargaining for higher wages much easier.

Higher wages without increased productivity simply mean higher production costs. Higher production costs must, in turn, find their way into higher prices. Every increase in wages without an increase in productivity tends to be purely inflationary. The minimum wage is not the only cause of the present inflation, but it is a contributing factor. If increased from 40c to 65c per hour, it will become a major cause.

It is amazing that there are so few persons, other than labor leaders and their economists, who understand and properly evaluate the device of the minimum wage. It may be sincerely doubted whether most liberal minded community leaders who have in the past favored the application of the minimum wage device had any real knowledge of what its effects really would be. It is even more amazing that there are so many business men and employers who have no apparent understanding of the effects of the minimum wage on the business economy, or even on their own businesses.

The following is probably a typical case. A few weeks ago a well-known textile manufacturer appeared as a witness before a Congressional Committee. In the course of the discussion, he was asked by a member of the Committee whether his business was affected by the minimum wage provision in the Fair Labor Standards Act of 1938.

"I don't understand. I don't know what you mean," the manufacturer replied.

The Congressman then clarified his question by asking whether it would make any difference to the manufacturer's operations if the minimum wage were to be raised from 40c to 60c or 65c per hour.

"No. Not at all," the manufacturer replied. "I am already paying all of my employees more than 65c per hour."

With all due respect to this and to other businessmen for their ability to run successful businesses, their thoughts on the mininum wage, if like those of this industrialist, represent sheer economic illiteracy. Such thinking, or lack of thinking, is positively dangerous to our entire economy.

We can all agree that high wages, real wages, are desirable. One of the most important measures of the progress of this country is the large increases in wages, real wages, that have been gained by American workers. Real wages are now at a higher point in this country than they have ever been before. They are at a higher point than in any other country in the entire history of the world. It is our common hope that this trend will continue. But real wage gains have always been achieved by increased productivity. There would have been no wage gains in this country if there had been no increases in production. It is man-hour productivity that has made possible the high American hour wage rate. It is man-hour productivity that we need now. Let us never forget this.

How Production May Be Increased

The most fundamental fact of our present inflation is that there are not enough goods. We have less food, fewer houses, fewer automobiles, fewer refrigerators, less clothing and less of almost everything that people want to buy. Consequently, prices are too high and they are going higher. The real answer, the only answer, to this problem is more production.

If this country is to get out of this inflation safely it must produce more than it has ever produced before. We must distribute more than we have ever distributed before. We must somehow do this more economically than we have ever done so before. This is the way to cure this inflation:

(1) In order that there may be increases in production, there is need for large expansions of factory plant capacity. There is need for a great deal of new and more efficient equipment. For most of the past 19 years, especially during the war years, the capital invested in productive enterprise in this country was used up faster than it could be replaced. Plant and equipment on farms, in factories, on the transportation systems, the warehouses, the wholesale plants and the retail stores are in worse condition today than they were in 1929, and more particularly so than in 1939.

Our crying need is for more capital in the form of buildings, machines, equipment, trucks, locomotives, box cars, warehouses and retail stores. This country is falling far short of making the capital investments that are needed right now. It did not do so during the depression of the 1930's It certainly did not make investments in capital and equipment for civilian production during the war. It has not done so since the war ended.

Total new financing in stock and bond issues during 1946 and 1947 averaged less than half of such financing back in the latter part of the 1920's. To be sure, new financing may not be the full story. Many corporations, as well as individual business concerns, are plowing back their earnings into their own businesses. There may be more of such intra-company investments than there were in the 1920's, but, even so, the totals of capital outlay are still less than they were. Don't forget that capital equipment during the past 19 years has suffered great losses due to wear and tear, to depreciation and to obsolescence.

Our provisions for capital equipment for nearly all forms of civilian uses have fallen far behind. We must not merely rebuild what we have lost since the 1920's, but we must also build an increase of from 20% to 25% in the physical productive plant and equipment of this country to take care of the increases in population since 1930 and to take care of the demands that are being made upon us by other nations. I hesitate to estimate the cost of this 20c to 25c increase in capital equipment over what we had in the 1920's in terms of present inflated money. The need is very great.

The money with which to rebuild our capital equipment must be found. Whatever prevents such accumulations of capital and expansions of plant and equipment should be eliminated. Whatever encourages the formation of such capital should be permitted and urged

(2) Bank credits and loans, which should be restricted for consumption purposes, should be extended more liberally for production and distribution of goods.

(3) Revisions should be promptly made in our tax laws so as to make it possible to use some of the money now going to the government for capital purposes. Normally, high tax rates are preventives of inflation, but when the cause of the inflation is inadequate production, as it is at present, the case is altogether different. More capital is the present need. Such capital can only come from savings. A reduction in the tax rate would permit an increase in savings which should then be turned into productive capital. There should be tax reductions for those who save and make their savings available for building up the nation's capital.

(4) One of the most serious causes of inadequate production at the present time in the shortage of labor due to the short work week fixed by the Fair Labor Standards Act of 1938. About 20,000,000 men and women engaged in industries directly covered by this Act, and another 10,000,000 who are engaged in retailing, service trades and even agriculture, whose hours are set in competition with interestate industries, are now working 40 or less hours per week. It is absurd to assume that our productive economy can turn out as much goods on 40 hours or less per week as they could with a 48-hour work week. We are told by the Bureau of Labor Statistics that we have full employment. As a matter of fact, it is only full employment at part-time work.

There is greater danger than appears on the surface in the 40-hour work week law. There is serious question, that no one responsible for the short work week has tried to answer, whether the economy of this country, or of any other country, can produce enough goods on a 40-hour work week to take care of the needs of its own people. In this country there is added responsibility for it is not only supposed to produce enough for itself, but also to supply the needs of other people.

A repeal of the 40-hour-week, time-and-a-half provision in the Wage and Hour Law would open the way to a much needed increase in production and at the same time provide opportunities for increased earnings to millions of men and women employees who are now working only 40 hours per week or less, but who would gladly work longer hours at reasonable straight-time wages. This law prevents such employment. It is time to get rid of this handicap upon our productive capacity.

(5) On the chance that the 40 hour time-and-a-half provision may not be repealed soon enough to help solve the present inflation, Congress should, as an alternative, be urged to change its immigration laws at once so that persons who are idle or inadequately employed in other countries and who are competent and willing to work may be admitted to this country to help raise production not only in the factories, but also in the forests, the mines, the fisheries and on the farms. In this way it may be possible to secure an increase in labor power and of production so much needed in this country at the present time.

There is something economically simple-minded about proposals now being made in this country to draw upon our supplies of goods to take care of needy persons in other countries who are at the same time unemployed and have no immediate prospects of securing employment. We should bring them over here in sufficient number to produce at least the goods or the equivalents of the goods that are to be exported under the Marshall, or some other Plan that is almost sure to be adopted.

Such immigration would have many desirable effects. It would help this country to increase its production and so put an end to the inflationary trend. That would be a gain for every one in this country. Such working immigrants might, after a period of service in this country, be returned to their former homes with their savings of their earnings at American wage standards and with their improved work know-how from experience under American conditions of production. This, in turn, would, no doubt be helpful in raising production abroad and so help to end the threat of a permanent United Nations' WPA to be supported by this country. Such changes in our immigration laws should be enacted at once.

(6) Credits provided by this country to other nations under the Marshall, or any other Plan, should so far as possible be used by those nations in making their needed purchases in countries other than our own. This diversion of demand will help us to accumulate the stocks of goods we need for our own people and which will take the pressure off from rising prices here.

(7) At the broad base of production is labor, human labor. The burdens of producing goods have been lightened by countless technological improvements, but with all the advances that have been made, production is still dependent upon work, efficient, competent, intelligent, willing, hard work. There is need for greater labor productivity. There is something wrong about a trend which, for example, accounts for a brick layer who back in the 1920's laid 2,000 bricks a day; in the 1930's 1,000 bricks a day; and in 1947 laid less than 500 bricks a day.

We must in this country somehow learn that the final solution to the present problem of rising prices rests squarely upon securing more production per man, more production per man-hour, and production at lowered unit costs. We must all learn that there will be no more to consume than is produced, and that every obstruction placed upon increased productivity whether that be in restriction of hours of work, in loafing on the job, or in demanding more money except for increased production, is an injury to our economy.

The inflationary trend that we are now experiencing is dangerous. I must not minimize its tragic possibilities. It could end in disaster. This is what the enemies of our economic system want to see. However, it need not end in disaster. It will not end in disaster, if the people of this country will but exercise common sense, and if business people, employers and employees, will but consider their long-run rather than their immediate interests. Above all, what is most needed is work, more work, more work than ever before. Our national slogan for the next 10 years should be, "Let's go to work."

But How Do We Know It Will Work?

Irving M. Ives

"Dire extremities inevitably require bold action and we are definitely faced with dire extremities (in Europe). This is no time for equivocation or 'pussyfooting.' The challenge facing us is unmistakably clear. Either we meet it now or we postpone decision to a later date which may be too late.

* * *

"A concerted effort seems to be under way in the Congress and in the Administration to get together in resolving questions of differences which may exist (about the so-called European Recovery Plan). There appears to be a determination on the part of the leadership, in the Senate at least, that Republicans and Democrats alike—as many of us as possible—shall be granted the opportunity to reach agreement of this program.

"The great effort of Senator Vandenberg and Senator Connally is already showing results in the plan of administration suggested by the Brookings Institution, which may well be a plan on which most of us can agree.

"The other big stumbling-block of contention is the amount of money to be appropriated for this undertaking. Even here, however, there seems to be a growing feeling among the large majority in the Congress that, without adequate appropriation, no plan can succeed."—Senator Irving M. Ives.

It would be helpful if the Senator, and the others too, would leave off talking in catch-phrases about "too little and too late," "bold action" and the like long enough to adduce some evidence and present some solid argument to show that what is being advocated will really do what is expected of it.

Four With Capital Securities

(Special to THE FINANCIAL CHRONICLE)

OAKLAND, CALIF.—Oscar E. Baan, Llewellyn J. Reese, James E. Smith and Frank L. Wilkins have been added to the staff of Capital Securities Co., 2038 Broadway. Mr. Smith was previously with Waldron & Co.

As We See It

(Continued from first page)

which deranged currency relationships are but an outward symptom.

If experience shows one thing clearer than any other, it is, perhaps, that currency devaluation without appropriate supporting action in the domestic economy of the country devaluating its currency merely at most furnishes temporary relief after which the "necessity" of further devaluation comes as a matter of course. It was this sort of thing which happened repeatedly in the early and middle 'thirties, and it was to prevent such epidemics of currency manipulation that such devices as the International Bank and the International Monetary Fund were created, and numerous "agreements" or "understandings" reached about currency management. It was obvious from the first, however, that all this concerned itself with symptoms, or at the most superficialities, only, and that the various countries which entered into the arrangement (with the hope, of course, that largesse from the United States would make it worth their while) had no intention of doing anything which would oblige them to take the fundamental steps really necessary for the cure of the ills responsible for currency difficulties.

Remains to Be Seen

It still remains to be seen whether either France (or, rather, the French people) or any of the rest of them can bring themselves to do that which is necessary to bring real relief or to save them from the "permanently lower standard of living" about which so many pseudo-economists in Washington and elsewhere are so fond of talking. This is hardly the place to undertake any extended or technical analysis of the factors which fix the value of one currency in terms of other currencies. Volumes have been written on the subject, and some of them will repay reading.

Suffice it to say here very simply that the exchange value of the currency of any nation is fixed, certainly in the long run, by what that country has to offer the outside world relative to what it demands or bids for from the outside world. Any country can have any exchange rate it desires if it has no dealing with the peoples or the economies outside its borders. Any country can fix the value of its currency at any point it desires if it can find some outside party able and willing to make good the difference between what it is able to sell to the outside world and what it buys from the outside world.

But in this modern day and time no people can thrive in a "closed economy" — least of all those nations whose currencies are today most seriously in question. Nor is there the slightest likelihood, whatever may be the superficial appearances or the hopes of foreign politicians, that the United States of America will or can meet the deficits incurred by such foreign countries in their rather silly efforts to "save" their currencies.

With such considerations as these in mind it is possible to identify those factors which will determine whether the franc, left to its own devices, will presently settle down at some fairly solid and stable level and whether it will remain at that point indefinitely. There are all too many, or at least so it seems to us, who in their just advocacy of a free exchange market, appear to take it for granted that the French franc (and any other currency left to itself) will find some level short of practical zero and stabilize itself there.

We are, of course, quite convinced that in no other way is it possible to find out how much the franc or any other currency is really worth in the foreign markets, and no other way of setting up a currency system which will work out in actual practice. But, and this is the main point we wish to make here, such a step while necessary for such a result may or may not prove sufficient to produce such a result. It can do the latter only if supported not by market manipulation, but by an economy which, vis-a-vis the remainder of the world, is able to stand fully on its own feet.

The Real Trouble

The real trouble with France and even more so with Britain is, first, that income they were at one time able to draw on to help meet their bills from the outside world is now not available to them, and, second, that there is no clear indication that the French people, the British people, or the other peoples understand that they must work more diligently and produce more effectively than they have done for half a century or reconcile themselves to a "lower standard of living." And wanting such an understanding, and lacking either the ability or the willingness to produce in this way, they can not possibly escape this consequence regardless of what the United States does or does not do, and equally regardless of any and all planned economies, foreign supplies of capital, and all the rest.

Our Shortcomings Not Helpful

There will be those doubtless who will say that we ourselves are not engaged in any miracles of productivity, and that despite a high rate of activity and of production at this time, are not in any position to throw stones at other economies of the world. They may even add that the competition which the European exporters are required to meet in the postwar world may for this reason not be of the most vigorous. All this may be, and, we suspect, is true, but it scarcely has the effect or can have the effect of bringing great help to Europe. It may be that neither the people of the United States nor those of Europe will attain the position of economic abundance easily enough attainable in other circumstances, but our shortcomings are not likely in the long run to provide a way out for France, Britain and the rest of them.

These are, of course, matters which must be borne carefully in mind in arriving at any conclusions concerning the steps taken by France, Italy, Britain, or any of the rest of them to "protect," to "stabilize," or to do something else with their currencies. They are also considerations which must not be neglected when the operations of the International Monetary Fund, the International Bank or the so-called European Recovery Program are studied. Any attempt to appraise any of these undertakings, or any other related to them, without careful study of such factors as these will inevitably be futile.

Brokers' Responsibility in Flow Of Investment Capital

(Continued from page 4)

companies in New York and other states, and possibly savings banks, so that they might be permitted to put a part of their assets in equity capital. This is not a departure from reality! In the first place, it can be demonstrated that a portfolio devoted to fixed income investments will not always do so well as one containing some equity investments, since the inevitable investment errors can not be compensated by bonanzas. This admittedly is only a partial solution becaues the type of stocks these institutions would buy would only be the highest grade seasoned issues. Furthermore, the portion of wealth and savings in the hands of trustees seems to be continually increasing and funds that are channeled into the debt form of securities are not only new yearly savings, but the savings of former years.

Bank Borrowing Inflationary

The Industrial Securities Committee of the IBA stressed the fact that the reliance of business on capital markets for new money is not in the long run inflationary since such a move results in tapping the accumulated savings of individuals. It does not result in increased commercial bank deposits and hence, an increased money supply. When business cannot raise new money, it is foced to curtail expenditures or borrow from the banks. Bank borrowing does have an inflationary aspect in that this process creates new deposits and by building up the money supply, puts an inflationary squeeze on the level of commodity prices. Within moderate limits, when loans have been subnormal, the expansion is desirable and natural. However, when loans and deposits are already at high levels, further increments become undesirable and inflationary. Creditor or debt financing is at present encouraged by the Federal tax system through the deductibity of all interest payments. Since dividends distributed are not deducted from corporate net income for Federal tax purposes and interest payments to bondholders are so deducted, equity financing is discriminated over against creditor financing.

Under present tax laws, those groups who have supplied most of the risk money in the past are no longer able to do so. A good bit of England's troubles today stem from her high individual tax program since World War I. Had taxes not been so high she might have raised the money to modernize her textile plants, her coal mines and other industries by the introduction of modern labor-saving devices in order that she could compete in the world markets. With tax rates as they were, most individuals hardly felt it was worth the gamble.

Speculation Needed for Progress

The long-term, high-grade bond market has recently become "sticky" and, therefore, the demand on the market for equity capital is likely to become greater. Now is the time to reverse the tendency of penalizing equity interests and it is up to the brokers and investment fraternity to lead the fight in creating a favorable background for venture capital. Doing this need not invite a repetition of the practices of the '20s, because the healthiest thing for our markets is to see that they are entirely free from manipulation, such as painting the tape, spreading of rumors, creating activity to induce others to purchase or practices of any such kind. We should want the capital markets to perform their economic function and I insist that risk-taker will generally lose interest in the enterprise when it has become successful and sell out to more conservative investors.

We must do whatever is necessary to educate the people to have a respect for stock and commodity exchanges. Never for any purposes of appeasement or political reasons should we take the attitude that we do not encourage normal speculation by those well-informed and able and willing to take the risk. Only if speculation reaches such heights that undue use of the nation's bank credit takes place should it be curbed, but that condition hardly exists today. Speculation is what made America and if speculation ceases to be in the blood of the average American, then, in my opinion, we would be suffering from dry rot. Of course, there are risks, but we are not going to destroy our roads just because a few people are injured or killed in automobile accidents on these roads. If America had no speculators, inventions like Fulton's steamboat, George Eastman's camera, the moving pictures, etc., might have been delayed for years. Normal speculation, when well balanced between the bulls and the bears and reasonably well-informed, helps to adjust prices to intrinsic values. We can not pussyfoot on this or straddle the issue. We have to take a stand that speculation is either legal or illegal. If it is illegal, let the laws come out and say so and let them close the Exchange if this is their wish, but if it is legal, let us uphold the good name of the speculator and see that he is respected for his contribution to the economy of the country. If you took away from our markets what little is left of the speculator's activity, the non-speculator type of securities buyer could hardly expect to have his business executed as cheaply as he now does, and as thin as the markets presently are, they would be that much thinner without the speculator.

The Role of Salesman

The only alternative would be that the investor would be penalized further, both buying and selling, due to wider spread between bid and asked prices unless higher compensation were paid to salesmen to go out and find investors in greater numbers to narrow those markets; in either event, the absence of the speculator increases the investor's cost of doing business. Even though stockholders and bondholders totalling between 15 and 20 million may far outnumber labor union members, they have not organized themselves to a point where they can hope that even under the most paternalistic schemes of our planners, they are going to be guaranteed a minimum price for their securities nor have we heard any cries from the holders of American Telephone stock that their $9 dividend, which today is only the same as in 1932, should be adjusted to some 90% of a parity, so that their purchasing power, because of the increased prices of things they buy with the proceeds of that dividend, is preserved at the 1932 level or even at the 1939 level. People should not be even slightly encouraged to believe because they buy stocks listed on the New York Stock Exchange they have come under the protective roof of some temple whose priests are going to see that their capital is preserved, but on the other hand, I question whether it is good economics or sound business practice for the Exchange to take over the role of investment advisor in advising people, even by implication, about speculation in things like low-priced stocks.

While I do not question the motives or the sincerity behind such statements, I am fearful that good intentions such as these may be misunderstood. Pepsi-Cola once sold around $1 and only a few years ago, aside from things like Missouri-Pacific bonds which sold at 1% of their face value and are now worth many times more, you had any number of stocks selling around $1, such as the following: American Power and Light, American Water Works and Electric, Curtis Publishing Company, Engineers Public Service, International Telephone and Telegraph, etc., many of which, even after the long decline in our securities markets of the last 15 months, are selling, roughly, 10 times their price of a few years ago. After all, there's nothing sacred about the fact that a stock is high in price, because we all remember when Electric Bond & Share sold at 180, American Super Power at 70 and Radio at 500. A high price does not insure the virtue of any stock and I think that while the uninformed should not be encouraged to come into the stock

market, if the public will follow the Exchange's slogan of "Investigate Before You Invest," that from then on they should be allowed to risk their money as they see fit.

It might be well to compare the inactivity of the stock market in relation to broad economic indices. Whether measured in terms of national income, volume of production or other economic indices, the rate of stock trading has been declining so that the breadth of the market, which is an important element in providing liquidity for the revolving fund of risk capital, is being severly restricted. Last year's turnover in relation to listings was only about 20% of that of 1926. 1926 is the year used as the base in the index of wholesale commodity prices by the U. S. Bureau of Labor Statistics and it is more or less looked upon as a period when our economy as a whole was functioning well.

In 1929, the sales of Montgomery Ward were $267 million—last year they ran at a rate of about a billion and a quarter; Sears, Roebuck sales are up from $355 million in 1930 to over $2 billion last year. General Motors sales since 1929 have doubled from approximately $1 billion and a half to $3 billion. Electric kilowatt-hour consumption has gone up in this period from 90 billion to 200 billion and the national income from about $85 billion in 1929 to roughly $200 billion today. Transactions on the New York Curb Exchange have dropped from a figure of 476 million in 1929 to 134 million shares in 1936 and last year declined further to only 72 million shares—just about 15% from where they were 18 years ago and almost half of where they were 10 years ago. Forgetting the boom days in 1929, the value of a franchise to do business on the New York Stock Exchange is only 35% of what it was in 1936 when seats still sold at $174,000. They are now quoted around $59,000.

What Brokers Should Do

This is something that, as brokers, we should try to do something about—not only as an obligation to the people employed in this industry, but for the sake of our customers and the whole American economy. High-speed tickers, electric boards and with bids and offers from hundreds of cities all over the world flowing in over thousands of miles of private wires to some little corner in New York, are no consolation to the poor customer who sees the last sale of stock 16¾ and, when he goes to buy or sell 1,000 shares, finds it quoted 16-17½, 100 on each side. We can't fool the public forever because, when they are urged to "Get the facts before you invest," they do just that and the facts are that the markets are too thin for comfortable operation.

The thin markets have dried up trading to a point where, if any large block of stock is for sale, it usually has to take the form of a secondary or a special, with no similar machinery devised for the man who wants to buy a large block of stock. A person is almost afraid to buy at the market 5,000 shares of anything today for fear he will run the stock up unduly and, therefore, subject himself to a barrage of questions the next day as to why he bought it, etc. If traders had more latitude, this shouldn't happen because the traders would probably make the stock available within reasonable limits, even if they had to go short, but why should they do so when short-sale profits, since they are always short-term, are figured at 100% for capital gain purposes?

Of course, we all realize the deterrence such things as high individual taxes and double taxation of dividends have on risk venture, but the real core of the problem is to eliminate the capital gains tax or at least the holding period. With all the heavy taxes in England, they have never put through any such screwball tax legislation as a tax on capital gains. It wouldn't be nearly so devastating no matter what the rates of the tax were if you could deduct your losses against ordinary income or, least, against dividend income and interest from securities, as an individual naturally looks upon these two sources to at least offset losses which are usually bound to occur. Take a man with a capital of $50,000—if he earns $100,000 during the year, spends $20,000 to live and pays $70,000 in taxes, he has $10,000 left. If he loses $50,000 in securities during the year, practically all his capital is gone because he can only deduct $1,000 of his losses—whereas, if he could deduct the whole $50,000, he would only pay an income tax on $50,000 income instead of $100,000.

Stock Market Speculation and Venture Capital

(Continued from page 6)

exchange members and their partners are the principal buyers and sellers on exchanges. For the past eleven years the New York Stock the Curb exchanges have obtained a weekly report of the volume of purchases and sales by members and their partners. These reports have shown that member participation in the total volume of the market fluctuates very slightly and has averaged about 17½% on the Stock Exchange and 16% on the Curb during the eleven year period. About half of these percentages is accounted for by members' transactions in their professional capacity as specialists and odd-lot dealers.

There is no practical way of analyzing the sources of the remaining 83% of the stock market purchases and sales which are made by non-members. Recently the Securities and Exchange Commission concluded a study of a single day's trading on the New York Stock Exchange. This study represents the greatest effort ever made to assemble and tabulate all the details of one day on one exchange. Even this enormous piece of work, which took about a year to prepare, reached only part of the information about the one day studied. It does show, however, that 17,603 domestic individuals, 346 non-financial corporations, 187 investment trusts, 217 banks, 220 foreigners, 296 specialists, floor traders and odd-lot dealers, 932 member and non-member dealers and their wives, dependents and discretionary accounts and 732 unclassified accounts participated in purchases and sales or both on that day. It was a day of heavy volume, but there is no reason to believe that the variety of participation would alter materially at lower volumes. At least proof is available that the percentage of member participation was the same as usual on the day studied.

Motives of Stock Market Transactions

Stock market transactions are even more impossible of classification as to motive than they are as to origin. But it seems reasonable to assume that most purchasers buy stocks because they believe they will increase in value and most sellers anticipate a decline in price. In seeking out what effect stock market speculation may have on the raising of venture capital, it is fruitless to attempt to sub-divide stock market transactions as a whole into purely theoretical degrees of speculation. The important fact is that daily transactions on the stock market are the result of an indeterminate number of orders placed by an indeterminate number of people, and that they result in prices which represent the composite appraisal of so many people that they are beyond the powers of control, or even prediction, of any special interests or groups regardless of political or financial power.

No one can know why stock market volume or prices increased or decreased on a given day. The opinions and requirements of too many thousands of people are involved. But we do know each day the simple facts of whether or not the volume of stock market speculation, or the price average, is increasing or is decreasing. It is possible, I believe, to show the direct effect which the stock market has on the raising of venture capital by charting, on a comparative basis, the monthly sales of new stock issues, the volume of stock market transactions and the average of stock market prices.

Such charts indicate that in 71 different months between 1919 and 1947 the sales volume of new stock issues increased substantially in comparison with preceding months. These months of marked increases in the sale of new stock issues almost invariably followed a rise in the volume of stock market transactions, or a rise in the stock market price average, or both. In only three instances out of the 71 months of marked increase, the stock market exhibited a prior deecline in both volume and price. In only eight instances both volume and price had not exhibited a prior increase.

A rising volume of stock market transactions, or a rising price average, is, of course, not always followed by an increase in the flow of venture capital. But the sale of new capital issues almost invariably shows a marked increase, **only after** stock market volume or price has first led the way.

Such charts, of course, do no more than furnish a semblance of statistical proof of facts which are self-evident to every investment banker. The stock market reveals the public's attitude toward whether or not to venture its capital. It flashes the green or the red lights, which tell companies and their bankers whether they can go forward, or must wait, in their plans to raise equity capital.

Venture Capital and Stock Market

A little reflection will indicate why the flow of venture capital is dependent on conditions in the stock market. I should point out that the use of the word "flow" in describing the transfer of individual savings and wealth into new stock ownership is more picturesque than accurate. When the spasmodic character of this movement of capital is smoothed out into convenient averages, it gives the appearance of a continuous flow (or perhaps a trickle) of funds into corporate use and securities into private hands. In fact, however, venture capital goes to work in separate groups as particular issues of securities are offered and sold. Before a sign is hung out at a factory, offering work to another group of venturesome investors, a decision must be made by the prospective employer and his advisers.

This decision is not a simple matter of deciding that the company needs more capital to work in its business. The directors must first decide what terms of employment they can afford to offer the owners of the capital they want. They must decide whether the terms are likely to be acceptable. The banker, who will buy the securities from the company and reimburse himself by reselling the issue, is particularly interested in whether the offer will attract buyers. If he misjudges market conditions, he will find his own capital tied up indefinitely in an issue of securities, instead of being available for financing the movement of other issues.

Whether the decision is soundly made will depend on a correct appraisal of the attitude, **at that time**, of the thousands of people who may have capital which they wish to put to work. Is that attitude favorable toward purchase of stocks? Will people accept the risk of an uncertain income and the possibility of loss of capital in the hope of larger income and capital increase? Or will people only accept securities providing a fixed income and maximum assurance against loss of capital in exchange for their dollars?

The directors and their banker cannot answer these questions, or even make an intelligent guess at the answers, unless they have available a broad, accurate and current source of information as to what their "public" is thinking. The stock market provides this information. It is continuous, moment to moment, expression of opinion — a Gallup Poll on the scale of Paul Bunyon. It is a highly reliable cross-section of the prevailing opinion of the very group in which the company and its banker are interested. No one can express his opinion in the stock market poll without backing it up with his property. Selling opinion must be shown by actual sales — buying opinion must be supported with real purchases. The price level rises or falls under the aggregate pressures of people who are risking their property in support of their opinions.

The record makes it clear that even though companies and bankers may not like what the stock market tells them, they have consistently done their best to take its advice. The record of every period of increased sales of stock for new capital demonstrates this. We have no equally complete record of the securities which were not sold; but, if we had, I would expect it to show that these securities were offered against the advice of the stock market poll.

There is beyond question a direct cause-and-effect relationship between the volume and price trends of the stock market and the so-called flow of venture capital. A broad volume of transactions in the stock market, resulting in either a relatively stable or a rising price level, is a condition precedent to any active movement of capital into new stock issues. When public interest in the stock market is "at low ebb" as it was in 1947, there need be no surprise that new capital was not raised in sufficient quantities. There need be no astonishment that such new capital as was obtained in 1947 was 73% investment capital demanding bonds, and only 27% venture capital willing to accept the hazards of a stock interest in the business.

While it seems clear that an increase in stock market speculation and the level of stock market prices are conditions precedent to the arising of venture capital, it should be equally clear that a broad speculative interest and an optimistic attitude toward the future of business are prerequisites to rising stock market volume and prices. The stock market reflection of that interest and attitude may, after a protracted rise, magnify their size; but the willingness to speculate and the confidence that business will grow profitably must be present first.

If the raising of venture capital, so essential to our national health, is depedent on increasing stock market speculation or rising stock market prices, and these in turn depend on widespread confidence and willingness to speculate, what can be done to restore these vital ingredients and start the process moving? There is, of course, no one reason for the unwillingness to risk capital and the uncertainty about the future, which are the real barricades across the path of venture capital.

Obstacles to Venture Capital

Others will discuss the crushing effect of the present tax structure on our incentive to speculate, on our attitude toward the future and indeed on the availability of capital to risk. Our tax system is certainly a major obstacle, perhaps the major obstacle, and it is an obstacle which can be reduced.

But there are other obstructions. Fear and uncertainty as to what may happen in the world make it difficult to be confident about the future. We are oppressed by our new world responsibilities. Only time and good statesmanship can remove this barrier. Both seem to be working in that direction.

There is also the brush pile of many false doctrines to be cleared away. The years of teaching that our economy has become static and that growth is behind us must be overcome. Leadership, which has failed to encourage thrift, and hard work and self-reliance, must be forgotten. Here again only time can clear up this rubbish in the path.

There may still remain the obstacle of mistrust of our financial machinery, although great changes and time have already gone a long way toward removing this once serious impediment. Wise leadership in finance, earnest efforts to spread knowledge of what the machinery is for and how it works, and a continued demonstration of fair dealing are the best means for keeping this part of the path clear.

There are wholly artificial, and I believe unjustified barriers, in the form of credit restrictions on exchange securities imposed by government. The high wall of these restrictions excludes a substantial body of opinion from expression in the market. It must eventually be reduced and I believe it will be when political considerations permit.

But it seems to me that one of the most intangible and one of the most difficult obstructions that has fallen across the way of venture capital is the inhibition which has been instilled in people against taking a risk. In an economy which is based on individual risk, which has grown up on speculation, it is astonishing and ridiculous that we should give the word "speculation" the connotation of evil. I can understand the Russians using the cry of "speculation" to drive freedom out of Poland, or to support a devaluation of the ruble. But we rely on the willingness of people to risk their capital. Our whole economic system would collapse if people ceased to speculate — ceased to take risks with their capital. Yet politicians seem to court preestige by calling their rivals "speculators" and protesting loudly that they never owned a share of stock.

The best that can be said for such people is that they are either ignorant or hypocritical. But, since they build a psychological barrier against the risk taking which our economy requires, one is more inclined to consider them traitors to the system that supports them and all of us.

We must, of course, continue to provide all the data necessary for an informed opinion on stocks which are offered or dealt in so that buyers and sellers may speculate intelligently. We must encourage people to base their speculative decisions on knowledge, not rumor. But we should speak out bodly, not in defense, but in commendation of the speculative motive — of the willingness to risk capital.

Until the revival of confidence that we are a growing nation with work to be done and profits to be made, until the resurgence of the speculative spirit, the willingness to calculate the chances of profit and the dangers of loss of our venture capital, interest in stock market speculation will not revive and the movement of venture capital will be held up waiting for the green light.

A Reduced Budget Before Tax Reduction

(Continued from first page)

A business depression at the present time would cut heavily into the government revenue. It is readily plausible that a reduction of 20% in taxes would sufficiently stimulate business and raise income until the total government revenue would exceed that which will be received by the present tax rates.

Sharpening the Budget Axe

There is no expenditure that cannot be defended on some grounds. But the government, like an individual or a corporation, must adjust its budget to the essential needs and eliminate unnecessary expenses in the budget, and the government services resulting from the war, and luxuries which no government can long afford to charge to the taxpayers in a democratic country.

By comparison the budget items of the various departments and services of the Federal Government for 1948 and 1949 are so astronomical when set down by the side of the same items in the budget of 1930 or even 1939 that the conclusion must quickly be drawn that never before did the government perform its responsible tasks, or the present expenditures are excessive luxuries and entirely unnecessary. They seem all the more unnecessary and beyond our ability to afford these operating expenditures when we realize that the Federal debt still exceeds $259,000,000,000 and the service charges at this date at the present low rates of interest are more than $5,000,000,000 per annum.

Briefly, let us examine some of the present budget items. One of the largest items is for national defense. The budget for that item alone is more than $11 billion, more than 10 times the amount spent in 1939 and is one of the items that may indeed be fully necessary; but in spite of the needs for strong national defense, it remains a fact that each succeeding war has been fought with different instruments and new techniques. While large expenditures for defense purposes may be necessary, the best research brains in the government and the armed forces should be summoned to overhaul thoroughly these expenditures and see to it that there is no deadwood being carried and that the results of the large present expenditures are not going to be obsolete before there is another emergency. Are the Army and Navy organization and expenditures keyed to the forward looking needs of the best interests of the country? No one doubts that this is the intention, but it is easy to be self-satisfied while there is no war and perpetuate pleasant and luxurious jobs that have no use whatever in future national defense.

In 1939 the expenditures of the armed forces were about $3,600 per man. These expenditures, of course, increased rapidly during the war. Should they not decline during peace time? But the estimated expenditures per man in 1947 are only slightly lower than 1945 and the expenditures per man in 1948 were increased to a figure even higher than that of 1945. Upon careful examination it will be seen that if the expenditures per man could be kept at the level of 1947, more than $1,000 per man could be saved and a budget reduction item of $1,600,000,000 saved to the taxpayer.

The expenditures for veterans' services and benefits in 1948 were the second largest item in the budget. In 1946 these expenditures exceeded by about $1,000,000,000 the estimates at mid-year. The estimates of expenditures for veterans in 1946 began at $4.2 billions and were increased to $6.2 billions in August. This item for 1948 was $6.6 billions and the Administration's 1949 budget proposes $6.1 billions. A careful analysis of these costs is called for. Then there are millions of dollars in the budget for pensions and other allowances to ex-members of the armed forces for causes which it is admitted had no connection whatever with war services, so says the New York "Times" (April 1, 1947). Why should these outlays be continued at the public expense and also at the expense of the really disabled war veterans? The expenditures for veterans should be just and the public will approve these expenditures and willingly pay the necessary taxes as long as these expenditures are administered carefully and properly distributed to deserving veterans. It is certainly not asking too much that a thorough accounting and examination be made of the items both in the best interests of the veterans and the taxpayers who must foot the bill.

There are many other embarrassing questions that could be asked. Are these expenditures for veterans and some of the expenditures for national defense really for the best interests of those who receive them and of the national welfare? Is it not for the best interest of the veterans and all the rest of us that we build a sound and strong America with thriving business enterprises, steady employment and regular income in order that we may be able to pay taxes in the future and meet emergencies as they occur? Can we afford to sap the economic vitality of the tax-paying public and business enterprises in order to overdo what seems like generosity to war veterans? This in no way suggests that we should avoid any obligation to the veterans, but in keeping our obligations to the veterans we should also keep in mind our obligations to help the veterans help themselves as real American citizens. We owe it to the veterans to help them get an education. We should help them get jobs. We should help them build homes at reasonable costs and provide ways and means for them to take their rightful places as important and useful citizens in their respective communities. The question I am raising is whether the present ways and means of helping the veterans are really helping them as they should and whether the economic effect upon our enterprises in which the veterans must earn a living may not ultimately cost the veterans more than they are apparently gaining from the present government expenditures? The most important service we can contribute to show our gratefulness to the veterans is to help them properly find their places in a sound, stable, economic society and help them get productive jobs through which they can have the pride of earning an income in their own way and developing their own way of life.

Expenditures for International Affairs

Our proposed budget expenditures for international affairs are, of necessity, much larger than before the war. While every American genuinely wishes to help the homeless and hungry people in the war-torn countries to regain their rightful places in society and become producers of the goods they need, this is an expenditure where careful control is necessary to see to it that the funds are used to help the needy and to further production which will help the people help themselves. To what extent these expenditures should be made by the government beyond that which is for charity and to what extent investments and loans should be made by private individuals willing to take the risks involved is a debatable question. But beyond the necessity of charity it seems quite probable that the expenditures for capital would be more easily met and cost the American people less if placed in the hands of those who are willing to take the risk, rather than being socialized and charged up in the tax bills of the American workers. Some foreign expenditures are essential, but there is a limit to how far we can go without impoverishing our own people.

Do we need the Export-Import Bank, the International Fund, and the International Bank? It is true they have different functions as set up and the Export-Import Bank is our own creation, but all of them lead directly to the same purposes of lending and spending American taxpayers' money abroad, to stabilize foreign currencies, to provide capital, and to finance international trade. Another question that seems worth raising is whether or not many of the functions being performed by these banking and financial institutions could not be performed quicker and with less costs through the already existing private banking institutions which have their branches and financial connections in every country in the world. Moreover, these private institutions have a personnel in these countries that understand the local needs perhaps better than governmental employees can ever understand them.

The budget for international affairs and finance in 1948 was estimated at $5,533,000,000 and the proposed budget for 1949 is $7,009,000,000, and no one questions the well-intended purposes, but the American taxpayer is beginning to wonder when he is going to get a handout.

The Budget of the Department of Agriculture

It is rather difficult to compare the present budget items with those prior to 1939, because of the rearrangement of items, the breakup of departments and general expansion which seems to have grown without limit in recent years. But in the budget of 1930 agriculture and natural resources combined received 41.4 million dollars. In the budget for 1948 agriculture and agricultural resources received $614,000,000 and natural resources not primarily agricultural $1,179,000,000. The proposed budget for 1949 calls for $906,000,000 and $1,626,000,000. In considering these items we should also remember that every state has a department of agriculture with a substantial budget for agriculture and the preservation of natural resources.

The American farmer certainly deserves all the help that he can get in a sound way from either Federal or State governments, but is it possible that some of these expenditures are unnecessary, have outlived their usefulness, are duplications, and greatly exceed any service or usefulness to either the farmer or the American people. Are many of these services political creations which the self-respecting farmer would rather not have? How can we justify the hundreds of millions of dollars in the proposed budget for sustaining farm prices and regulating farm production when farm prices are at an all time high and the farmers' income has broken all records? It is the belief of many farmers, and I share this belief, that most of the present subsidies on farm products will in the long run boomerang on the farmer and at the present time are an unnecessary burdensome tax cost to the farmer and all other consumers and producers.

Transportation and Communication

In the budget for 1948 these items are $1,563,000,000, and the proposed budget for 1949 calls for $1,646,000,000. A comparable item in 1930 was $81.4 million. There is one item which distorts these figures, that is the expenditures for promotion of the Merchant Marine, but if this item is excluded, these expenditures would remain almost constant up to 1946 with an upward trend thereafter. Omitting the item for promotion of the Merchant Marine, the expenditures amounted to $423,000,000 in 1939, $466,000,000 in 1944, $1,053,000,000 in 1947. No evidence has been made available to me that justifies this increase in the government expenditures for transportation and communication. Here is a place where the taxpayer ought to get a break.

There are many other items in the budget which have been increased beyond what seems reasonable or necessary. In spite of the usefulness and services of the Labor Department, the Bureau of Labor Statistics, the Bureau of Internal Revenue, the Department of the Interior, the Department of Foreign and Domestic Commerce, it does seem that the proposed budgets exceed all justification at a time when the government should cut expenditures for the best interests of the people who pay the taxes in order that a sound economy may be restored and tax revenue be more stable and continuous. One can easily present a good argument for the services of such departments as that of Labor and Commerce, but whether these services should be expanded and charged up to the taxpayer at this time when tax charges have reached the point of discouraging production is doubtful. In the case of the Department of Internal Revenue it is easy to understand the need for the best possible service in this department, but it seems also quite possible that the ways and means of collecting revenue might be overhauled and become more efficient with a reduced budget. A revision of the methods of collecting many of the excise taxes might well prove to save the government money. In many of these taxes it is quite possible that the cost of collection amounts to almost as much as the revenue.

New Research Expenditures By the Government Proposed

Everyone approves expenditures for scientific research and education where the public receives the benefit of such knowledge in the form of increased production and useful services that raise our standard of living. But suppose we examine the present proposals in comparison with expenditures for research already developed. At the present time industry spends well over a billion dollars annually in scientific laboratories for research. This research has been generously shared with the government upon request. Anyone can name leading American industries that appropriate millions every year for research. The government is already appropriating large sums for reasearch through the Departments of Agriculture, Commerce, Interior, Navy, Army, War, and the Atomic Energy Commission. In addition there are large sums appropriated by the Federal Government to aid the research being carried on in the Departments of Agriculture and experiment stations of each state. These include all forms of research from that of soil fertility to product improvement, chemical analysis and a great variety of projects too numerous to name. Then there are research departments in every college and university worthy of the name. Isn't it fortunate that we have so many research departments actively engaged in new worthwhile discoveries? The results of these researches soon become public property. The present expenditures for research far exceed that which seems possible by a government such as ours which has known no limit to luxury and ambition when it came to spending other people's money. Can we afford to add to these new research projects by the Federal Government unless they are essential and not being well done in other research laboratories? It would be fine to have the luxury of undertaking research on any idea or any project which the imaginative brains of Americans can conceive. But can we afford it at this time? Would it not be better to cut down on some of these luxurious projects at the present time and devote some of our energies in research to learning how to restore a sound and healthy economic and financial structure of production and distribution which will make it possible for every American to make a living in his own way and keep that freedom which has made possible all of these developments and American progress.

At the present time there is a great lack of sound research and application of sound principles in our money and financial practices. The impaired relations of our excessive money and bank deposits in relation to our production and consumption is dangerous. This can create an economic explosion which will impair our ability to pay taxes and carry on the developments necessary for our national welfare. While our Federal debt is over 535% of what it was in 1939 and all other items in our financial structure have been increased out of proportion to our production and distribution, prices and costs of living have only partially adjusted to this unhealthy condition. These rising prices and costs have reduced the value of the dollar in buying power to about 50% of its buying power in 1939. This rise in costs and prices is a tax indirectly upon every producer and consumer. Out of such maladjustments and wage-price spirals great depressions have developed. If a depression should develop out of the present conditions, government revenue would decline sharply. It seems to me it would be the part of wisdom to cut down on government expenditures which are so pleasant and agreeable and do some research on our economic and financial system which will stabilize government income, and employment and production for all of us.

Demand for Tax Reduction

The taxpayer feels that he has been promised a tax reduction. Moreover he feels that he is entitled to a tax reduction because of the hardships he has endured paying high taxes and reducing his standard of living ever since World War II began. At present a large percentage of the people are unable to pay their bills. This includes those in the high income as well as in the lower income brackets. Where the established costs of living cannot be met properties are being abandoned and debts created that will never be paid. The loan sharks are doing a big business. The government tax take and high prices swell their business.

With the present high costs of doing business the incentives for risk-taking and new business endeavors are being destroyed as indicated by the decline in new businesses incorporated. Many going businesses are in danger of a rapid conversion from profits to losses. Reserves for depreciation are not adequate, reserves for contingencies are too small, adequate surpluses have not been built up, new capital for the small business, and even large corporations, is almost impossible to get under today's uncertain money market conditions. A small decline in business, or just a decline in prices will remove many business enterprises from the tax paying class, and multiply the list of failures.

Above all other considerations it is most important that the United States keep a sound and healthy economy. There is a def-

inite limit to the luxuries of spending the taxpayers' money here at home and giving it to the foreign needy. That limit is the point where the stability and soundness of our own economy is impaired. Many would say that we have already passed that limit. The present federal debt, scarcity of risk capital, impaired incentive to work and produce, unbalanced high prices and costs are danger signals pointing to a readjustment which may bring reduced incomes, deficit financing on the part of the government, rising interest rates, declining bond prices, unemployment and in general retribution for bad economic management for the past 15 years. Any such a turn of events would do more harm to our prestige and foreign relations than all the Communists can ever do. Foreign countries seeking our help have other needs even greater than gifts of American dollars and capital. These needs are stable political governments, stabilized currencies, a return to the maximum of productive effort with all the resources at hand, and abandonment of silly regulations that restrict production and trade both at home and abroad. Countries following reasonably sound economic policies with the will to recover are not having any trouble to get the capital they need. A little money spent on the right ideas of government, work, thrift, investment, and honesty in meeting foreign obligations might save the American taxpayers billions of socialized losses.

Every use of Federal funds, whether domestic or foreign, whether to pay a salary check or make a gift to charity, should be labeled "Paid with the U. S. Tax-Payers' Money and Labor."

Community Property and the Split Income Tax

(Continued from page 2)

considerably as to a number of issues.

Origin of Community Property

In the Eastern States there is but small understanding of the community property system. Several years ago students in the writer's classes in taxation were queried as to their knowledge of the subject. A majority had never heard of it, others had the vaguest ideas as to what it really was. Some people think it is new. If you will turn back the pages of history for 40 centuries you will learn that it existed then. The record is found in the code of Hammurabi, that Babylonian code of laws which is dated about 2100 B. C. Community property appeared in Europe early in the Christian era. The Spanish ordinance, as codified in the Visogothic code about the middle of the Seventh Century, was probably brought to the southern portion of this hemisphere by the conquisadores and became the fundamental law of a considerable part of Latin America. Subsequently it reached Mexico and then Texas and other of the community property States. It would appear that the Louisiana system had its origin in Germanic customary law. Thereafter it was incorporated in the Code Napoleon, after which the Louisiana Civil Code was patterned. In any case, it is apparent that the community concept is purely a creature of the civil and is a stranger to the common law, which is the basis of the legal system of the Eastern and Middle Western States.

As already indicated the resurgence of the community property idea has occurred during the last decade primarily because of the income tax plague. Oklahoma was the first of the non-community States to adopt the idea. Many citizens of Oklahoma were making large fortunes in oil. They saw with envy their Texas confreres across the border who lived in a community property State. They did more than envy. They moved across the line in order to reduce taxes. If a Texan had an income of $25,000 he and his wife could each report to the Federal Government $12,500 with a consequent saving in taxes of approximately $2,600. That is the man from Texas and his wife would pay a tax of almost $6,500, while the Oklahoma couple were required to pay in excess of $9,000, a difference of nearly 29%. (This amount, it is to be noted, results in the highest percentage of saving.) Oklahoma was disturbed by the migration of her wealthiest citizens. However, everyone in Oklahoma did not have an income sufficiently large to render the community plan notably attractive. But something had to be done. Political expediency always dictates that the greatest number of voters be satisfied. So a law was enacted which allowed the married citizen to elect whether he would report on the community or individual basis. This contented the politicians but it did not content the Commissioner of Internal Revenue and the highest court of the land held the elective feature invalid. Oklahoma tried again. She enacted a law which made the community system obligatory upon the citizen and the Treasury Department smiled approval.

Community Property Belt

Today the community property States constitute a solid belt extending from the Canadian border southward along the Pacific and eastward along the Mexican line and the Gulf to the mouth of the Mississippi. The States include Idaho, Washington, Oregon, California, Nevada, Arizona, New Mexico, Oklahoma, Texas and Louisiana. Of these all but Oregon and Oklahoma are original community property States, but these two may be logically regarded as members of the group being geographically contiguous and entertaining, to a considerable extent, the same social philosophy as their neighbors.

In 1947 four more States joined this group. These were Oregon, just mentioned, also Nebraska, Michigan and Pennsylvania. These all sought the tax advantages which were supposed to inure to the inhabitants of the community States.

It did not take the inhabitants long to discover the truth of the aphorism—legislate in haste and repent at leisure. Soon there came mutterings from Nebraska, murmurings from Michigan. In Nebraska it was proposed that a special session of the Legislature be called to repeal the law. Pennsylvania did not wait for the slow legislative processes. Within three months after its effective date the statute was declared invalid in a case by the Supreme Court of the State.[1] In its opinion the court stated "at the outset that the manifold instances of the problems here involved arise largely by reason of the fact that the community law emanates in its fundamental concepts from Spanish sources, and that the effort to engraft it upon our own system necessarily results in fundamental conflicts with principles of the common law centuries old." Here then is succinctly stated the basic reason why the community system may not be adapted to those States the jurisprudence of which has an essentially English foundation. The court then calls attention to the fact that assuming that the statute actually vests each spouse with a one-half share of such community property it is in conflict with the Declaration of Rights of the Pennsylvania Constitution which is substantially the same, in this detail, as the 14th Amendment to the Federal Constitution. This prohibits the taking of private property from the owner without due process of law. Finally, the court concludes that the law is "not only vague, indefinite and uncertain, but so 'incomplete, conflicting and inconsistent' in its provisions, that it is incapable of either rational interpretation or judicial enforcement and consequently * * * it must be held to be inoperative and void."

1 Mark Willcox, Jr. v. Penn Mutual Life Insurance Co. (Supr. Penn, (11/26/47) *Pa. St.

Proposal for Federal Community Property Law

The proposal to establish a Federal community property law is even less feasible. There are perhaps 10 or 12 good reasons why this may not be done. One is sufficient. The Federal government may not in any case control the devolution of property in the various states. It would offend institutional provisions. Yet such would be the effect of a Federal community property law.

The demand which has swept the country for a community tax law has rested upon an insufficient knowledge of what the community property system really is. It may, and in fact usually does, reduce the tax paid by married couples, but it does not stop there. It creates new obligations as well as new privileges. The obligations are in many cases unsuspected until the citizen has learned his lesson in the hard school — experience.

It was in the brief period that the Pennsylvania community property law was in effect that a coal miner in that state deserted his wife. That was not news. But the deserted wife asserted and enforced her right to half his wages. That was news. The miner was both surprised and aggrieved. He asserted his grievance in a big way. That did not help him. He was confronted with the law of the state.

Then there was the couple who started married life in Texas. The husband worked hard and acquired a competence. That was prior to the present confiscatory rates of income tax. The wife died leaving a will by which she gave all her property to her mother. The husband learned to his sorrow that he had lost not only his wife but half of his hard earned savings which, under the community property law, belonged to the wife. Most of the people of the country don't want the community property system, although a large number think that they do. What they really want is to be placed on a basis of tax equality with the residents of the community property states.

During the past two years a considerable number of the American commonwealths have had under consideration the enactment of a community property law. Even as late as Nov. 1947, the Governor of New York asserted that unless the Federal government enacted legislation which would abolish discrimination between the community and non-community states he would cause a community property law for the state to be introduced at Albany. Probably he has no such intention, but the political effect was good. However, the Federal government has not been idle. Last June the Federal treasury transmitted to the Chairman of the House Ways and Means Committee a study entitled, "The Tax Treatment of Family Income." The report asserts that the present income tax law discriminates between families in three respects. These were discriminations (1) between residents and non-residents of community property States; (2) on the basis of different treatment of earned and invested income; and (3) because invested income lends itself more readily to splitting. This statement may well become the subject of criticism. Further, various plans of tax saving are discussed, chief of which is that which looks to a division of income between husband and wife, which would afford relief to nearly five million families and would save these taxpayers about $750 million, an average of $150 for each family, which is much better than President Truman's suggested $40 allowance.

The report indicates, however, that the greatest interest is manifested in the plan to grant spouses in all states the option to divide equally their combined incomes for income tax purposes, and asserts that during 1947 eight states requested Congress to enact legislation placing taxpayers in all states on a uniform basis. Curiously all these states, with the exception of Illinois, were west of the Mississippi, although bills to effect this purpose were introduced by Senators from several of the Eastern states. Also, in 1947 a Special Tax Study Committee, under the chairmanship of Roswell Magill, was appointed. This Committee concerned itself primarily with major structural improvements in the tax system, the purpose being to better the operation of the tax structure and to eliminate manifest inequities in it. "Since the tax burden is so heavy it is particularly important that like incomes should bear a like burden; that no taxpayer and no kind of income shall be discriminated against." The report then continues: "With the present scale of taxation we have put the break on men's incentives to a dangerous degree by piling heavier and heavier burdens upon them as they climb up the ladder." It describes as the number one tax problem "the equitable adjustment of tax rates and exemptions" and states that "if our economy is to survive and prosper we must see to it that men are encouraged to work and produce * * * We recommend a reduction of individual income tax rates for all, with due regard for the cost of living of those in the lower income tax groups and for the need of the balance of the economy."

Next it notes that the Treasury has described the various possible methods for solving the problem but has not definitely recommended any one of them for adoption. Five methods are listed. The fifth is to grant permission to spouses in all states to divide the combined income between themselves. The tax of the two spouses is the sum of the taxes on the two halves of the income. It is here remarked: "The last solution seems to us by all odds the best." It might have been added that it is the only one possessing a considerable popular appeal, and that the majority of those presently clamoring for the community system envision this system as the practical workings of the community property plan.

A measure has been introduced in Congress by the Ways and Means Committee embodying this plan and it is reported to stand a large chance of adoption irrespective of the fate of the other amendments proposed.

Other proposed recommendations of the Committee involve the method of taxing trust income, the averaging of personal income over a period of years, a system which has worked well in England, and the elimination of double taxation of dividend income, whereby the taxing of the same source of income in the hands of both the corporation and the stockholder would be avoided. This plan indicates no tendency to subordinate the lowering of tax rates and other reforms to the elimination of the inequality of tax burden on married couples in the several states.

A Plan to Bring About Equality

Strangely the simplest method of bringing about equality without diminishing the Federal income has been overlooked. That is by disregarding the community system and taxing those in the community and non-community states on the same basis. This plan presents no constitutional inhibitions according to two decisions of the Supreme Court handed down about two years ago.[2] Here an estate tax was involved. Prior to 1942 estates of residents of community states were taxed on the basis of one-half of the property belonging to each spouse. In 1942 the law was amended to provide generally that community property is within the taxing power of the Federal Government. The amendment was challenged by Louisiana and Texas. In the primary case two residents of Louisiana married and continued to live in that state until the husband's death. The community property on the husband's death had all been accumulated through the husband's efforts, the wife having contributed nothing. The Supreme Court decided that the entire value of the community property was includable in the husband's tax estate for the purpose of the Federal estate tax. The court stated: "Examination of the legislative history of the challenged statute, as disclosed by the committee hearings and reports and the Congressional debate, can leave no doubt that the purpose of Congress in enacting it was *the elimination of what was believed to be an unequal distribution of the tax burdens of estate taxes which led Congress to apply to community property the principles of death taxes* which it had already applied to other forms of joint ownership on the death of the joint owners."

The report, just referred to, contains this significant statement. "For the purpose of Federal estate taxation, husband and wife living in community property states enjoy a preferential treatment over those living in non-community property states. This is due to the fact that all property acquired by the husband after marriage through his own efforts in a community property state is treated as if one-half belonged to the wife. In non-community property states all such property is regarded as belonging entirely to the husband. The difference in the amount of Federal estate tax is enormous."

It is also noted that "the inequity inherent in allowing spouses in community property states to bear a lighter burden than counterparts in other states has been brought to Congressional attention on other occasions." Finally the court concludes *"that the tax here laid with respect to community property infringes no constitutional provision."*

A like Congressional act might then eliminate the inequality in income tax between community and non-community states. Why has not Congress acted? There is neither legal nor constitutional impediment to such legislation. To repeat, why has it not been done? The cynic will perhaps reply: income taxes come out of the pocket-books of living men, death taxes out of the estates of dead men, and — dead men cast no votes.

2 Fernande v. Samuel G. Wiener (1945) 326 U. S 340, 66 Sup. C. 178; United States v. Henry Rompel, Jr., ad'm. (1945) 326 U. S. 367, 66 Sup. C. 191. In the latter case the point was made that when Texas, then an independent nation, was annexed to the United States there was a solemn agreement that the local laws, including the community property system, should continue without impairment.

Demand Performance and the Stock Market—The Finale

(Continued from first page)

set of economic circumstances capable of deferring into the indefinite future the inevitable day of reckoning for present excessive prices and unprecedented profits. To the extent that psychologically the announcement of the Marshall Plan visibly strengthened and in fact reversed business sentiment late last spring, there can be do dispute. However, for any realistic appraisal of foreign spending as a "new economic factor," an appreciation of its actual physical rather than metaphysical effects would appear to be in order.

In the first place, the enormous export balance which the United States has enjoyed since the end of the War has been financed by the U. S. Government grants-in-aid to the extent of four fifths for Europe and two thirds for the world as a whole. With the dollar balances resulting from these grants now almost fully exhausted, it should be clear that the European Recovery Program will not, as it is so commonly believed, provide a new support for our internal economy, but rather continue one to which it is already geared. Furthermore, the maximum amount of additional aid contemplated under the Marshall Plan would, in the authoritative opinion of the President's Council of Economic Advisers, produce a maximum export surplus of about $12 billion a year, a surplus which the Council concluded "will at no time equal and most of the time will be substantially less than levels which have been reached during the current year 1947."

From the foregoing, it can be seen that even if all of the incalculable political risks, domestic as well as foreign, were to be resolved in favor of the European Recovery Program, and its approval by Congress anticipated in substantially the amounts proposed, the net economic effects would be no more inflationary than has been that of our postwar foreign trade to date. Thus it is apparent that this important element of capital formation will at best remain approximately unchanged throughout 1948.

Similarly, the other components of capital formation, as the slowing rate of expansion in the accompanying table suggests, are unlikely to appreciably better the 1947 third quarter rate, even under a continuation of the most favorable circumstances. This is particularly evident with respect to producers' durable equipment which, in addition to its importance dollarwise to overall capital formation, has in the past exercised a peculiarly decisive influence upon the economy as a whole.

Not only does it appear unlikely that any significant expansion of capital can be expected from current historically high levels, but on the contrary the rising trend of interest rates portends a severe contraction ahead. During recent months, as commercial, consumer, and mortgage loans have sucessively risen to new highs, together with the record-breaking flotation of new capital security issues, the resulting pressure on the money supply has become increasingly more evident throughout the entire credit structure. That this inflationary-inspired expansion of private capital rather than a deliberately contrived managed money policy is responsible for the sharp decline in government bonds will become painfully clear when the tightened relationships of money demand to money supply force Treasury bonds below par, a development that we believe can only be avoided by an early collapse of commodity prices. Therefore, since we contend that neither the foreign aid program nor domestic capital expansion can be relied on to sustain the current high rate of business activity throughout 1948, the answer to boom or bust must be looked for in the economic sector of consumer buying power, a sector which has traditionally provided the overwhelming market for our industrial output, usually over 90%, and which in the final analysis has always determined the state of our economic health.

American Buying Power

It is generally agreed that the keystone of present American prosperity is the maintenance of a high rate of production and consumption of durable goods. Total industrial production, after declining from the postwar peak in March 1947 (190 FRB Index) to a July bottom (178 FRB Index), again stepped up to where it attained a new peacetime high in the month of November 1947 (192 FRB Index.) Most of this increase was accounted for by the greater output of durables, which, since January 1946, increased 37%, contrasted with a 13% gain for nondurables. But, what of consumption?

Consumption, being the other side of the coin of effective demand ("desire—accompanied by means of payment"), is controlling in the situation today. The steady wearing away of effective demand through declining real wages began in late 1945 and was accelerated by the demise of OPA in mid-1946; it still continues. This is illustrated by the table below which shows the trend of real wages since 1940, the last prewar year.

TABLE II

	1	2	3	4	5	6
		Take Home Pay				
Year	Employees	Total Billions	Per Employee	THP Ind. 1935-39 = 100	Consumers Price Index 1935-39 = 100	Index Real Wages Col. 4 ÷ 5
1940	47.5	$48.9	$1,030	107	99	108
1941	50.4	60.9	1,210	126	111	114
1942	53.8	80.5	1,500	155	123	126
1943	54.5	98.9	1,810	188	129	146
1944	54.0	105.2	1,950	202	130	155
1945	52.8	105.1	1,990	206	135	153
1946	55.2	99.3	1,800	187	141	133
*1947	57.7	109.4	1,890	196	181	108
†1947	59.2	113.7	1,910	198	186	106
‡1948	58.0	112.8	1,940	201	192	104

*Calendar year (est.). †October (latest). ‡January (est.).

NOTES—Consumers' Price Index—Dun & Bradstreet Wholesale Food Price Index substituted for the Food Component of the BLS Consumers' Price Index for Moderate Income Families in Large Cities, FRB Bulletin, December 1947, p. 1543.

Take Home Pay—Wages and salaries less Social Security taxes, etc., and that amount of income taxes withheld by employers.

The crux of the problem of declining real wages is reflected in Col. 6 which shows the relationship between the trend of the cost of living and wages and salaries. As the footnotes under the table indicate, we have adjusted the food component of the BLS Consumers' Price Index, since from 1940 to date this index fails materially, we contend, to reflect actual changes in food prices in the interim. Moreover, the other components of the BLS Index, particularly house furnishings and miscellaneous, are viewed almost as skeptically. Our preliminary researches show that if these two later components were properly reflective of actual price changes, the estimated consumers' price index for January 1948, shown in the table, would be about 200. This would make the real wage index (Col. 6) about 100, indicating no improvement over prewar whatsoever.

From 1945 to January 1948, the table shows that the individual has sustained a decline of over 32% in buying power. It can also be seen that from 1945, total "take home" wages and salaries have increased only 8%, whereas the consumers' price index (as adjusted) has risen 49%. For the mass of consumers, this trend signifies that their aggregate ability to purchase goods and services out of income has fallen materially below what it was two to three years ago. As a matter of fact, on a per-employee basis, due to the increase in the number of people employed, individual buying power has declined even more sharply than the aggregate figures imply because of the actual drop in wages and salaries per employee in the interim. This latter most important development is what Col. 6 emphasizes. It underlines the fact that since 1940, real wages have probably declined (about 3%-4%) instead of rising (to the 30%-plus levels), as many are led to believe.

Rises in the level of commodity prices since 1944 have been breathtaking in speed and sharpness, most notably since the start of the third quarter of 1947. That this has left its mark on the purchasing power of the mass market is evidenced by the further erosion in the reserve buying power and liquid assets of the Economic Man (i.e., the most typical individual for each of the income classes, indicated by the "median" as against the "mean" averages), whose plight was examined at some length in our first article.

The most notable changes since 1945 in income and liquid assets, shown by Table III, occurred in the top 10% of the Spending Units Not only did these units gain most in income but also in savings. The converse is true of the lowest income groups, numerically almost twice that of the top 10%. Parenthetically, it should be noted that the difference between the more popularly quoted "mean" average and the lesser known "median" average figures is striking. Therein, we submit, lies the real explanation for the tremendous gap between postulated Personal Income and Personal Holdings, based on medium averages, and the actual figures for the year (see second half of table). If nothing else, this contrast demonstrates the importance of appreciating how much individual earnings (40%) and liquid assets (67%) are concentrated in relatively few hands (18%), thereby in actuality severely constricting the size of the mass market for consumer goods. Put another way, the great difference between median income and median liquid assets on the one hand, and actual personal income and liquid assets on the other, in effect is immobilized because these amounts are held by such a relatively small part of the consumers' market that they cannot be considered as available for mass market purchases. Individuals can only own and enjoy just so many houses, cars, refrigerators, washing machines, etc.

Table I

GROSS PRIVATE DOMESTIC INVESTMENT

(Estimates of the Department of Commerce in billions of dollars)

	Seasonally Adjusted Annual Rate by Quarters						
	1946				1947		
	1	2	3	4	1	2	3
New construction	7.2	8.7	8.9	9.3	10.3	9.5	10.4
Producers' durable equipment	9.1	11.5	13.2	15.7	16.6	17.8	18.0
Change in business inventory	2.3	2.0	4.9	5.4	2.7	1.5	2.0
Totals	18.6	22.2	27.0	30.4	29.6	28.8	30.4

Table III

BUYING POWER AND LIQUID ASSETS—1946

	Income			Liquid Assets		
Income Classes	% of Total	Median Average	Change 1945-46	% of Total	Median Average	Change 1945-46
Under $1,000	17%	$600	------	5%	----	—100%
$1,000—$1,999	23%	1,450	+ 3%	11%	$40	—83%
$2,000—$2,999	25%	2,400	------	17%	480	— 2%
$3,000—$3,999	17%	3,350	+ 1%	16%	900	------
$4,000—$4,999	8%	4,400	+ 3%	12%	1,400	— 4%
$5,000—$7,499	6%	5,500	+20%	13%	2,750	— 2%
$7,500 and over	4%	10,250	+ 3%	26%	7,250	------
All income groups	100%	$2,300	+15%	100%	$470	+ 9%
Mean average		3,220	+40%		2,350	+ 35%

	Millions					
Income Classes	No. of Spend Units	Change 1945-46	Median Income	Change 1945-46	Median Savings	Change 1945-46
Under $1,000	7.9	—14%	$4.800	—13%	-----	—100%
$1,000—$1,999	10.6	—15%	15,400	—18%	$420	— 85%
$2,000—$2,999	11.6	+ 9%	27,900	+10%	5,600	+ 13%
$3,000—$3,999	7.9	+14%	26,100	+15%	7,100	+ 15%
$4,000—$4,999	3.7	+16%	16,300	+19%	5,100	+ 10%
$5.000—$7,499	2.8	+22%	15,400	+22%	7,700	+ 24%
$7,500 and over	1.8	+28%	18.400	+28%	13,100	+ 30%
All classes	46.3	+ 1%	$124,300	+11%	$39,020	+ 11%
Aggregate personal income/holdings			177,200		136,100	
Difference			$52,900		$97,080	

NOTES—Figures are for calendar 1946; figures are rounded; figures exclude currency; "Mean averages" are post-dated on 1945 relationship to "median averages."

The effect of wage rises during 1946 can be seen in the redistribution that has occurred within the various income classes (second half of table). There has been a general increase in the number of individuals contained in all income levels but the lowest two. Percentagewise, the two highest grades gained most, but that was due solely to their low starting basis. Actually, far more increases occurred on a nummerical basis in the medium gradients. The deceptiveness in this apparent improvement in personal income status is revealed by the reductions that have occurred in liquid assets. Of those holding government bonds and having bank deposits at the beginning of 1946, 42% sustained a reduction in their holdings by the end of the year, topping numerically the 38% that enjoyed increases. The eyeopener in these changes is contained in the motivation for these reductions. Over 57% of all such income groups used their liquid assets for general living expenses. Naturally, most of such spenders are contained in the below $2 000-a-year level, 67% of which so expended their savings; 55% of the $2,000-$4,999 group joined them; and, strangely enough, 34% of the $5,000-and-over level also had to cut into their liquid assets for living expenses. In this connection, the January 1948 "Fortune" discusses under "$25,000 a Year: A.D. 1948" the situation of seven typical executives who cannot meet living expenses on their $25,000 annual incomes.

Published figures on Savings Bond sales vs. redemptions lead one to believe that a net increase in mass ownership is being seen. Actually, for all of 1946 and since April of 1947, a net decrease in Series "E" holdings was experienced. Most significantly, monthly sales of the $25 denomination of Series "E" ("the poor man's bond") have declined 84% since the peak in 1944, while the $1,000 denominations have declined only 11%.

Consumer Buying Plans

The Federal Reserve discussed in *Financial Position and Buying Plans of Consumers* (October 1947 issue of the Federal Reserve Bulletin) what the effect of present high prices, for durables particularly, has had on the buying public's future intentions. This is one of the most important subjects treated in the overall 1947 Federal Reserve's *Survey of Consumer Finances*. Its dependability as an indicator of actual execution of consumers' plans is attested to by the recheck made on the 1946 Survey's figures on this aspect of the study. The actual purchases of durables and houses of the various Spending Units during the year 1946 were closely similar to the indicated intentions of the surveyees to purchase such goods.

Based on the Federal Reserve July 1947 Survey of Consumer Intentions, it is our belief that at present rates of production, real demand for durables will be met some time in mid-1948. Automobiles are to be produced at a 4.3-4.5 million pace, 400-500 thousand more cars than can be absorbed at current prices. Miscellaneous durables—washing machines, ranges, vacuum cleaners, and radios, have already attained all-time record output rates. Most of these are, and have been for some months, in a buyers' market. It is an interesting question whether industrial statesmanship or slow turnover caused a leading electrical appliance manufacturer to announce so sensationally the cut in prices on much of the appliance line. Sometime later this year, a sharp falling off in the rate of construction of new housing can be anticipated. This is due chiefly to the fantastic increase in building costs that still continues. A six-room standard frame house cost $5,894 to build in 1939; today it costs over $13,500, a 132% jump. This factor, combined with a generally tightening money supply, and the ever increasing credit hazards of mortgage loans, will dampen bank enthusiasm to provide accommodations, regardless of the desperate need of the applicants.

Inflation and Industry Break-Even Points

The lack of consumer capacity to absorb current peak production at present price levels raises the question of industry's ability to adjust to even a moderately lower level of output. The degree of flexibility in this respect varies from industry to industry. However, the constant rises in operating costs due to the leap-frog attempts to have wages catch up with mounting commodity prices have caused break-even points to jump to levels never before seen in industry at a peak volume of output. The inevitable drop in the profit ratio per unit of production has been progressing steadily since early 1946. This applies not only to the innumerable marginal producers that postwar inflation has brought into all fields, but to the normally most efficient concerns as well, if in lesser degree. The rise since prewar in basic excise taxes, social security taxes, pension fund expense, etc., but most of all the strength of union labor, injects an unprecedented degree of inflexibility into the operating cost structure. The risk factor inherent in such a situation should volume of sales fall off even as little as 10%-15% has been taken cognizance of by the stock market since mid-1946. If normal unit of production profit ratios were reestablished, the current stock price level would be seen to be a high capitalization of actual earning power and risk-potential. Unfor-

tunately, the process of reestablishing such ratios does not occur without a drastic transitional effect on net income. Even the most highly regarded companies in practically all industry will have a difficult time maintaining operations in the black during that deflationary process.

Summary

(1) The Marshall Plan (E. R. P.) will not provide a new support for our internal economy, for even under the most favorable circumstances, it can only continue one to which the economy is already geared.

(2) The unmistakable slowdown in the rate of expansion in the other components of Capital Formation shifts the burden of continuing the boom onto the domestic capacity to absorb current production.

(3) Due to the inflationary-inspired expansion of private capital, the rising trend of interest rates reflects the tightening relationship between money demand and money supply.

(4) Contrary to popular belief, an objective study of all components of the cost of living indicates an actual decline in real wages since 1940.

(5) Contrary also to popular belief, the once insatiable market for consumer durable goods no longer exists because reserve buying power of the mass purchaser of durables has been vitiated by the need, due to runaway living costs, to finance living expenses out of wartime accumulated savings.

(6) Consumer intentions to buy durables fall far short of the optimistic 1948 production plans of industry in general.

(7) The inflexibility of most production costs, causing record high break-even points and raising the risk of deficit operations upon only a moderate down turn in sales, underlies the unwillingness of the stock market to capitalize at normal ratios historically high earnings.

Conclusion

From the foregoing, we conclude that:

(1) Until such time as commodity prices collapse and the associated expansion in commercial bank loans is reversed, pressure on U. S. Government bonds will continue and despite the efforts of the Treasury to maintain inviolate the 2½% rate on long-terms, they will probably be driven below par in the interim.

(2) Timing of the collapse in the general price level depends upon the expansion of bank loans which, if continued at the present rate, indicates an exhaustion of the supply of money within six months, and the initiation of a major decline in general commodity prices.

(3) As stock market anticipation of coming events is traditionally superior to the commodity markets', a major break in stock prices preliminary to a commodity price break is a distinct probability at some time within the next six months.

(4) We are about to enter the distressing phase of decline in the bear market that began in September 1946, which indicates a major adjustment of the economy is in the offing, and which because of cost inflexibility has the potentiality of developing later into a depression of great magnitude.

Congress and the Materials Shortages

(Continued from page 12)

do not believe that it will be as large as the $6.8 billion requested for the first fifteen months, and I do not believe it will be ready by the first of April.

It is certain, therefore, that total exports will be less this year than last. The decline in net exports may be even sharper.

It is more difficult to estimate the probable effects for individual items. Various studies have been made, and the State Department has worked out a considerable amount of detail about what it would like to get for Europe. None of these programs, however, can be final until Congress finishes its work. In general, however, the potential impact of ERP seems to have been exaggerated. Insufficient allowance is made for the following:

(1) In a great many cases, present plans do not visualize any increase in shipments to Europe.

(2) In a great many cases where an increase in shipments to Europe is planned, the additional amount will not be taken from domestic supply but from shipments to other areas.

In the case of steel, for example, few increases in export and no decline in domestic supply were visualized by the Harriman Committee. Yet we have already heard a great deal about domestic allocations and reduced supply for some purposes. It seems to me, when I look at some of last year's export figures, that the whole thing is bolstering the seller's position to an unjustified extent. Here are a few facts:

(1) Shipments of finished steel products last year were about 11% of total production.

(2) Latin America received more than 35% of the total, Canada more than 15%, and Europe a little more than 25%.

(3) Quarterly shipments were less than two million tons, or the amount estimated to be moving in the gray market.

In a situation of this sort, export allocations could be used to help the domestic buyer. Supply of dollar exchange in Canada and Latin America has been shrinking. But if exports to these areas do not decline naturally, export allocations can be used to cause a redistribution of trade.

Black Markets

I was amazed last Fall, when I visted most of the country's major cities, at the extent of gray market activity. Most of the businessmen and bankers I talked with were very worried about it, and were inclined to estimate the amount of gray market supplies at fairly high levels.

No one knows exactly how much steel, for example, has been moving in the gray market. A trade publication estimates the total at two million tons or more. I believe that this gray market supply if redistributed, would probably eliminate what appear now to be shortages. I believe this is true, not only in steel, but of many markets.

Many people object to this viewpoint. They contend that a gray market could not exist unless demand was substantially greater than supply. Therefore, they argue, it makes little difference whether the gray market supply travels through one channel or another.

It seems to me, however, that there are other things to be considered. Who are the chief gray market buyers? I believe you will find that they are smaller consumers who for one reason or another lost out with their customary source of supply during the war period. In many industries, for example, vertical or horizontal integration took place, with the result that certain large sellers now control a larger portion of the supply than in the prewar period. Smaller resources in many cases were absorbed in these integrations. Their former customers, however, were frequently not given a full share in the supply now furnished by the integrated organization.

As a result of this we find in many markets two classes of consumers. One is well taken care of from a supply viewpoint and may be covered far ahead or even have excesses. The other type of consumer, however, has lost his prewar resources, has short supplies, and is forced to pay gray market prices.

Conclusions

In summing up, it seems to me that the trend of general business activity in 1948 will be a more important factor in most markets than government action.

It seems doubtful that Congress will pass any more restrictive legislation unless prices continue to advance sharply into the second quarter.

Under its existing authority, the government's actions are not likely to influence the main direction of the wholesale price trend, but will have an effect in some individual markets.

Policy of the Department of Agriculture will continue to be stimulating price-wise. However, the actual movement of agricultural prices will depend on new crop conditions this year and less on government buying. By the first of April new crop prospects may easily begin to cause a downward pressure on agricultural prices, asuming that the world crop outlook continues as favorable as it is now.

Stock-piling will also involve some commodity purchases, but the amount of these has been and will continue to be small. Some supplies may be taken from abroad under the ERP. but in any event real pressure will not be put on building up strategic stocks until the period of domestic scarcities has ended.

Export allocations can and probably will be used to hold prices down. Requirement of an export license on any shipment whatsoever to Europe does not suggest any reduction in total shipments, but may stop the shipment of some luxury goods, or of supplies to Russia and its satellites. During the next few months there is a chance that export controls will be strengthened to the point where country quotas are established for a larger list of commodities.

Voluntary domestic allocations are not likely to be too effective. Business and the government confer together to establish a short, preferred-use list, and the producers then attempt to meet the requirements of customers in these fields, using their own standards in allocating the remainder of their output to other customers. In the case of steel, railroad equipment firms have had a preferred postion for some time. Producers of oil equipment and farm equipment will now receive the same treatment. Elimination of gray markets would more than offset any increase in preferred uses.

All in all, it seems unlikely that major supply changes will occur this year because of government action. This, however, does not mean that such action may not have an impact on markets.

Psychologically speaking, the important think is what buyers believe. Within the past month or two we have seen many buyers frightened by talk of stock-piling and domestic allocations into increasing their purchases. This has been true fairly generally in the non-ferrous metals, and there have been similar buying waves from time to time in some of the fats and oils markets.

These bulges in demand, however, have not improved the basic position of these industries. But in some cases — certain brass products, for example — we see the paradox of manufacturers looking actively for new orders at the same time that they raise the price.

Purchasing agents, I am sure, will continue as they have in the past, to base their policies on facts, not rumors, but to recognize the part that rumors can play in temporarily tightening a market. The next few months, I am sure, will be a great period for rumors of this kind.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Liquidation of government bonds continues but at a slower pace although trust companies have joined the commercial bank and insurance companies in letting out the more distant maturities of Treasuries, in what is now termed "playing it safe" in view of the uncertainties. . . . The financial district is about as confused now as it has been in a long, long time with bearishness as widespread as it has ever been. . . . While it is no doubt premature to forecast the end of selling in the intermediate and long Treasuries, the fact that nearly all of the so-called experts are on the bearish side could be a very favorable sign since this same group was just as bullish at the time when the market was making its top, last year. . . .

The coming increase in reserves in Central Reserve Cities, is bringing in some selling by New York City banks, especially the trust companies recently, which have been subjected to the same reserve requirements as New York City commercial banks, by New York State Superintendent of Banks Elliot V. Bell. . . . While some of the longer maturities have been disposed of by New York City and Chicago institutions the heaviest liquidation has been in the intermediate-term maturities. . . .

These funds are either being held in cash or are being put into bills and certificates, with some of the more courageous ones venturing into the 1½s due 1950, which have been stable to slightly firmer in a market that has been a one-way street—straight to the Federal Reserve Banks. . . . The closeness of the price of this security to 100 and its definite maturity are apparently responsible for the minor interest in the 1½s due 1950. . . . Scattered buying is beginning to appear in certain other eligibles at slightly above pegged levels. . . . The partial exempts have been in fair demand at advancing prices. . . .

McCABE FAVORED

The selection by President Truman of Thomas B. McCabe to be head of the Federal Reserve Board in place of Marriner S. Eccles, who carries on as Vice-Chairman, created plenty of discussion in the financial district. . . . The announcement of a new Chairman for the Board, however, was viewed with favor in the money markets, although it is not believed that it will mean any important change in policy on the part of the monetary authorities, for the time being at least. . . .

DECISION BELIEVED NEAR

The speech by President Sproul of the Federal Reserve Bank of New York, before the New York State Bankers Association, was looked upon as a very clear presentation of what the authorities are trying to accomplish in the money markets. . . . There is no doubt the task is a difficult and thankless one, with a great deal of hope interwoven with a waiting for the "breaks" that might come in the form of a minor recession in the general business picture. . . . If the powers that be are able to cut down the inflationary forces somewhat through monetary measures, then considerable will have been gained by means of the program now being followed. . . .

On the other hand, if the upward spiral should continue unabated despite the action of the authorities, it is believed in some quarters that new controls will have to be obtained from the Congress, if prices of governments are to be held at pegged levels. . . . The answer should not be too long in coming since some indications of trends should be making their appearances in the next few months. . . .

FAVORABLE

The increase in reserve requirements in New York City and Chicago should not only offset the inflow of gold and the return of currency (which will probably slow down soon) but should also tighten the credit base. . . . This is a favorable development for the monetary authorities because the funds that would be used to offset the effects of these two reserve building forces can now be employed in the retirement of debt, which will further restrict the money markets. . . . While the member banks still have the means of creating reserve balances because of their large holdings of government securities the monetary authorities can neutralize this action by retiring Federal-held securities with surplus funds of the Treasury. . . .

During the first six weeks of 1948, it is indicated that the government has retired about $2,500,000,000 of public debt, which was owned by the Central Banks. . . . These redemptions were largely certificates due Jan. 1, and Feb. 1, amounting to about $2,100,000,000 and bills of approximately $400,000,000. . . .

By increasing Treasury deposits with the Federal Reserve Banks and using government surpluses to retire Central Bank owned securities the powers that be have tightened the money markets through the redemption of more obligations than they have bought in supporting prices of government securities. . . . More of the same can be expected as long as there is a surplus of Treasury funds which will be used to pay off all or part of maturing or callable issues held by Federal. . . .

SPECIAL RESERVES

"Special reserves" or larger primary reserves are topics of considerable interest to the money markets at this time, with many holding the opinion that these or other restraining measures will have to be sought in time from the Congress, if the money managers are to regain control of the money markets. . . . These views are held despite the indicated opposition of Treasury Secretary Snyder and New York Federal Reserve Bank President Sproul. . . .

It is being pointed out that the only way the monetary authorities can recapture their lost control over the money markets is by getting new and adequate powers to limit the creation of reserves by the member banks.

Utilities Face Their Greatest Test

(Continued from page 9)

the past 5 years. It is obvious that the central station has traveled far in efficiency since Edison's Pearl St. station of 1882 with its 12% load factor and 10 lbs. of coal per kilowatthour.

Of course, there is very good possibility that this long time trend of economies has bottomed out. The cost of generation and the cost of transmission have been mounting and now the costs of money are inching forward. However, it is a great and fitting record that at this very moment we pay less for our power than ever before. Table I shows an average retail value of commonly used appliances. Their average price is considerably above 1936 levels—a large part of this may be due to improved models, but still, model improvement or no model improvement it costs materially less to use them now than it did 10 years ago. Do we know anything comparable in our daily lives? Average cost of a vacuum cleaner has risen from $56 to $76; its average cost to operate has dropped in nine years from 93 cents a year to 61 cents. Refrigerators are up from $164 to $240; cost to operate, down from $14.50 to $9.58. Cost to use a toaster is down from 70 cents a year to less than half a dollar. Do we wonder why some people think companies are giving away their power.

Where We Stand Now

Within the last few months, it seems to have suddenly occurred to many that utilities were in for hard times. Their problems, freely aired, have gained a wide audience and we are not going to minimize them; but let us see things in proper focus. Station operating efficiency is the highest in a 65-year history. Rates are the lowest they have ever been. Credit is of the best, with Aaa utility bonds running close to governments. In a word, we are diagnosing what is now a very sound and very healthy industry.

The pressing needs for expansion are due to the fact that utilities have not stopped growing, that only urgently needed installations were permitted during the war, therefore, accentuating the shortages 5 years later; and it also is traceable to a postwar level of business baffling the experts. We hear about stepped-up production in other sectors of our economy. Many industries are only back to or only slightly above prewar peaks. In comparison, electric power output of 255 billion kilowatthours in 1947 was double the 1939 output, all in a matter of 8 years. Previously, it had taken 14 year to double the output.

It is refreshing to recall that our utilities had their quota of worries after World War I and their subsequent experience may be a guide for the future. One lesson was already learned. There was a severe power shortage during World War I; not so in this war. One reason was that in 1914, factories were supplying 85% of their power needs, buying only 15%. The balance has now tilted far over the other way but the process of shifting was one of the major headaches of the 1920 decade. We entered World War II with a substantial reserve capacity; that is, actual physical reserves above peak loads in addition to allowances for greater use of installations around the clock. In 1939, the peak load was figured at 28.8 million kw. next to a capacity of 38.9 million kw., leaving a comfortable margin of 35%. In 1946, the margin dropped to 12% and last year it was 5%. This reserve must be rebuilt.

Some, therefore, argue that all the capacity now going in may not necessarily earn its board, for the process of getting back to normal means more idle plant. While the proposition is sound in a comprehensive way, the impact is much less severe if new, more efficient units displace the old, which will then become the reserves of the future.

So much then for the picture, far too incomplete to do full justice, but with perhaps enough of an outline to fill the canvas. Will utilities meet the test?

Security analysts representing both buyers and sellers have a right to be articulate on this topic. To them falls the burden of evaluating the securities now or to be placed on the market and their views and ideas are doubtlessly welcome in industry quarters. Suppose we start with a few. They come under the class first of "Financial" and second "Regulation."

Comments on the Financial Side of the Problem

In 1924, the capital expenditures of utilities reached $908 million, an immense figure by any standard. It was never exceeded until 1947. From 1924 through 1928, the cumulative total reached more than $4 billion. The budget before us now looks like a minimum of $6 billion in the next 4 years, one 12-month period less. Capital-raising as you can guess was also a problem then. Our population was smaller, national income and savings were far less and installed capacity a third of what it is today. Interest rates were high and besides, utilities were not exactly in the quality class, the best bonds fetching 5% compared with 2¾% today.

Since life insurance companies are the big lenders of long-term money, we must look to them mainly for debt absorbing ability. Without appearing to over-simplify, we may look to the life companies putting away $2¼ billions of utility bonds through 1951. They have never stopped growing in 40 years of which we have record; they have been expanding their assets lately by over $3¼ billion yearly. At the end of last year they owned around $7 billion of utility bonds; that, with modest amounts of preferred and common, constituted 14.3% of their assets. If allowance is made for slower rate-of-gain, total assets might be placed at say $60 billion at the end of 1951; and a $10 billion investment in utilities would then be 16.7% of assets. In view of a decelerated government financing, it would in fact be interesting to know where these life funds are going to be invested and a good case could be made for allowing them to buy more preferreds and common. The 1947 year-end ratio of 14.3% has been exceeded four times since 1940 so that, actually, expansion in utility holdings has not kept pace with their asset growth. If the 16.7% ratio for 1951 looks high, compare it with the 19% once held in farm mortgages, 30% in "other" mortgages, 25% formerly in rails and 40% now in governments.

However, debt is not all. Preferred and common may have to be sold to the tune of $1.8 billion. Let us examine a few of the possibilities.

(1) **More Institutional Holding of Preferreds:** No one knows for sure how much the higher yields will stimulate buying of preferreds. Could life insurance companies raise their sights on utility preferred holdings, which are now about $280 million, or only slightly over one-half of one percent of their total assets? Where necessary, state laws could be revised to favor this.

The commonly used ratio of "over-all charges covered after taxes" obscures the fact that preferred dividends alone are often earned 7 to 9 times which is pretty good paper under any circumstances. Cloaked with restrictions to preserve margins of safety, the preferred can be a very worthwhile instrument for both sides of the deal. This without the need of sinking funds, which provide no certification of property as an alternative, and which forces cash outgo when cash is most needed. Straight-line depreciation is itself a very effective protection for the preferred.

(2) **Use of Debentures:** When we think of debentures here we do not necessarily mean the convertible type, or the "double-feature." Convertibility carries good sales appeal but ducks the point in the sense that it is worth no more than the fundamental earning power of the system. That is the acid test. If used to excess, by discouraging any play in the common it defeats itself. Purchase warrants exercisable above the market are something else. More in mind is the long-term debenture which is not so bad as some made it out to be. American Gas & Electric 5s of 2028 had an enviable record, even during the deep depression.

Upon the holding company system, the long-term debenture has the virtue of keeping capitalizations simple down the line. One large operating company may find it not too inconvenient today to have 9 bond issues and 4 series of preferreds. The smaller company may find it seriously inconvenient. The tendency now is all too much in that direction.

(3) **Virtues of Reinvested Earnings:** To draw a parallel again with the past, the theory of reinvested earnings could be reexamined, given new lustre. The class of investor for whom utility common stocks have appeal might very well stand postponed income. Tax authorities have been receptive to the special needs of power companies and could relax Section 102 of the Code in their favor.

Kept within limits, regular stock dividends can furnish investor income, if income is needed. Its use was demonstrated by North American which became one of the soundest holding companies in the nation. Today its operating companies are being handed over in the finest possible condition.

(4) **Direct Company-to-Customer Sales:** No one knows for sure how much this would provide but it is a channel worth exploring. Somehow the customer-ownership phase of utility operations, once so widely heralded has almost faded into oblivion in all too many cases. The banker is still very much interested in knowing how much of a security is held in the territory.

The Regulatory Aspect

That regulation plays an important role in utility affairs is so evident as to need no laboring of the point. State Commissions have made it very plain that their duty is to protect the interests not only of the consumer but of the investor as well. Words to that effect appear quite frequently in individual rate cases or in proceedings of the National Association of Rate Commissioners. Was there a better time than now to implement these views? The set of facts described here is fully known by rate-making bodies and they might well take time by the forelock by suggesting rate increases where found necessary. If that looks politically inexpedient, though economically sound, then something like a public declaration of policy to indicate awareness of the problem would be of signal benefit.

Emergency rate increases sound discouragingly like a stretcher case. Better, it would seem, that with the plain facts of higher generating, transmission and capital costs before them, Commissions voice their dual responsibility and suggest on their own initiative that a rate increase may be needed after a full study of the facts. The burden of proof would rest on consumers to prove otherwise. Until now, it is the company which has always been on the defensive.

Potomac Electric serves the capital of the nation. Its rate of return is 5½% of depreciated original cost of property. Its securities are highly regarded, yet a recent bond issue was sold at a lower price than many had expected. Previously, its bonds had been re-rated from Aaa to Aa which is still, of course, quality of a high order. To what extent the severe earnings restriction influenced the change is a matter of opinion, but if these are clouds on the horizon no bigger than a man's hand, we prefer to have they stay there.

The story is often told of how bank runs have been stopped short merely by showing plenty of bullion at the teller's window.

The Holding Company Can Be Reconstituted

Remarks were made earlier about the need for regrouping now isolated operating companies. This is not a backward step. Holding companies have proven their worth when properly managed and where interests of the consumer and investor are rightly safeguarded. The war record of utilities was outstanding and if emergency power pools were set up as efficiently as they were, the framework for this had largely been completed by 1930. Though ostensibly breaking up, holding companies were the dominant factor during the war.

In the period of rapid expansion which lies ahead, the effect of broken relationships is hard to measure. In the East, a company like Delaware Power and Light has depended for its power on Philadelphia Electric, these, together with Public Service of New Jersey, having formerly been tied in closely with United Gas Improvement. Now they go their separate ways. In Ohio, seven or eight independent companies will be supplying power following divestments by Columbia Gas, Commonwealth & Southern, Cities Service and others. In Illinois, somewhat the same pattern is developing.

How will that affect planned station location? Will load diversity factors be changed and make inter-connection between independent companies less desirable? It is not worthwhile to think of reassembling the piece into permissible integrated holding systems which allow companies to keep their local identity and still reap the benefit of central planning and, very likely, lower capital costs.

Ohio Power and Appalachian Power are building jointly a 250,000-k.w. station each to own half the capacity. It is projected that way very likely for the economies it achieves. Separately managed companies could presumably do the same, but it is simpler to effect where, as in this case, they are under common parent ownership.

Conditions today dictate the need for a modified system of holding company, now resting on a solid base. Property valuations have been pared to the bone and utility stock prices are well deflated, not like the 38 times earnings of 1929. American Gas & Electric, New England Electric System, Central & South West, others also, have been given a clean bill of health. But we still have to see a major system built up synthetically from the pieces 12 years after passage of the Act.

To summarize, the power industry has its operational problems. It has successfully met previous ones of pretty large dimensions. The raising of perhaps $6 billion of new money in the next four years will need the cooperation of all elements: Federal Government, local rate-making agencies and private lending institutions. Cooperation, especially of the first two, is needed for raising large sums of equity money.

The industry must disavow certain former practices, but hold to certain principles firmly and with conviction. To do so may require it to take an independent stand on fiscal and administrative matters and not merely trumpet other people's notions. Utilities are a fourth estate, so to speak. They cross many political boundaries. What is in their own best interests is in the best interests of the public and industry they are obligated to serve. I sincerely believe that, for the record proves it so. At this point we might like to know what their stand is on anti-inflation policies and on material allocations.

Much which the old National Electric Light Association had to say can be said today, but with the assurance that it will reach a wider and more receptive audience. Twenty years of brilliant chapters have been added to a long story of achievement.

And finally, while we believe the holding company system has merit, this does not whitewash many of its former abuses. Certain companies today are under order to dissolve or to narrow their circle of influence. Compliance has been slow. It means that some securities are suspended in a fog of doubt which balks discerning analysis. Their market gyrations are not calculated to help finance the legitimate and pressing needs of operating companies, or build up confidence in

TABLE I

Average Retail Sales Value of Popular Home Appliances Compared With the Average Cost of Electricity to Operate Them (1936 and 1947)

*Avg Retail Value 1936	*Avg Retail Value 1947	Appliance—	Estimated Annual Power Consumpt'n (kwh.)	Average Annual Cost to Operate 1936 (4.65¢ kwh.)	Average Annual Cost to Operate 1947 (3.07¢ kwh.)
$56.00	$76.00	Vacuum Cleaner	20	$0.93	$0.61
55.00	67.00	Radio	80	3.72	2.46
66.00	159.00	Washing Machine	24	1.12	0.74
164.00	240.00	Refrigerator	312	14.50	9.58
4.50	10.50	Irons	64	2.98	1.96
5.80	17.00	Toaster	15	0.70	0.46
130.00	230.00	Range	975	45.34	29.93

*Computed from data appearing in "Electrical Merchandising."

TABLE II

All Plants Contributing to Public Supply

	Generation (Million kwh.)	Non-Coincident Peaks (000'skw.)	Load Factor (%)	Year-End Capacity Total (000's kw.)	Year-End Capacity Reserve (000's kw.)	% of Peak
1939	127,642	28,750	50.7	38,863	10,113	35
1940	141,837	30,800	52.4	39,927	9,127	30
1941	164,788	34,650	54.3	42,405	7,755	22
1942	185,979	35,850	54.7	45,053	9,203	26
1943	217,759	40,100	62.0	47,951	7,851	20
1944	228,189	40,650	63.9	49,189	8,539	21
1945	222,486	39,550	64.2	50,111	10,561	27
1946	223,130	45,000	56.6	50,304	5,304	12
1947	255,394	*49,000	---	51,647	*2,000	5

*Estimated. Data from Edison Elec. Institute.

holding company issues given the green light.

The initiated may know their way around, but it imputes too much specialized knowledge by potential buyers of utility equities.

The public utility industry faces a real problem in raising additional capital during the next few years. This is further complicated by the need for the remaining holding companies to divest themselves of some of their properties. Without belittling this problem, the industry has on its side an extremely high credit standing, an enviable record of meeting the abnormal needs of the war and the postwar periods and the unique ability to have cut the price of its product in the face of general inflation. It perhaps gives the industry today a greater degree of nationwide goodwill than it has ever had before and this is worth preserving.

Wall St. Cashiers to Hold Annual Meeting

The annual dinner of the Cashiers Association of Wall Street, Inc., will be held Feb. 7 at the Hotel New Yorker. The following have been selected by the nominating committee for election as officers: Robert J. Humphrey, Jr., Francis I. du Pont & Co., president; Godfrey H. Maurer, City Service Corps., 1st vice-president; John J. Boyen, Joseph McManus & Co., 2nd vice-president; Walter Sullivan, Fitzgerald & Co., Inc., secretary, and Raymond Brode, Blair & Co., Inc., treasurer. Selected for election as directors are: Marvin W. Waldbillig, Halsey, Stuart & Co., F. W. Q. Birtwell, Stone & Webster Securities Corp., Thomas B. MacDonald, Blyth & Co., Inc., William S. Vanek, Manufacturers Trust Co., Joseph F. Hughes, Blair & Co., Inc.; Daniel Breitbart, F. Eberstadt & Co., and C. Russell Berger, G. A. Saxton & Co.

Now Scheffmeyer & Co.

Effective Feb. 1 the firm name of Scheffmeyer, McKinney & Co., 26 Broadway, New York City, members of the New York Stock Exchange, was changed to Scheffmeyer & Co. Robert McKinney, Edwin S. McKinney and Eva Moody McKinney having retired from the firm on Jan. 31.

With Newburger, Loeb

Newburger, Loeb & Co., members of the New York Stock Exchange and other Exchanges, announce that Charles S. Pollard, registered representative, is now associated with the firm at its branch office at 57 West 57th Street. In the past he was with Sartorius, Engel & Co.

Business Man's Bookshelf

Concept of the Corporation—Peter F. Drucker—John Day Company, New York, N. Y.—Cloth.

New Departures in Freight Rate Making—G. Lloyd Wilson—Simmons-Boardman Publishing Co., 30 Church Street, New York, N. Y.—cloth—$3.00.

Synthetic Fibers Industry, The—Volume VIII of An Engineering Interpretation of the Economic and Financial Aspects of American Industry—George S. Armstrong & Co., Inc., 52 Wall Street, New York 5, N. Y.—paper.

Cites Deflationary Dangers In Use of Treasury Surplus

(Continued from first page)

commercial or Federal Reserve banks would increase deposits and thus be a counter-influence. Thirdly, non-bank investors, instead of accepting an exchange offer proposed by the Treasury, may well allow a portion of the maturing debt owned by them to mature.

To the extent that investors do this, the bank states, the deposits of the banks will be sustained and the Treasury will have less funds with which to pay off Federal Reserve-held debt. "Whatever developments may be," the article concludes, "most bankers have prepared themselves by having a large backlog of short-term Treasury securities." The full text of the article follows:

"The latest estimate of Federal budgetary receipts and expenditures for the fiscal year ending next June 30 shows a budget surplus of $7.5 billion. In the first six months of the fiscal year the budget surplus was $1.7 billion, so that the Treasury expects to realize a budget surplus of $5.8 billion in the current six months, Jan. 1-June 30. Since tax receipts are much heavier in the first three months of the calendar year than in the second quarter, most, if not all, of the surplus will be realized in the current quarter.

"The cash surplus of the Federal Treasury is usually larger than the budget surplus. Some budget expenditures, such as accruing interest on outstanding series 'C' to 'F' savings bonds, do not require immediate cash outgo. On the other hand, not all tax receipts are in cash, as when series 'C' tax notes are used to pay income taxes, or other Treasury obligations are used to pay inheritance taxes. Cash receipts, however, include the excess of cash receipts over expenditures of the trust funds, which are usually invested in special obligations of the Treasury. Unofficial estimates of the cash surplus of the Treasury during the current quarter run as high as $8 billion.

"This surplus and the use that is made of it will have a profound effect on the economy. If, as now seems to be the intention of the authorities, this cash surplus is used to retire debt held by the Federal Reserve banks, the money will simply disappear. The Treasury will collect the money from individuals and corporations and will not give it back to them, either in the form of payments for goods and services, or by redeeming debt held by the public. The Treasury will accumulate the money in its deposit account at the Federal Reserve banks and then pay off government securities held by the Federal Reserve banks. When this is done the funds do not go back to the public but vanish, being used to cancel off liabilities of the Treasury to the Federal Reserve banks against liabilities of those banks to the Treasury.

"Last year, also, the Treasury had a large cash surplus, amounting to $5.2 billion in the first quarter of 1947. This surplus was also used to retire maturing debt. But last year the effects were far different from those that will occur this year, if the Treasury retires debt held by the Federal Reserve banks. Last year the debt retirement was accomplished by redeeming all of a maturing note issue and a portion of maturing certificates, irrespective of who held them. The result was that $2.6 billion, or 44%, of the $5.6 billion of debt redeemed in cash in the first quarter of 1947 (including the April 1 redemption) was owned by investors other than the commercial and Federal Reserve banks. Another $2.1 billion or 38% was owned by commercial banks. Only about $1 billion or 18% was owned by the Federal Reserve banks.

"When the debt being retired is held by the commercial banks, the net result is about the same as when it is owned by the Federal Reserve banks. The taxes that are paid by customers of the banks reduce bank deposits as the funds are shifted from deposit accounts of taxpayers to the Treasury's account at the Federal Reserve banks. The commercial banks have to meet this drain of funds by selling some asset, chiefly U. S. Government securities. The assets as well as the liabilities of the banks go down. When the Treasury then pays off maturing debt held by the banks, the banks change the type of assets held but deposits are not thereby increased. The money has disappeared.

"When the debt being retired is held by investors other than the commercial or Federal Reserve banks, however, the money does not disappear. The Treasury collects money from taxpayers and pays it to holders of maturing debt. These holders deposit the proceeds in their banks and thus the banks recover a portion of the deposits and reserves lost when tax checks were cleared. In effect, deposits have been shifted from the accounts of taxpayers to the accounts of holders of maturing debt. The latter can spend or invest the money as they see fit.

"Thus the ownership of the debt being redeemed is of the utmost importance. A large Treasury cash surplus, used to retire debt, is not necessarily deflationary. It is deflationary on the money supply only to the extent that it is used to retire debt held by the commercial and Federal Reserve banks. That portion used to retire debt held by other investors is returned to the money supply. The effect on the economy lies in the difference in the way the new owners of the money use it, in the aggregate, as compared with the way taxpayers would have used the money, if they had not had to pay as heavy taxes. If the taxpayers would have used the money to buy consumers' goods, but holders of retired debt actually use the money to invest in securities, then the demand for goods would have been significantly shifted. On the other hand, if an individual or corporation pays heavy taxes out of funds that would otherwise have been invested, and these taxpayers also own some of the maturing debt the money flow is not vitally changed in passing through the Treasury, although the taxpayers are the poorer. They have some of the money back but their assets in the form of government securities are less.

The greater size of the cash surplus, and the difference in ownership of the debt being redeemed, may make the situation this year far different than last. The demand deposits of the commercial banks, and their earning assets, are likely to decline more extensively. A cash surplus of $8 billion used entirely to redeem debt held by the Federal Reserve banks could cause a 9% decline in the aggregate demand deposits of individuals and corporations with collateral effects on interbank deposits. Earning assets would shrink correspondingly, with most of the decline accounted for by sale of U. S. Government securities to the Federal Reserve banks.

"It is quite unlikely that the effects will be as severe as that just indicated. Continued heavy gold imports and a decline in money in circulation would increase deposits as well as reserves of the commercial banks. Secondly, expansion of bank loans and purchase of securities from the public by the commercial or Federal Reserve banks would increase deposits and thus be a counter-influence. Thirdly, non-bank investors, instead of accepting an exchange offer proposed by the Treasury, may well allow a portion of the maturing debt owned by them to mature. Corporate holders may need the money in their business, or other more attractive opportunities for investment may arise. To the extent that investors do this, the deposits of the banks will be sustained and the Treasury will have less funds with which to pay off Federal Reserve-held debt. Again the Treasury and Reserve authorities may change their policy and decide to pay off a portion of the maturing debt irrespective of who owns it, as they did last year. Or it may be that the trust funds will use accumulating cash to buy Treasury bonds in the open market, and they may even redeem special obligations to do so. This too would reduce the cash available to the Treasury to retire Federal Reserve-held debt.

"Whatever developments may be, most bankers have prepared themselves by having a large backlog of short-term Treasury securities. Available figures indicate that although total U. S. Government security holdings of the commercial banks are less than a year ago, caused by debt retirement and other uses for the funds, holdings of short-term issues (those maturing in less than a year) are larger. New York City and Chicago banks must prepare themselves not only for the tax drain but for a possible additional 4% increase in reserve requirements similar to the 2% increase announced Jan. 24. Altogether these moves are a tremendous anti-inflationary force if used in the manner suggested by recent actions of the authorities."

New Era of Prosperity Ahead

(Continued from page 6)

countries stabilize their currencies and do it at once, dollars given to them will be of no permanent aid. The question of administration of the aid ranks equal in importance to the amount and character of the aid furnished.

Certainly, the last organization to administer it is the State Department, which fundamentally is a policy making department and not an administrative department. Our State Department is archaic in its own organization, it is full of inter-departmental jealousies; until recently at least, it has been honeycombed with subversive fellow travelers. Whether they have all been cleaned out, I do not know. But I believe that, regardless of the amount and character of aid determined on by Congress (and I believe that the amount should be substantially reduced) the administration of that aid should not be under the State Department. General Marshall made the greatest error of his career when he stated that the plan should be adopted in its entirety and left under his department's control.

Our other great serious problem is that of Russia. Two and a half years after V-J Day, our defense budget calls for an annual expenditure of $11,000,000,000, a sum greater than that expended by any nation in the world in peace time; and that does not include six to seven billions spent on our veterans. If we did not have the threat of Russia, we could reduce our debt and our taxes substantially, and still have adequate sums for public works and for social purposes. Not knowing the facts, I have no solution to offer, but sooner or later the present type of cold war must be terminated, and we must either be able to live on friendly terms with Russia and reduce our defense expenditures, or face a showdown with her.

Country Will Continue to Prosper

The recovery of Europe, and our relations to Europe, constitute two major problems, but I believe that in spite of these two, so far unsolved problems our country is going to continue to gain and prosper and that our domestic economy will continue to grow stronger.

The apostles of the New Deal assured us solemnly in the 30's that ours was a finished country, that there were no longer any frontiers, that ours was a mature economy. Lord Keynes sold a bill of goods to our President; the outlet of the people's savings must be in Government bonds and the main instrument for employment would be in Government spending. The banker would be practically a custodian of Government securities.

Nothing would be further from the truth. Ours is still a young country, it is capable of enormous development. Between the Missouri River and the Coast Range, there is an empire to be developed; the Southeast, the Southwest and the Pacific Coast are all susceptible of great growth and development. In our great Middlewest, much remains to be done. I predict it will take all the savings that our people can make, to furnish the capital needed to provide the buildings, tools, equipment and facilities that the American people will require for the next 10 years.

As a result of the war, we have learned many things about our own system. The example of England has shown how fatal obsolescence is to the economy of a nation. If industries do not continually replace and improve their tools, the industry or the company that fails to do so will not survive. The productive power of American industry and agriculture won the war, and the superb tools and equipment, managerial "know-how" and intelligent labor of America created this productive power.

To do what should be done for our rapidly growing population, will require immense amounts of capital, not alone for our industries but for the public facilities, the schools, hospitals and highways for this new America.

I believe the banking profession will enter into one of its greatest eras. The bankers of this country were its leaders in the great development of our country in the past when we swept from the Atlantic Seaboard to the Pacific Coast. Our bankers have an equal opportunity in the future that lies ahead of us. And the same qualities that were inherent in our great bankers of the past—character, courage and vision—are what will be called for in the next 10 years.

FIC Banks Place Debs.

A successful offering of an issue of debentures for the Federal Intermediate Credit Banks was made Jan. 21 by Charles R. Dunn, New York, fiscal agent for the banks. The financing consisted of $58,015,000 1.55% consolidated debentures dated Feb. 2, 1948 and due Nov. 1, 1948. The issue was placed at par. Of the proceeds, $41,940,000 was used to retire a like amount of debentures maturing Feb. 2 and the balance of $16,075,000 was new money. As of Feb. 2, 1948 the total amount of debentures outstanding amounted to $365,920,000.

Western Europe in the Balance

(Continued from page 7)

women, believe that our country's vast achievements and incomparable standard of living are due largely to the individual decisions and efforts of millions of private citizens. "Free enterprise" is no mere claptrap phrase: it is a principle which has worked in this country and elsewhere to produce the greatest advance in the material condition of man recorded in the history of the race.

We are all willing as good soldiers to forego the principle of private initiative and private enterprise in time of war; but nobody has yet persuated the vast majority of Americans as to the wisdom of doing so in time of peace. We assume that if these things are good for us they are good for others as well. Hence there is a certain appeal in any criticism of the European Recovery Program which takes the private enterprise principle as its point of departure. If Europeans are indeed pursuing policies which we believe to be unfruitful, why is it not true that they need principally to mend their own ways rather than to receive from us subventions for their errors?

Just here in my opinion lies a cardinal error: the error of *misapplication*. The principles on which the criticism of the Plan is based may be sound as principles and for conditions we regard as "normal." (Although even in normal times we have accepted many necessary modifications of the rule of *laissez-faire*.) However, to propose dealing with the devastated Europe of today on a basis of free-for-all individualism is as farfetched as to try to fight a war on that basis. Surely *some* controls are indispensable in a situation as abnormal and impoverished as the present European one, in order to spread as evenly as possible the available supplies of the necessities of life and to prevent the whole society succumbing to the law of the jungle.

This is not a question of social-economic doctrine. It is a matter of common sense in the handling of a grave crisis. A businessman may have some handy maxims tacked up on the walls of his office. When confronted with a special problem, however, a sensible man pays more attention to the problem than to the placards.

The type of criticism of the Marshall Plan which I have attempted to summarize sounds very hardheaded and realistic. It is, on the contrary, academic and theoretical. Europe at this moment is a special case and is not to be treated by throwing the rule book at it, our rule book or any other.

The Ravages of War

In the first place let us recognize that Europe's state is the aftermath of the greatest war in history. What should be the most striking and obvious aspect of the entire question seems to be well-nigh ignored by most of the critics of the Marshall Plan. Mr. Hazlitt, for instance, whose book "Will Dollars Save the World?" was mentioned above, says a few sympathetic words at the outset regarding physical destruction and other war damages, and during the entire remainder of his book never again refers to the war or its effects! Whatever one may think of government controls, and I happen to be among those who dislike and distrust their excessive use, we have to recognize that after all there *was* a war.

Anyone who saw the Port of Naples after the Germans left it, or who has had any first-hand view and comprehension of the destruction of cities, ports, transportation systems, industrial establishments and the very land itself in Holland—must understand this even without the facts and figures.

Certain countries fared worse than others, and some countries have been able to pursue policies impossible elsewhere. Belgium for instance has set up a freer trade regime than that of either Holland or Britain. One reason for this is that Belgium, happily, was less devastated and economically sapped than either of those countries. One must study and analyze the specific kind and degree of injury in each case and the concrete problems.

It is impossible to appraise with any degree of accuracy the total amount of damage caused by the war. The one conclusion which emerges clearly from such calculations as have been made is that the losses are of staggering dimensions. An overall figure, if one could be established, would be enormous. For instance, Professor Pigou, using figures from a British White Paper, estimates that the United Kingdom has been deprived of approximately 25% of its national wealth. This figure includes the sacrifice of foreign investments as well as physical destruction. The Herter Committee states that in France losses due merely to destruction and seizure by the enemy have been estimated as high as $21 billion. Such damages do not include capital deterioration due to lack of manpower and raw materials and general dislocation of economic relationships. The figure for France obviously reflects only a portion of the total impairment of the country's economy.

Destruction of the productive capacity of all Europe was in part the result of military operations, including Allied aerial bombardment aimed at the enemy. Aside from this the conduct of the Nazis disrupted the entire system of production and distribution. Capital equipment was in many cases deliberately destroyed or removed. The war ended with the transportation system of the entire continent in a deplorable state of disrepair and even ruin. As in the case of Britain, shipping and foreign investment losses accentuated the impoverishment of the European system as a whole.

Whatever impediments to recovery mistaken governmental policies may have interposed, Europe's *main* trouble is that it has recently been a battlefield. This is the first thing to remember, not the first thing to forget.

This Is an Emergency

The second point I would like to emphasize is that we are not dealing here with a chronic state of decreptitude but with an emergency. This is a further development of the thought that the entire problem arises out of the war. There is no question of the United States' underwriting a permanent condition of European inefficiency and incompetence. Any such supposition proceeds from a complete misconstruction of the Marshall program.

Europe has been struck down by the impact of a calamity. We are dicussing an endeavor to assist it to its feet. This is a neighborly undertaking, common and decent among individuals and sensible among nations. Should our European friends find themselves eventually unable to stand alone even after such initial help, we may be forced to take another view. At the present moment there is no evidence at hand that that will be the case.

On the contrary, practically every Western European country showed an impressive economic comeback during the first period following Liberation. Industrial production and transportation made good records and in some instances came close to prewar levels. The picture would undoubtedly have improved more had it not been for the terrible crop weather of last winter followed by the summer droughts. As an example of the effect of these climatic conditions on agriculture, France's 1947 wheat crop—the food-staple of the country—was cut almost in half. Similar crop failures throughout Western Europe struck heavy and untimely blows at the recovery movement.

The European governments have committed many sins, but we really cannot hold them accountable for the weather.

As already stated, the Europeans will have to struggle for their own salvation. By all means. This is a truism and if it were not a truism it could easily be demonstrated by the figures. The amount recommended for the first 15 months of the European Recovery Program is $6.8 billion. The total sum originally proposed by the Administration for the four years of the Plan (but since eliminated as a definite figure) was $17 billion. The American official estimate is that such an amount of assistance would constitute only a small proportion—some 5%—of the total national production of the 16 countries. That would mean that the nations included in the Plan would themselves produce 20 times the value of their receipt under the Plan.

If they do so, and if the result be computed in dollars, the 270 million people of the 16 nations will have a total annual "national income" in the neighborhood of $100 billion. By way of comparison the United States with a little over half that population (say 144 million) has a current national income of about $200 billion. Such calculations are never strictly reliable and should not be used too literally. Perhaps the Europeans can produce more than 20 times their Marshall Plan receipts, or in any event more in terms of human satisfactions if not in dollar values. However that may be, it is difficult to escape the conclusion that the Marshall Plan presupposes a great European effort on the one hand and a modest standard of living on the other.

Clearly the American assistance will constitute only a small proportion of the recipients' national production and national requirements. It will in any case be necessary for them to do most of the job themselves. The small proportion of aid, however, is of crucial importance in generating recovery. It means just the difference, materially and morally, between trying to start alone after a disaster or feeling the friendly pressure of a helping hand.

At the same time this does not mean that a little additional effort on the part of our European friends would neatly solve their problems. That is one of the misleading arguments which is being made currently against American aid. If the aid represents but a small fraction of the total requirements—it is urged—why could not the whole matter be settled by the Europeans working 10% harder or 10% longer hours and producing 10% more? This sounds sensible but is quite fallacious. The answer is that whatever Europeans do by their own efforts must be within their own countries, and certain of their immediate urgent needs can be supplied only from abroad. They must have some food and fertilizer, some critical equipment and machinery, some foreign exchange to "get going." In the long run they will have to produce and export to acquire these things. But this is a short run, a crisis. As in so many other crises, in the lives of both individuals and communities, it is the injection from without of a relatively small amount of vital substance which stimulates and sets in process the recuperative forces from within.

Plenty of emergencies have arisen to perplex our forebears. Some have been handled badly and some well. Our Southern States after the Civil War required a wise and generous program of reconstruction. The program was fumbled, and the South and the country have suffered from it ever since.

Fortunately the disaster resulting from the Mississippi Flood of 1937 was handled with greater humanity and intelligence. Apart from the immediate activities of the Red Cross, Federal funds were provided in large amounts not only for relief, but for fundamental rehabilitation and short-term and long-term flood control. Nobody dreamed of advising the inhabitants of the Valley in that great crisis, to rely on free competition and the law of supply and demand for the solution of their problems.

You do not deal with an emergency purely on the basis of what you believe to be sound advice. You do not tell a man who has been hit by an automobile that all he needs is plenty of fresh air and to cut down on alcohol and tobacco.

The Communist Drive

It is a sad but plain fact that relations between the Western Powers and Soviet Russia have deteriorated greatly during the past two years. Our friendly hopes of 1945 have been badly used by the Kremlin since the meeting of the armies on the Elbe. Against all desires of the vast majority of Americans we have been drawn into a diplomatic and political struggle by the leaders of the U. S. S. R. The Moscow-controlled Communist drive is directed at Western Europe, and Americans find once again that the jeopardy of the Western European nations is our jeopardy.

As in the palmy days of the Nazis and Fascists, deliberate efforts are being made to undermine the institutions and independence of these countries. For example the vigorous and well-financed Communist movement in France is something initiated, organized and conducted from outside the frontiers. It is a skillful and ruthless assault on the fabric of French society and the existing French government.

For the United States to conclude that the present French government is of no interest to us because we disagree with some of its regulatory policies, would be most unwise. The conduct of the internal affairs of any nation is a complex matter, and circumstances differ from country to country and from time to time. It is not the internal system of the U. S. S. R. but its machinations and its subversive activities abroad, which concern and alarm us. The governments of Western Europe are guilty of no such activities, socialistic or semi-socialistic though they may be. They are friendly in their attitude toward us. One can live pleasantly with them. If they should be transformed into communist regimes we would not need five minutes to recognize the difference.

Nor is it correct to assume that assistance to friendly neighbor nations is bound to be futile. Certainly that has not been our experience in the past. When we were confronted with Nazi and Fascist infiltration into the Western Hemisphere we sought by all means at our disposal to aid and support our friends in Latin America. We sponsored vast economic projects for countries under pressure from totalitarian quarters and counted not the cost. Who can say looking back at the war that that policy was a failure? Who can argue that the expense of backing the forces of democracy and freedom in the Western Hemisphere, and the Eastern as well for that matter, was a waste of money?

Of course our economic program for the democratic nations of Europe will help them to resist communism. Their fate is in the balance at this moment. Their antagonists are skillful manipulators and master propagandists. Millions of decent people are struggling valiantly to avoid falling under the yoke of tyranny. How could it be that the material and moral effect of the Marshall Plan would fail to help them?

I include "moral effect" advisedly for it is most important. As mentioned above the material quantities of goods involved are relatively so small that they can only fill vital and critical needs, provide a certain amount of plant and equipment and stimulate local production. Yet the United States' evidence of interest and show of strength will surely give heart to multitudes in their time of trial.

The fact that the Soviet leaders manifest bitter opposition to the European Recovery Program perhaps should not itself enlist our support for it. Americans follow with difficulty the workings of these men's minds and we do not know the exact motivation of their hostility to the program. However, there is every indication that Russian policy is directed toward the continuation of confusion and chaos in Europe. The attitude of opposition would therefore seem to indicate Moscow's fear that the Plan will promote European recovery.

Despite the difference in ambitions between the Soviet Union and ourselves, the program if carried out may tend to reduce some of the tensions which exist. Western Europe should trade not only internally and with the world at large, but with Eastern Europe as well. There are indications of a great desire to do so on the part of the populations on both sides of the Iron Curtain. An improvement in economic conditions in Western Europe may stimulate further that desire and lead to a development of intercourse throughout the entire continent. That would be a result in conformity with American policy toward all nations, Soviet Russia included: *reappochement*, not divergence.

On the other hand the emergence of a Communist-dominated Europe would be ominous in the extreme for the United States. That way indeed lie the dark risks. As we have learned from all our dealings with dictatorships, it is in weakness that the greatest danger lies, not in strength. If we can stiffen our friends' resistance and help them to save themselves from despotism, we may preserve the *status quo* and buy time. And time, with all its hazards, may modify or even compose the terrible issues of this hour.

We must support Western Europe because we do not dare contemplate the Iron Curtain being hung where the Atlantic Wall once stood.

Can Private Loans Save the World?

The most unrealistic argument against the European Recovery Program is that the job should be done, if at all, by private lending. This idea seems to take no account either of the nature of the transactions or of the condition of American capital markets.

The program envisages that specific repayment be required to the extent that it is feasible and consistent with the objectives. On the other hand it is clearly recognized that a demand for complete repayment of all items in all likelihood would be self-defeating. The proposal therefore is that aid be extended partly as loans and partly as grants. Such safeguards and conditions as may be deemed adequate and reasonable are to be established. The United States will seek its recompense

mainly in the reconstitution of a healthier world.

Apart from the essentially public nature of the proposed loans and grants, the private capital markets as well as the International Bank are obviously now incapable of providing such funds in such amounts. The record of long-term foreign financing after the first World War, while not so bad as generally supposed, was sufficiently discouraging to dampen investors' enthusiasm. The very political considerations which make a public program essential would prevent the private subscription of these billions of dollars.

That is not to neglect the possibility of a gradual resumption of private lending under the auspices of improved political-economic conditions. It is greatly to be hoped that such resumption will occur and that it will supplement the government's efforts. It would be surprising, however, if anyone actually engaged in the business of banking or finance should have the temerity to undertake to handle through private channels any such large-scale program as this. The idea seems quite out of perspective, at least at the present time.

The International Bank, by its nature, size and dependence on the capital markets, is also compelled to play a limited, though extremely useful, role.

The fact of the matter is that this country is contemplating embarking upon an international economic program dictated by high reasons of public policy. It is the considered opinion of the leaders of both political parties who have sponsored the Plan that it is essential to protect the Occidental civilization in which we have our being. We are attempting to avoid another cataclysm and to preserve our order of things by peaceful means. The cost will be high in one sense but small in comparison with the $330 billion we paid for World War II. Thus regarded the price of the Plan is not too great. There is only one possible source from which to find the money: the United States Government acting in its financial capacity.

* * *

Many words are being written and spoken regarding the European Recovery Program. Its every facet will be discussed and rediscussed before this Congress takes its final action. That is as it should be. For the world stands at a crossroads of destiny and today's decisions will travel through long future years.

It will be wise not to be blinded in the heat of the argument to the background against which the issues are displayed. There has been a terrible war. A grave crisis is smoldering. We are confronted by a harsh dictatorship. These are the basic circumstances and the question is: what are we going to do about it all?

The Marshall Plan is the reply to the circumstances and the question.

It is an attempt to break through vicious circles of want and weakness and to provide the needed margin for economic revival.

Its central purpose is to tip the balance of Europe in favor of the forces of democracy and western civilization.

It is an instrument of American statecraft.

With Milton C. Powell Co.

(Special to THE FINANCIAL CHRONICLE)

PASADENA, CALIF.—Fred B. Nicholas is now connected with Milton C. Powell Co., Security Building.

With Wesley Hall & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—Charles C. Leigh is now with Wesley Hall & Co., First National Building.

The State of Trade and Industry

(Continued from page 5)

trump card in the past few weeks, the above trade authority concludes. When it was hinted that some scrap consumers would shut down openhearths before they would pay higher prices the cry of "bluffing" arose. Knowing it was now or never some steel firms have taken off openhearths rather than breathe new life into a scrap market which has begun to show the prospects of softening when present cold weather effects have worn off.

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 94.0% of capacity for the week beginning Feb. 2, 1948. This compares with 95.2% one week ago, a decrease of 1.2 points, or 1.3%. A month ago the indicated rate was 94.8%, while an operating rate of 93.4% was shown a year 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 1,694,300 tons of steel ingots and castings as against 1,716,000 tons last week, 1,633,700 tons one year ago and 1,281,210 tons for the average week in 1940, the highest prewar year.

ELECTRIC PRODUCTION SLIGHTLY BELOW RECORD HIGH

The amount of electrical energy distributed by the electric light and power industry for the week ended Jan. 31, 1948 was 5,429,202,000 kwh., according to the Edison Electric Institute. This was 7,228,000 kwh. below the record high figure of 5,436,430,000 kwh. reached in the preceding week, but exceeded the 4,777,207,000 kwh. turned out in the corresponding week of 1947 by 651,995,000 kwh., or 13.6%. The Jan. 31, 1948 week was the fourth consecutive week that production of electricity exceeded the 5,000,000,000 kwh. mark, and the 12th such week in the history of the industry.

* * *

FREIGHT LOADINGS OFF 4.8% FROM PREVIOUS WEEK

Loadings for the week ended Jan. 24, 1948, totaled 771,992 cars, according to the Association of American Railroads. This was a decrease of 39,294 cars, or 4.8% below the preceding week. It also represented a decrease of 49,936 cars, or 6.1% below the corresponding week in 1947, but an increase of 63,438 cars, or 9.0% above the same week in 1946.

AUTO OUTPUT AFFECTED BY INDUSTRIAL GAS SHORTAGES

Estimated output of cars and trucks in the United States and Canada the past week amounted to 96,010 units, "Ward's Automotive Reports" states. This compared with 109,865 units in the preceding week.

Last week's total comprised 69,096 cars and 26,914 trucks built in the United States.

Curtailment of industrial gas, it is understood, was not wholly unexpected and plants will be able to make up lost production with some overtime work later on.

BUSINESS FAILURES DECLINE SLIGHTLY

Commercial and industrial failures in the week ending Jan. 29 declined slightly from the preceding week's high level, but exceeded those in the comparable week of any other year since 1942. Dun & Bradstreet, Inc., reports 91 concerns failing, against 109 last week and 65 in the corresponding week of 1947. Despite the sharp rise from the failure level in the past five years there were only a third as many businesses failing as in the same week of prewar 1939.

Two-thirds of the week's failures involved liabilities of $5,000 or more. Totalling 69, failures of this size were less numerous than a week ago when 95 were reported, but exceeded the 50 large failures occurring in the comparable week last year.

Small failures with losses under $5,000 increased in the week just ended, running contrary to the general decline. Concerns failing in this size group rose from 14 last week to 22, the most numerous small failures in any week in over four years.

Retail failures predominated during the week, while manufacturing failures declined sharply. In wholesale trade, the mortality rate showed a decrease while little change appeared in construction and commercial services.

The Middle Atlantic States had the most failures in the week just ended. In nearly all regions, fewer concerns failed than a week ago with the only exceptions appearing in the two North Central Regions and the Mountain Region.

WHOLESALE FOOD PRICES INDEX DROPS 1.1% in LATEST WEEK

Continued weakness in leading food markets resulted in a further decline in the general food price level. A drop of 8 cents, or 1.1%, brought the Dun & Bradstreet wholesale food price index for Jan. 27 to $7.17, from $7.25 a week earlier. A fortnight ago, on Jan. 13, it reached an all-time peak of $7.28. The latest index figure contrasts with $3.18 on the similar date a year ago, an increase of 16.0%.

The chief function of the index is to show the general trend of food prices at the wholesale level.

COMMODITY PRICE INDEX FALLS SHARPLY FROM RECENT PEAKS

Decided weakness developed in foods, grains and cotton last week and the daily wholesale commodity price index, compiled by Dun & Bradstreet, Inc., continued to recede from the record high levels of mid-January. The index figure fell to 301.01 on Jan. 27, from 303.86 a week previous. It compared with 233.95 on the corresponding date of last year.

Grain markets were nervous and irregular with sizable net losses recorded in the leading cereals.

After displaying a firm tone until mid-week, wheat turned downward despite sustained government buying of the cash article. From then on prices continued to work lower aided by reports of large supplies of cash wheat on hand and crop advices showing beneficial snowfall over parts of the Southwestern winter wheat belt. In the closing sessions the decline was accelerated by the devaluation of the French franc and fears that other countries might join in the movement.

Corn displayed marked strength most of the week but prices fell sharply in sympathy with the weakness of the bread grain and prospects of reduced feeding requirements resulting from smaller numbers of livestock on feed.

Flour prices worked lower and domestic bookings continued at a slow pace. Bakers were inclined to hold back due to the recent easiness in wheat and a continued lag in bakers' sales.

Lard prices continued to trend downward under liquidation induced by weakness in fats and oils. Cattle closed the week slightly up from a week ago, but hogs and sheep registered minor losses.

Cotton prices moved irregularly downward last week. Medium and better qualities sold readily, but offerings of lower grades were in excess of demand. Easiness in the early part of the week reflected weakness in other markets and liquidation induced by new proposals for controlling inflation. Continued bearishness in later trading was influenced by uncertainties over the effects of the devaluation of foreign currencies and fears that the European Recovery Program might be delayed for some time and result in reduced volume of exports.

Price-fixing against sales of cotton to the Army for export to Japan and buying by mills against textile sales helped to check the reactionary trend to some extent.

The wool futures market was strong last week with greater strength shown in distant months. Fine spot wools in the Boston market continued in good demand but offerings were limited. Sales in the Australian wool auctions remained active with United States buyers showing keen interest. Imports of foreign apparel wools at Boston, New York and Philadelphia continued in large volume. The total for the week ended Jan. 16 represented 13,499,700 clean pounds as compared with 11,675,000 in the preceding week.

RETAIL AND WHOLESALE TRADE SHOWS LITTLE CHANGE FOR WEEK

Unusually cold weather and heavy snows continued to hamper shopping in many parts of the country. The dollar volume of retail trade rose slightly during the week and slightly exceeded that of the corresponding week a year ago, Dun & Bradstreet, Inc., reports in its survey of trade for the past week. Unit volume remained somewhat below that of a year ago.

Consumers continued to seek moderately priced groceries, cheaper cuts of meat and meat substitutes.

Smoked and canned meat, fish and poultry sold well with slight declines in the prices of some dairy products serving to stimulate buying. Citrus fruits were plentiful and reasonably priced, though the demand for fresh vegetables lagged somewhat.

Weather-resistant footwear and heavy clothing remained in very large demand. Women's suits, coats and sportswear were sought, while lingerie and resortwear proved popular. Activity in main floor blouse departments was favorable with handbag and jewelry sections attracting considerable attention. Promotional and clearance sales of men's suits and haberdashery stimulated the demand.

Some improvement in the supply of branded major appliances was evident in some areas with demand generally remaining very substantial.

Branded radios with phonograph attachments were heavily purchased and the volume of records remained large. Nationally advertised furniture and floor coverings continued to sell well. Snow shovels, scrapers and small plows were eagerly purchased, with very heavy demand for some automobile supplies and equipment exceeding the supply.

Retailers were generally eager to obtain moderate quantities of most goods, but considerable caution was displayed in the ordering of large amounts of merchandise.

Wholesale volume rose slightly during the week and moderately exceeded that of the corresponding week a year ago. Merchandise markets throughout the country were well attended, though deliveries were somewhat slower than in previous weeks.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 24, 1948, increased by 3% from the like period of last year. This compared with an increase of 4% (revised) in the preceding week. For the four weeks ended Jan. 24, 1948, sales increased by 6% and for the year to date increased by 9%.

Here in New York extremely cold weather retarded retail trade last week, but the volume was sustained at close to the previous rates of gain over a year ago.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 24, 1948, increased 4% above the same period last year. This compared with an increase of 5% (revised) in the preceding week. For the four weeks ended Jan. 24, 1948, sales increased 3% and for the year to date rose by 9%.

Australian Pound Discussed by Chifley

Prime Minister Joseph B. Chifley stated on Jan. 30 that the Federal Government was not considering any alterations in the exchange rate of the Australian pound, which now stands at £125 Australian to £100 sterling. Mr. Chifley said: "Only in the event of the depreciation of the pound sterling would the Government consider any adjustment to the present rate of 25 shillings ($3.20) to the sterling pound. Press reports in Australia have suggested that because of the devaluation of the franc by the French Government similar steps would be taken here."

Mr. Chifley added: "The Government shares the fear of the British Chancellor of the Exchequer over the decision of France to introduce the double franc. Unless controlled, it could be extremely dangerous to international trade. The Italian Government made a similar move when it devalued the lira, but the experiment had no good results." It is learned at Canberra that there will be no consultations between the Australian Government and the British Treasury on the exchange rate.

Ralph H. Weseman Now With Goldwater & Frank

Ralph H. Weseman has become associated with Goldwater & Frank, 39 Broadway, New York City, in the trading department, where he will specialize in real estate securities, all other unlisted securities, and all types of liquidations. Mr. Weseman, who has been trading since 1928, was formerly with Pynchon & Co., Munds, Winslow & Potter, and more recently with P. J. Steindler & Co.

A Year of Decision

(Continued from page 15)

greater than the events of 1848." I believe that the future welfare and prosperity of our own citizens demand that we back that enterprise.

We should now realize without a shadow of a doubt that we cannot have isolated prosperity in an age of supersonic instruments and atomic energy. For the protection of our own citizens, we must be sure that this plan is not TOO LITTLE and TOO LATE. We must be able to back it up not only with dollars but with a strong America—and by that I mean—armed strength and economic might.

Nothing I have said so far can be considered particularly partisan. When we come to discuss domestic problems we quickly learn that this is also a year of "Presidential decision."

A recent poll conducted by a reliable organization in Massachusetts showed that 47% of Massachusetts citizens considered the high cost of living the most important issue facing their government. Ten per cent considered it to be the Marshall Plan and 9% think tax reduction should have top priority.

Cooperation Versus HCL

We must all work together in trying to solve the problem of the high cost of living. We must not let partisan considerations stand ahead of the welfare of all the citizens. But, our Republican majority in Congress has been much criticized. It is alleged that we are trying to hold back the monster of inflation by a thread. I disagree with this. Today the Administration has the legal power to do much more than it has done to combat inflation. We in government in considering this question of high prices and inflation must always keep in mind that policies of government can either help or hurt. They can cut both ways. We all know that inflation comes when there is more money to buy things than there are things to buy.

Handling our great government debt is one of the vital decisions in combating inflation. The Federal Reserve banks in their effort to peg the market for government securities may have lost a great opportunity to reduce the supply of money in the possession of the commercial banks; yet we all fear the effect of a serious drop in the price of government bonds. The management of our national debt is one that is vital to all of us who have savings in this country. Shall government pull the plug—have no support of any kind for its bonds and let the whole structure seek its own level—or is such a policy failing the people who have been induced to place their savings in the trust of the government? Is the protection of those government savings a continuing government responsibility? If that is so, government must maintain the market and hold up the price of its bonds regardless of what happens. But I, for one, certainly do not agree that people's savings will be maintained indefinitely by government support of the government bond market. That method will ultimately stifle the economic growth of the country; it can do real harm to the same people whose savings it is our desire to protect, and can lead to complete control of our banking system by the government. On the other hand, on Christmas Eve the Federal Reserve Bank dropped their support price two points on the long-term bonds and wiped out in a minute or two some half billion assets of our people. I well remember after World War I when Liberty Bonds were in the lows 80's, because I sold some of mine at the very bottom price on the very lowest day. Today over 50% of the assets of our banks are in government notes and bonds. So we can't afford to have a completely free market; yet we can't afford a market that is economically unsound. Truly in this instance the Administration must make a careful decision for it affects the savings of many thousands of individuals, institutions and industrial corporations. Savings are the foundation of our system of freedom. I believe that the Administration now has the powers it needs to make this decision; although I recognize that some difference of opinion exist on this point.

Exports

Handling our exports is another of the great decisions in combating inflation. The President has complete control over exports yet there is very serious doubt if that power has been used to screen with sufficient care the export of those commodities vital to our economy and in short supply. I do not want, in normal times, to restrict any business. But when our own citizens are suffering for want of much-needed articles and countries not devastated by war are bidding more than the fair and going domestic prices, I believe business should be willing to sell in the domestic market and forego for a time the extra profit. If they are unwilling, then the President clearly should use the export control power for the benefit of the American consumer. We do not want to fail in giving *relief* where we must, to those people who are starving and in need of fuel, but we must at all times remember that the strength of our own economy is vital to the future peace and security of the world.

A top decision in 1948 concerns the return of price control and rationing with all that it connotes. I still remember the decision of the people at the polls in 1946. My present answer is "no." However, I do not deny that conditions may require some modification of this decision if any one commodity becomes too scarce. I certainly want to give the bill we passed in December a fair try-out.

Rent and Credit Controls

Still another decision in combating inflation is to decide what we must do about rent controls and credit controls. I believe we must continue some form of rent controls and credit controls until production more closely catches up with demand.

Government Expenses

What is to be the decision on government spending? Has the Administration made a sufficient effort to cut the expenses of the Federal Government? In his message on the State of the Union the President called for increased expenses of government. His plans add anywhere from 10 to 20 billions of dollars to the cost of our government. The President has just presented us with the highest budget in peacetime. Over 75% of the expenditures called for in the 1949 budget do reflect the costs of war, the effects of war and our efforts to prevent a future war. Yet there are about 990 government bureaus and agencies manned by an army of over 2 million civilian employees. The total expenditures that the President asks for are almost $2 billion above those of the current fiscal year. The printed budget has 1,353 pages, just 65 pages less than the Manhattan Telephone Directory. It is now our duty to read that book page by page, column by column and figure by figure. All these figures must come up for close scrutiny. Government subsidies, government lending through independent government corporations, all increase the big demands for goods or keep the prices at an artificial level. Government spending adds to inflation. There may be a great many things that are theoretically and idealistically desirable to do. But today when everybody knows that our Armed Forces must be maintained at a greater strength than ever before in peacetime, when there is the great need of new and better scientific weapons with which to arm these forces, we must balance one desirable ideal against another. Only yesterday morning you read the report of the President's Committee on Air Policy that calls for $18 billion before 1952. We must balance the desires of one group or section of our country against increasing the inflation for the whole country. We cannot maintain our military and economic strength and have that which the government might be able to afford if we had real peace and security in the world today. The ultimate amount of government expenditures must be decided with all these considerations in mind.

Taxes

A decision that affects us all is taxes. Personally, I hope there will be some reduction. I believe that people in the lower income tax brackets should have increased exemptions. I believe in the fairness of community property taxes. I do not approve of the overall tax suggestion that the President made to Congress. That will not effect a reduction in taxes. We must look all the facts in the face. We must be sure that there are sufficient funds for our defense, for research, for European aid and the civilian functions of government. We want to know that our budget will be balanced—that our debt service will be met and some reduction in debt may be made. All these factors must be considered in voting for a tax reduction bill. But, it is a simple fact that we cannot long maintain individual initiative and individual freedom if government taxes continue to take out of our pockets more than 33¢ of every dollar we earn. Plenty has been written about the lack of venture capital. Venture capital comes from savings. With individual initiative it made this country the greatest producer of goods in the history of the world. We must continue to give encouragement to this business cycle if we wish to continue to enjoy the highest standard of living in the history of the world. All these factors must be carefully considered in determining the amount of tax reduction.

Part and parcel of our high standard of living is the health, education and welfare of the young and old. We are all interested in measures that will improve the health of our children. Government aid for old-age pensions, unemployment compensation, aid to the blind and other forms of individual aid are part of our present system of living. In the years of depression followed by the years of the war the part that government plays in our individual lives has much increased. We want to see this aid made as effective as possible. We do not want to see it centralized in an octopus of bureaucracy which centers in Washington. I want the initiative as far as possible to be left to the individual. Government aid through government dictation to the State and the individual is all before us in this year of decision. I want the decisions to favor administration by the States for the individual not dictation to the individual from Washington. We must carefully consider how far the system of voluntary assistance can be improved and strengthened so that government aid will be in addition to not in place of, individual effort and voluntary aid.

So far I have discussed decisions that must be made by your government in Washington in the year 1948. These decisions must be based on a system where the individual is free as we know freedom in this country if we are to maintain our present system of government. Today too many people forget that this country has been made great on the principles of individual initiative and hard work. Too many people in recent years believe that all their problems can be solved by government. When they are in doubt as to what to do, when they are in need of funds, when they are at a loss to know what the next step is, they 'phone Washington. Consequently, we have watched bureau upon bureau increase. We have learned the meaning of the word "bureaucracy" as a stepping stone in the evolution of dictatorship where government leads and the individual serves the government and not the government the individual. We have got to reassert the basic philosophy which Thomas Paine so well expressed in 1801 when he said: "Those who expect to reap the blessings of freedom must, like men, undergo the fatigue of supporting it."

Hard Work and Production Needed

In a year of decision there are decisions that must be made by each one of us as individuals. The most important decision with the fear of inflation confronting us is the determination to work hard to produce all the goods that we can consume and thus fundamentally rid ourselves of the basic danger of inflation. The thought immediately crosses your mind, as it does mine, how can we do this when we have so many obligations to send commodities and manufactured goods abroad. In 1929 many economists told us that we had reached the ultimate peak of consumption and the ultimate peak of income. In that year our national income was $87.4 billion yet in the second half of 1947 it was at the rate of over $200 billion. I mention these figures because only initiative and foresighted planning and imagination can continue to give this country the production which it needs and can continue to make us strong. These responsibilities are in your hands. They are responsibilities that come with the privileges that we have as free American citizens. I do not pretend that our national income will necessarily be maintained at its present level but I do know this—that American ingenuity, American brains and American know-how, if we all continue to work together will give greater comforts to our children and our children's children than we have known. When I think that the population of this country has doubled in my lifetime, when I think of all the inventions which have come in my lifetime that we accept as commonplace, I am positive that optimism not pessimism can and will continue to make this country the land of opportunity.

We feel today a certain fear of the future. We witness it in the actions of the stock market and the commodity exchanges. So everybody tries to get the last penny from his investment or from his efforts. That makes the cost of living increase and starts the spiral of inflation going again. We have seen this happen in the last few months. If business and labor leaders, together with officials of government, will wisely exercise the powers now at their command, we are bound to take a long step towards avoiding a harmful depression. Everyone must do his part to see that only legitimate business is conducted and that chiseling and unfair competition are eliminated. Let us never sell America short.

Individual Must Be Respected

This is truly a year of decision not only for our government but for each one of us. But, neither government nor we can make our decisions alone. They must be made with a mutual understanding of the problem of the individual in our system of life and the problem of government which is supporting that individual in our system of life. The decisions of the government must be for the best interests of all our citizens. The decision of the individual may be for his individual benefit, but in the last analysis if it is not also for the benefit of his fellow citizens, it can very well turn out to be a decision which will be against his best interest. I cannot state too strongly that I have always felt and I sincerely hope I will continue to feel that individual initiative within any given community or any given business can and must never, never be replaced by purely government edicts.

My underlying faith in our system of government hangs on the fact that the decision of the great majority of our people, when they understand a problem, is correct and one which is in the interest of the majority. So it behooves us all to think and to think carefully and to understand as thoroughly as we may the problems that face us today in government. If we do this and do our part in helping our public officials to solve them, then we personally will have made a wise decision and helped our government to make its decision one that will be of benefit to our country. Grover Cleveland, a Democrat and a great President, in 1882 said: "Let us look for guidance to the principles of true democracy which are enduring because they are right and invincible because they are just."

Detroit Stock Exch. Committee Heads

DETROIT, MICH.—Armin H. Vogel, A. H. Vogel & Co., newly elected Detroit Stock Exchange President, has just announced the heads of various Exchange Committees for 1948. Paul I. Moreland, Moreland & Co., Vice-President of the Exchange, will again be Chairman of the important Arbitration and Business Conduct Committee with Edward T. Bennett, Jr., M. A. Manley & Co., as Vice-Chairman. Samuel Hague, Smith, Hague & Co., will supervise floor trading as head of the Committee on Arrangements and, as Treasurer of the Exchange, will be on the Budget Committee with President Vogel and Vice-President Moreland. Other Chairmen announced were: Max J. Stringer, Watling Lerchen & Co., Committee on Admissions; George A. McDowell, Mercier, McDowell & Co., Committee on Stock List; Clarence A. Horn, First Michigan Corp., Committee on Secondary Distribution; Dan Byrne, Paine, Webber, Jackson & Curtis, Public Relations Committee; and William Moore, McDonald, Moore & Co., Committee on Trading. Fred J. Oppat and John O. MacFarlane comprise the Committee on Audit.

Two With Conrad, Bruce Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Jerome F. Hanshue and Forrest P. Moran have become affiliated with Conrad, Bruce & Co., Russ Building. Mr. Hanshue was previously with Blyth & Co., Inc.

With Crocker First National

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Howard Locks has been added to the staff of the Crocker First National Bank of San Francisco, 1 Montgomery Street.

Joins Eaton & Co. Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Reynold Oeschler has joined the staff of Eaton & Co., 400 Montgomery Street.

Home Building Costs and Trends

(Continued from page 9)

the total dollar reflection of wages.

How then can there be any hope for an important reduction in sale prices of homes? If it is believed a general reduction in wages impends, building cost will come down. If, on the other hand, it is believed that wages will hold or increase before they level or drop, building costs will be supported where they are. Construction costs and sale prices are so intimately tied in with wages as to be inseparable. Construction cost is the product of wages. Construction costs will not drop until wages do.

Little Hope For Cost Reduction

Nothwithstanding the distress this illustration presents there remains some little hope for cost reductions, and resultant sale price reductions. Inasmuch as total building cost is the sum of all wages and inasmuch as there is no reason to anticipate a general reduction in wage rates, it is clear that if reductions can be expected they will be the product of increased productivity per man-hour all along the route from the unclaimed raw material to the ultimate purchaser of the completed structure (notwithstanding talk concerning hobbling the dollar), and this productivity clean-up includes management at all stages, plus corrections of percentage mark-ups applicable to total costs, wherever indicated, at the numerous progressive stages where they are applied between process inception and culmination. The latter becomes involved since a good part of it is, itself, wages.

Peripheral fringe matters such as cost-hiking building codes and modular schemes of construction, whose correction or attainment is certainly important and desirable, are long-term enough to put them beyond any immediate hope. We are not one of those who subscribe to the theory that the established distribution system in the construction industry ought to be discarded. An alternate whose impact upon end cost would be more palatable is difficult to visualize. Pending formulation, presentation and testing of a better system, we had best consider the proposition with some suspicion, if not hostility. The proposal that large scale developers of residential communities ought to be given the advantages of large scale purchases upon some direct-from-manufacturer-to-builder plan is an entirely different matter and probably will receive special consideration.

Areas of construction cost which offer hope for mid-1948 and thereafter are the probability of balancing supply with demand in some improved degree for such short supply items as soil pipe, nails, millwork, hardwood flooring, electrical motors and electrical accessories, plumbing fixtures, etc. Also auguring for lower cost are promises of future deliveries at today's quotations.

Apprenticeship Training

Apprenticeship training programs are thoroughly inadequate in relation to potential volume requirements. This has a bearing upon construction costs. There are today perhaps 110,000 to 115,000 apprentices in training throughout the United States, or about 5% of the total estimated on-site employment. This rate is not enough to counterbalance attrition due to deaths, illness, enforced idleness or productivity impairment due to the ravages of age, and desertion of the trades. The inadequacy of apprenticeship training is a double-edge blade for it offers little hope toward improvement of productivity at the site of construction such as would stem from new young vigorous blood, plying what is essentially a job for men under 45 years of age; and this presents the probability of the further accumulation of production senility with its inherent higher costs. It takes from 3 to 5 years for apprentices in different trades to qualify for journeymen's cards on non-residential work. This has a bearing upon residential building costs because it further retards quick attainment of a fair supply of manpower for non-residential work and thus sets the stage for raids upon the labor supply in housing by the commercial and industrial field.

Let us reduce what has been stated to capsule size. First, total construction cost is wages in one form or another. Second, there can be no substantial reduction in construction costs until wages drop or productivity increases, or both. Third, apprenticeship training programs are not sufficiently extensive to suggest success in higher productivity campaigns. Fourth, there are limited areas wherein construction costs are vulnerable, namely:

(1) At the progressive stages of percentage markups upon accumulated costs at each such stage.

(2) Productivity per man hour.

(3) Balancing of supply of materials with demand.

(4) Elimination of cost-hiking and/or competition-stifling provisions of building codes.

(5) Encouragement of standard sized and designed products.

(6) Development of large scale purchasing advantages for major home builders.

(7) A return to a firm quotation policy for future deliveries by manufacturers and suppliers.

Productivity figures prepared by the Long Island Home Builders Institute during 1947 and based upon practical field experience in that area portray a situation which should cause us to stop to take inventory of where we are headed. While these estimates are for 1940-1947, whereas the cost figures presented earlier are for 1941-1948, there is reasonable similarity of the cost and productivity levels prevailing during these periods to use them here. Seven basic trades are analyzed: bricklayers, plasterers and tenders, lathers, painters, carpenters, plumbers and steamfitters, tile setters and helpers. In 1940 it took 516 hours of these trades to build a house similar to the one we have discussed. Now it takes 681 hours—165 hours more, or a 32% increase. Otto J. Hartwig, Executive Secretary of the Institute, points out that the 1940 labor cost for these trades was $499, now it is $1,714—$1,215 more, an increase of 243%. $473 of the $1,215 is chargeable to lowered productivity per man hour, the difference of $742 representing increases in the hourly wage rate. Thus, if current productivity was as good as prewar it is clear the cost would be $1,241 for labor, not the 38% higher actual labor bill of $1,714 for the 7 trades studied.

In another study Mr. Hartwig breaks down the impact of taxes we all have to deal with now as against prewar 1939. His report indicates that taxes upon builders corporate profits, stockholders and officers individual tax on salaries and dividends, labor at site, labor portion of material cost and taxes on profits from material sales, amounts to 11.1% of today's sale price of a house when built in groups of 50. The tax in 1939 amounted to 1.9% of the sale price.

We have made adaptations of these figures which are applied to the clinical house we are discussing today. While the resultant figures suggest what might have been, but is not, they do offer a sounder explanation of current sale prices than is found alone in the generalization that high costs are due simply to increased prices for material and increased wages to labor.

New Taxes and Labor Loss Add $2,477 to Dream House

(Based on the Dow Service "Test" House)

1948—	Materials	Labor	Builder	Land	Sale Price
Today's Costs	$5,214.00	$3,561.00	$1,250.00	$1,000	$11,625.00
Mi.c. Taxes not present in 1939	304.44	417.96	567.60	?	1,290.00
(% Tax Distribution)	(23.6)	(32.4)	(44.0)	---	(100.0)
Today's Costs—Taxes Deducted	$4,909.56	$3,143.04	$1,282.40	$1,000	$10,335.00
Cost of Labor Slowdown	?	981.00	206.00	---	1,187.00
Today's Costs—Corrected for Labor and Taxes	$4,909.56	$2,162.04	$1,076.40	$1,000	$ 9,148.00
1939-41 Costs—Same House	2,635.00	1,865.00	1,000.00	500	6,000.00
Amount Increase from other factors 1939-41	$2,274.56	$ 297.04	$ 76.40	$ 500	$ 3,148.00
Percentage Increase after deduction of taxes & labor item	86.3	15.9	7.6	100	52.5
Actual Percentage Increase 1948 vs. 1939-41—taxes and labor items included	97.9	90.9	85.0	100	93.8

This would show, then, that the remaining extra $3,148 sale price over 1941 is divided $500 extra for land, an extra $76.40 to the builder, an extra $297.04 to labor, and an extra $2,274,56 for materials. We are not currently in possession of information with which to rationalize this last figure. However, in passing, it is probably accurate to observe that much of it would be found in increased wages, marketing and distribution costs from the producers' level on through local supply outlets to the job site.

What kind of general conclusion can be drawn from all these conflicting factors? It will be noted that most of them point to continued support of the present cost level. Some of them suggest even higher costs. There are others of which we have not spoken which also belong to this group, notably the very real possibility of another round of wage increases at offsite points this year. Notwithstanding all this there are some areas of building cost which offer good opportunity to peg costs where they are—net, after some of the yet to materialize factors have been met—or to even reduce slightly. The potential of this is very "iffy" and it probably will be some considerable time before there will be any tangible result. If all the "iffy" factors should simultaneously become possible an important cost reduction would follow, but it will not happen this way.

As we pass from one economic era to another we are given to making comparisons with the past. Probably because the past offers a firmer foundation upon which to base predictions of the future, which is unknown. And yet past futures in relation to their pasts have always moved onward and upward notwithstanding the dire forecasts of their economists. Humankind, it seems, always seeks to resist advance by advocating return to what seemed at the time to be a more desirable earlier period, yet history discloses it never does. Only in retrospect do these things, which look dubious in the present assert themselves.

We hear today that building is pricing itself out of the market. Nationally, contstruction costs are 104% higher than they were in 1941. The situation is not as alarming as it seems. In 1920, after World War I, construction costs were 172% above the 10 prewar years ending 1915, as the result of runaway wholesale prices. The postwar purchasing power of the 1915 building dollar in 1920 at the cost peak was 36 cents. In 1948 the 1941 building dollar is worth 49 cents. In 1920 it was said construction was priced out of the market. Costs dropped, leveling off at about 125% over 1915, and construction volume soared to previously unheard of heights, disproving all the warnings that high building costs would seriously retard the industry. Today we are hearing the same things about high costs retarding construction activity—but activity is increasing, true to pattern. High in relation to what? That is the question we ought to keep in mind when we talk about construction costs; and when we analyze costs of other commodities, we find building costs, though high, are not out of line.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Market stabilizing with a number of stocks pointing upward. On recession certain issues now look like buy.

Last week I sounded off on economics and politics which theoretically have no place in a column supposedly devoted to the stock market. But in the final analysis it is what happens, or is being planned, that will affect the market and the stocks that make it up.

I'm not so naive, however, as to plan on things as I'd like them to be, or think they should be. If I want to stay in this rat race I've got to figure on how things are and what they're likely to be.

Last week I said if Congress runs things one way, prices will eventually bound up. If it does things another way, the price trend may be halted for a while but then it would go up too. Whichever way I figured it, the trend would be up. Only the speed, and the timing, would be affected.

I've gone over the market with a magnifying glass to see in what there was an indication of a profit. I did this for two reasons. First, because I like profits and, two, I'm just about fed up with the weather and am planning on trying the Florida temperature for a couple of weeks.

I've come up with a number of stocks which show more up than down, although the all important "when" is not so clear. But as I use stops the "when" will be taken care of.

I consider the following stocks advisable for purchase if, as, and when, available at specific prices:

	Buy	Stop
Amer. Brake Shoe	38 -39	37
Amer. Chain	19½-20½	18
Amer. Locomotive	18 -19	17
Anaconda	31½-32½	29
Avco	4 - 4½	3½
Bethlehem Steel	30 -31	28
Boeing	21 -22	20
Briggs	29 -30	28
Caterpillar Tractor	54 -55	53
Consol Vultee	12 -13	11
Douglas	50 -52	48
Dresser Industries	21 -22	20
Lockheed	13 -14	12
G. L. Martin	15 -16	13
No. Amer. Aviat'n	7 - 8	6
Sinclair Oil	14 -15	13
United Aircraft	23 -24	22

There are a number of other stocks, not in the list, that look like they've gotten over their sinking pains but I can't mention all of them. In fact the list is already larger than I usually give. It has one virtue, however; in it you will find stocks that fit almost any price category. Of course I don't expect readers to buy the entire list. If they did, they wouldn't need this column's advice.

A word of warning: The stops weren't put in as fillers. They mean something. If stocks have a sinking wave and break their stops, they are to be sold. And despite the changed market outlook accidents can happen.

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.]

Chicago Exch. Membership

CHICAGO, ILL.—Arrangements were completed Jan. 28 for the sale of two memberships in the Chicago Stock Exchange; one at $2,000 and one at $2 150, up $150 from the last previous sale.

E. A. Hellman Dead

Edgar A. Hellman, member of the New York Stock Exchange, died at the age of 71. He had been a member of the exchange for more than 40 years.

H. J. Soher N. Y. Visitor

Hubert J. Soher, Walston, Hoffman & Goodwin, San Francisco, has been a visitor in New York City, and will leave for the Coast on Feb. 6th, after a stay of two weeks.

With Blyth & Co., Inc.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Nieland B. Van Arsdale has been added to the staff of Blyth & Co., Inc., 215 West Sixth Street.

Clark Davis Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—John O. Perry of Tampa is now associated with Clark Davis Co., Lanford Bldg.

Problems of Postwar Monetary Policy

(Continued from page 15)

Federal Reserve legislation, namely, to use its discretionary powers in the public interest under changing economic conditions.

METHODS AND CONSEQUENCES OF WAR FINANCE

Hardly had the System been organized before it was faced with the serious problem of war finance. This task had not been foreseen by the founders, but the country would have been greatly handicapped in prosecuting World War I had not the Federal Reserve System been in existence. Also, the adjustments following the war, difficult as they were, would have been greatly aggravated and perhaps disastrous had there been no Federal Reserve System. In World War II the System was called upon again to aid war finance—even more exacting in its development that the former effort—and now again the country is facing the problem of adjusting monetary conditions distorted by war to the peacetime needs of the economy.

One of the inevitable consequences of war is an abnormally rapid expansion in the supply of money and other liquid assets such as government securities and savings accounts. Because of this financial heritage of war, the postwar economy is exposed to the risks of serious instability from monetary causes. The amounts of new money and other liquid assets generated during the Second World War surpassed all previous records. Unless absorbed or reduced in effectiveness by serious price inflation, redundant monetary liquidity seems certain to persist for many years to come. During the period ahead avoidance of disruptive fluctuations in credit, interest rates, and prices, at the least, or of recurrent inflation and collapse, at the worst, will require well-conceived and firmly pursued policies of monetary and debt-management operations.

As a result of the heritage of war finance, the Federal Reserve System is greatly restricted in its capacity to perform the functions for which it was established, namely, to exercise an effective control over the volume of bank credit and the money supply. The re-establishment of the System's capacity to influence credit and monetary conditions in the interest of stable economic development is a primary postwar problem.

Financing of war is inflationary because people receive incomes for producing and supplying goods that are not available for general consumption. War expenditures have to be paid for currently. No country has ever imposed upon its citizens a tax burden that would provide for war expenditures as much as half of national income—the amount spent by this country during the war just ended—nor has any country in wartime been able to borrow out of the people's savings the entire balance between expenditures and taxes. Throughout the war, efforts were made in this country to raise as much as possible of its cost by taxation and by borrowing the people's savings.

Fiscal and monetary authorities were agreed that financing through banks, which results in the creation of new money, should be used only as a last resort and only to the minimum extent necessary to provide the increased money supply needed by the expanding and abnormal war economy. Nevertheless, the banks had to be relied upon to a considerable extent. A high degree of liquidity was essential for securities sold to the public, and purchases by banks were needed to help maintain an active securities market and to facilitate the general sale of new issues.

Although for these reasons a sizable expansion of the banks' holdings of Government securities and thereby in the money supply was necessary, the actual amount that occurred was excessive. "In retrospect," to quote from the 32d Annual Report of the Board of Governors of the Federal Reserve System, "it is evident that more vigorous policies should have been adopted in order to raise more of the cost of the war through taxation and to restrict bank purchases of Government securities." Many of the financing procedures adopted encouraged banks to purchase more securities than it was essential to have them buy and thus complicated the problem of postwar adjustments.

Maintenance of Interest Rates.—One pivotal Federal Reserve policy in facilitating war finance was the declared determination to provide banks with easy access to a volume of reserves sufficent to enable them to absorb all newly issued Government securities not taken by other investors. This decision involved the necessity of maintaining the interest-rate structure at approximately the levels existing at the beginning of the war. Besides facilitating bank purchases of securities this policy served a fourfold purpose: (1) to encourage prompt buying of securities by investors, who might otherwise have awaited higher rates; (2) to assure a strong and active market for outstanding securities; (3) to keep down the interest cost on the Government's war debt; and (4) to limit the growth in bank and other investors' earnings from their public-debt holdings.

The interest-rate structure generally maintained throughout the war, as is shown in the Chart (I), was characterized by very low rates on short-term money, a wide spread between them and rates on long-term securities, and the lowest levels of long-term rates in the history of this country. This unusual interest-rate pattern came into being during the prewar period of recovery from severe deflation, when demands from borrowers were small, the flow of savings for investment was in large volume, and at the same time gold imports swelled bank reserves to far beyond current needs. Available funds were to a large extent invested in short-term paper, partly to retain liquidity and partly in anticipation of higher interest rates later.

Maintenance during the war of the wide differential between short-term and long-term interest rates established during depression stimulated expansion of bank credit, because it was possible for banks to sell short-term securities and buy longer-term issues bearing higher rates of interest. The short-term securities sold by banks were purchased by the Federal Reserve Banks in line with their policy of keping short rates from rising. Since purchases by the Reserve System create additional bank reserves, the basis was thereby provided for a deposit expansion by the banking system as a whole of six to ten times the volume of such reserves.[3] Because this process of selling short-term securities to the Reserve Banks and purchasing longer-term issues was occasioned by the differential in yields between these maturity groups, it resulted in a kind of automatic "monetization of the public debt" without regard to the economy's needs for additional money. Such automatic monetization of the public debt has continued to some extent in the postwar period.

Maintenance of short-term rates at a low level in relation to long-term rates also tended to induce a further decline in long-term interest rates. An implied assurance that prices of long-term securities would not be permitted to decline removed an important distinction between long- and short-term securities. As a consequence, banks and other investors began to prefer long-term as against short-term securities, and the shifting from short to long issues by all groups of holders, especially by banks, tended to depress the yield on longer-term issues below prewar levels. The very low postwar levels of long-term yields have presented special problems of adjustment for life insurance companies and other savings and endowed institutions.

Effect of War Loan Drives—Another wartime stimulus to bank credit expansion developed out of practices pursued during the war loan drives. Nonbank investors, in order to subscribe to new issues and thus help the attainment of local quotas, sold substantial amounts of previously acquired issues to banks. During the drives, banks had excess reserves because deposits against which reserves were required were drawn upon by depositors in the purchase of securities, while Treasury deposits, against which no reserves were required, increased.[4] The resulting reduction in member bank required reserves and the investment of these freed reserves increased the earnings assets of banks.

As a consequence, banks increased their holdings of Government securities substantially during drives. Between drives, as deposits were reshifted from Government to private account, required reserves increased and banks sold sufficient securities to the Federal Reserve to meet the higher reserve requirements. The net effect was an impetus to expansion in bank holdings of Government securities throughout the war period.

Wartime Expansion of Bank Credit and Money.—Viewing the wartime period as a whole, banks were able to expand their holdings of Government securities by any amount they could obtain because the Federal Reserve System, in following its policy of supporting the market for short-term issues, keeping down short-term rates, and facilitating war loan drives, made additional reserves almost automatically available to banks. The volume of short-term securities outstanding was sufficient, if resold to the Federal Reserve, to permit a much further expansion of bank reserves. Thus under policies pursued in war financing, the banking system was not only permitted, but encouraged, to expand its holdings of United States Government securities on the basis of reserves freely supplied by the Reserve System in maintaining the structure of interest rates.

Total funds raised by the Treasury in the period from the middle of 1940 to the end of 1945 amounted to $383 billion. About 40% or $153 billion of this amount came from taxes. Nearly $230 billion was obtained by borrowing, of which about $104 billion came from the banking system, including mutual savings banks as well as commercial banks and Federal Reserve Banks. Some of this increase reflected large sales of securities during the Victory Loan Drive at the end of 1945. During 1946 and to some extent in 1947 the Treasury made use of the large balances built up from the Victory Loan to retire maturing debt. Most of the retirements were from commercial bank holdings.

The wartime increase of $22 billion in Federal Reserve holdings of Government securities, together with a decline of over $5 billion in excess reserves of member banks, as is shown in Chart II, largely provided for increases of $21 billion of currency in circulation and of nearly $8 billion in the total amount of required reserves at member banks. This growth in required reserves reflected an expansion of $44 billion in demand deposits, excluding interbank and United States Government deposits, and of $19 billion in time deposits at all commercial and mutual savings banks. The growth in total deposits and currency is shown in Chart III.

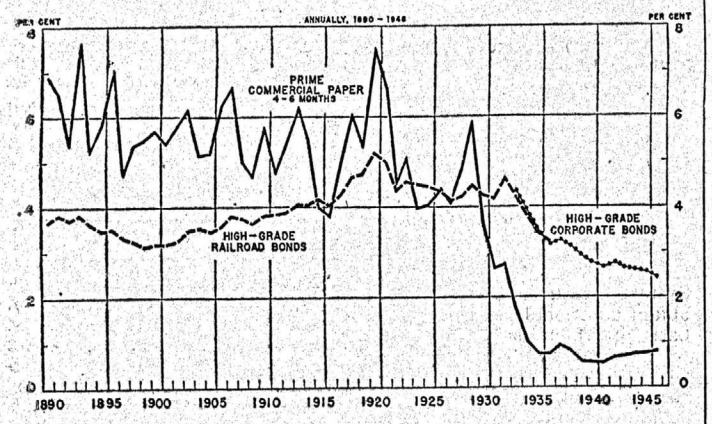
3 Actual reserves required of all member banks currently amount to about 15% of total net demand and time deposits, or a ratio of expansion to reserves of nearly seven to one. When one bank obtains a deposit, which at the same time brings that bank additional reserves, it can lend or invest all of those reserves in excess of requirements; the funds thus pass to another bank which in turn can expand its assets. This multiple expansion might be less than the seven to one ratio mentioned above, if successive banks retained reserves in excess of the required amount. Moreover, since nonmember banks, which hold their required reserves largely with member banks, share in this process of credit extension; and since time deposits, against which reserve requirements are lower, may increase more rapidly than demand deposits, the total multiple expansion in deposits may greatly exceed the ratio of seven to one. During the period from June 1940 to December 1945, the expansion in total deposits at all banks, other than interbank and U. S. Government deposits, was about nine times the increase in required reserves of member banks. For member banks alone, the multiple expansion in total deposits over this period was about eight times the increase in their required reserves.

4 Special wartime legislation enacted in 1942 exempted war loan deposit accounts of the Treasury in member banks from reserve requirements. This exemption expired at the end of June 1947.

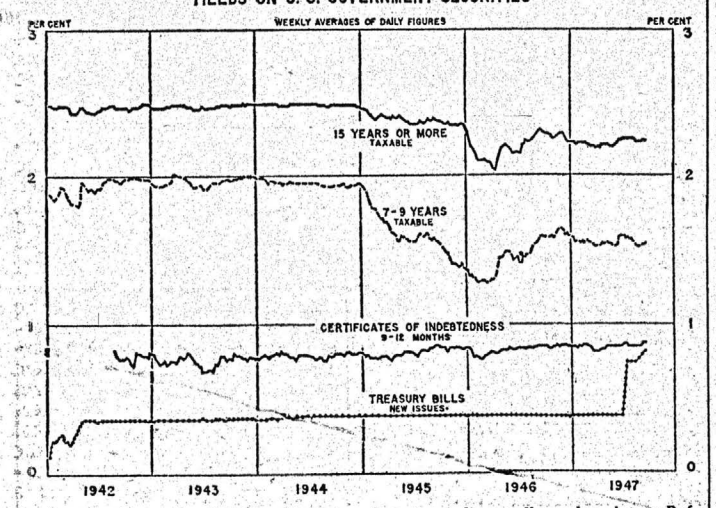
Chart I

THE STRUCTURE OF INTEREST RATES

LONG- AND SHORT-TERM INTEREST RATES



YIELDS ON U. S. GOVERNMENT SECURITIES



NOTE—Securities are classified according to earliest call or due date. References to data, and to their sources and composition, are given below.

Commercial paper: for years 1890-1941, *Banking and Monetary Statistics* (Board of Governors), p. 448; for 1942-44, *Federal Reserve Bulletin*, February 1945, p. 159; for 1945-46, *Federal Reserve Bulletin*, February 1947, p. 181.

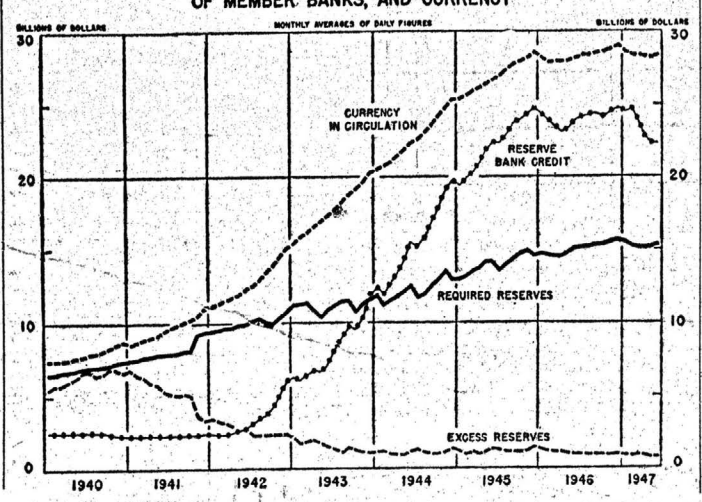
High-grade railroad bonds: Annual figures computed from monthly figures given in Frederick R. Macaulay, *Movements of Interest Rates, Bond Yields, and Stock Prices in the United States since 1856* (National Bureau of Economic Research), Appendix A, Table 10, column 5, pp. A141-61.

U. S. Government securities: for January 1942 through December 1944, *Federal Reserve Bulletin*, May 1945, pp. 483-90; for January 1945 through September 1947, *Federal Reserve Bulletin*, October 1947, pp. 1251-53.

Corporate high-grade bonds: data for years 1933-41, *Banking and Monetary Statistics*, p. 471, note 2; for 1942-43, *Federal Reserve Bulletin*, February 1945, p. 159; for 1944-46, *Federal Reserve Bulletin*, February 1947, p. 181. For composition of series, see *Treasury Bulletin*, January 1945, p. 56, and July 1947, p. 59.

Chart II

RESERVE BANK CREDIT, REQUIRED AND EXCESS RESERVES OF MEMBER BANKS, AND CURRENCY



From 1940 to 1945 commercial banks, as is shown in Chart IV, increased their holdings of United States Government securities by approximately $75 billion, and after the substantial debt retirement in 1946 and early 1947 bank holdings still exceeded $70 billion, compared with $16 billion in 1940. Bank loans also expanded, mostly since the end of 1944, to the highest level since 1929. During the war period loan expansion was to a large extent to finance purchases of Government securities. The rapid growth in the assets of banks increased their earnings substantially. While banks incurred additional expenses in servicing the greatly increased wartime monetary demands, total earnings increased more rapidly than expenses, with the effect that during 1945 net profits in relation to capital funds reached the highest level on record.

War financing was responsible for a very rapid and large expansion of liquid assets held by the public. The holdings of total deposits and currency by individuals and businesses increased from 1940 to mid-1947 by $100 billion to 2½ times the prewar level. The inflationary potential in the expanded money supply is roughly indicated by the increase in its ratio to the annual value of the country's total production of all goods and services, shown in the accompanying chart. The ratio of total deposits and currency to gross national product attained a level of 80% during 1946 compared with less than 70% in the late 1930's, a period of considerable unemployment and unused resources, and with a little over 50% in the 1920's, a period of active business and full employment.

The chart shows that individuals and businesses, in addition to having greatly expanded holdings of deposits and currency, held over $80 billion of Government securities in the middle of 1947, seven times as much as before the war. Savings bonds and notes, which are more than half of this total, are redeemable on demand and, as long as the Federal Reserve Banks stand ready to buy the marketable securities, these issues also are freely convertible into cash. This is a new and unprecedented situation which has great significance from the monetary point of view.

FINANCING POLICIES IN THE TRANSITION PERIOD

To a considerable extent inflationary developments after the end of war financing had their seeds in war finance. These inflationary effects, in the absence of adequate taxes, could only be counteracted by direct controls over demand, supplies, and prices of goods and services, since these market factors could not possibly be in equilibrium during war and its aftermath. In the war period serious inflation was avoided by the maintenance of controls, as well as through the public's exercise of voluntary restraint and investment of savings in Government securities, but after the war was over these restraints were greatly diminished and in many cases abandoned.

With the end of war, financing of the Government's fiscal requirements quickly ceased to be the dominant factor generating inflationary pressures. Early in 1946 it was possible for the Treasury to initiate a large-scale program to retire debt from its accumulated cash balances, and by the end of the year it was possible to project additional debt retirement from a budget surplus during the ensuing year. The Treasury's debt-retirement program, by redeeming securities held by Federal Reserve Banks, created a drain on bank reserves; this helped to check continued rapid expansion of bank credit and restrained further downward pressure on long-term interest rates. In addition, debt retirement directly reduced commercial bank holdings of Government securities. At the same time bank loans collateraled by such securities showed a sharp reduction from the high level reached in the Victory Loan Drive.

Some discouragement to member bank borrowing at the Reserve Banks for the purpose of purchasing or holding Government securities was effected in April, 1946 by elimination of the Federal Reserve Banks' preferential discount rate on advances collateraled by short-term Government securities. This preferential rate of ½% was put into effect during the war to encourage banks to utilize their excess reserves in the purchase of short-term securities, rather than to keep them idle. It was no longer needed, and its elimination made the regular discount rate of 1% applicable to such borrowing.

Notwithstanding these developments, expansion in the public's deposits continued to occur, although at a slackened pace. This expansion resulted in part from a brisk postwar revival of bank lending to businesses, to property owners, and to consumers; and in part from the Treasury's retirement from accumulated cash balances of securities held outside of banks, which involved the transfer of Government deposits to private accounts. While bank loan expansion during the postwar transition, which carried loan volume close to record levels, reflected mainly the financing of expanding production and distribution of civilian goods at rising prices, it was also due, to an indeterminable extent, to speculative and excessive commitments induced by bottlenecks and shortages affecting many goods.

The further expansion of bank credit to private borrowers added somewhat to the inflationary pressures that developed from many causes during the postwar transition. More important, however, than the current credit expansion was the already superabundant volume of money and other liquid assets available as the result of war finance and not subject to rapid reduction. The inflationary pressures generated by so large a volume of liquid assets were altogether too strong to be effectively checked by any quantitative restraints that could be imposed on further credit expansion. In addition, the use of available quantitative instruments of control would have resulted in declining prices of Government securities and, because of the huge public debt outstanding and its wide distribution, assurance of stable market values on this debt had become a major central banking responsibility.

In this situation there was little more that could be done by the Federal Reserve System to counteract inflationary developments, while at the same time fulfilling its responsibilities for maintaining an orderly and stable market for Government debt. Banks were under some pressure as a result of the reduction in reserves through the debt-retirement program and for this reason, as well as to meet the expanding loan demand from their customers, banks had to sell short-term securities to the Reserve Banks. Refusal of the Reserve Banks to purchase these securities or any attempt to sell additional amounts to absorb more bank reserves would have resulted in an increase in short-term money rates.

Whenever it could, without abrupt stiffening of money rates, the System made vigorous use of available methods of influencing the amount of outstanding bank credit of selected types. It encouraged the liquidation of loans for carrying Government securities purchased in war loan drives. It made maximum use of its powers to determine margin requirements for purchasing listed corporate securities by fixing these requirements at 100% of current market value of the collateral. It maintained, with some adjustments and revision, its special wartime control over consumer credit, particularly over instalment credit, until such regulation was ended by legislative action. Partly as a result of these selective measures, a significant contraction in bank credit for carrying securities took place and the expansion of consumer credit was restrained somewhat. On the whole, Federal Reserve policies left banks considerable flexibility in accommodating the transition credit needs of commerce and business, while bringing about contraction in over-all bank credit and some slackening in the rate of growth of money in private hands.

By mid-1947 Treasury balances had been reduced to approximately normal working levels, making further debt retirement dependent upon current budget surpluses. Pressure on bank reserves resulting from the debt-retirement process was thus moderated and the latitude of banks in shifting from short-term Government securities into assets offering higher returns was substantially restored. By selling short-term securities to the Federal Reserve System, as stated earlier, banks obtain additional reserves on the basis of which bank credit may expand six to ten times the amount of such reserves. Some evidence of increased demand by banks for longer-term Government bonds appeared toward the close of the retirement program. In consequence of this development and also of conditions favorable to further bank shifting into other higher-yield assets, the Federal Open Market Committee early in July terminated its policy of buying Treasury bills at ⅜%. Subsequently issuing rates on 12-month Treasury certificates were raised. These actions permitted short-term rates to rise and contributed to a more flexible money market situation with regard to Treasury debt-management operations, and to Federal Reserve credit policies.

NATURE OF THE POSTWAR PROBLEM

Superabuandance of money, together with potential further expansion in the money supply—resulting from wartime growth in the public debt—presents a continuing problem for the postwar period. The magnitude of these forces and changes in their relation to the total national product have already been pointed out and are illustrated by the accompanying chart.

This volume of money can be reduced only through a contraction in public debt held by banks or by a shift in such debt from banks to more permanent investors; it can be further increased, on the other hand, by bank credit expansion. Since the principal basis of the expanded money supply is the Federal Government debt, a decrease to the economy's current level of need would be difficult to bring about; but in adjusting to a redundancy of money, the economy is likely to experience recurrent inflationary pressures interspersed with downward reactions. To prevent monetary redundancy from increasing and to re-establish conditions under which further credit expansion may be more closely related to the expanding needs of agriculture, business, and consumption are important tasks of fiscal, public-debt, and monetary management now and perhaps in the coming years. These tasks must be accomplished without permitting instability in the distribution and value of the public debt to disrupt the economy's financial operations.

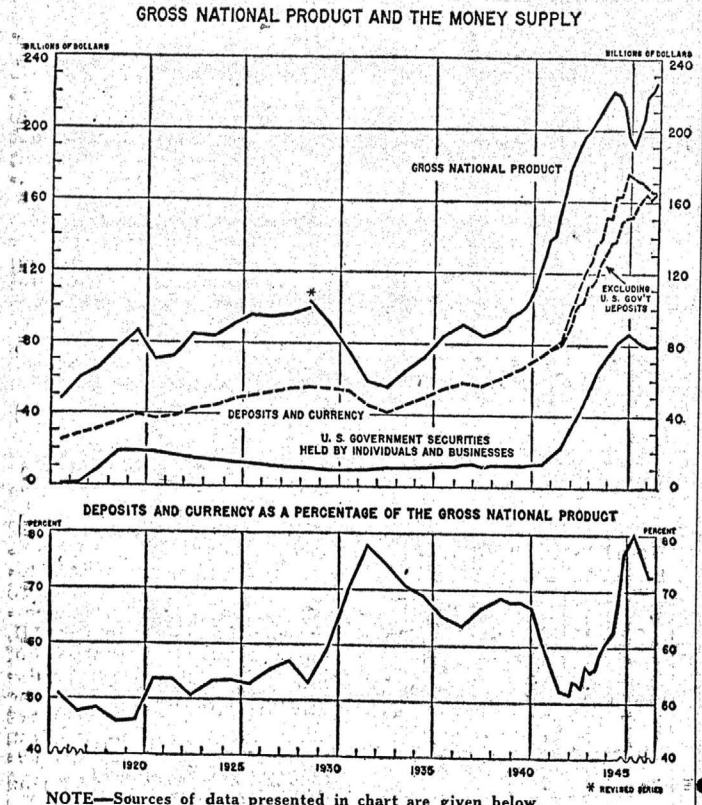
In view of this situation, the central problem that confronts the Federal Reserve System in the postwar period is to re-establish the System's primary function, which is regulation of bank credit expansion. At the same time the System must be able to fulfill its new responsibility, inherited from war finance, of maintaining a stable market for the public debt. With the postwar level of commercial bank holdings of marketable Government securities at $70 billion and with $88 billon held by businesses and individuals, it is difficult for the System to exercise effective control over the total volume of bank credit as long as these holdings can be readily sold to the Reserve Banks. The additional bank reserves that can thus be generated at the initiative of banks and others could be the basis for an expansion in bank credit and deposits of from six to ten times the newly created reserves.

A policy of maintaining short-term interest rates at wartime levels with a differential between short- and long-term rates would complicate the postwar problem of credit control. It would continue inducements that holders of short-term securities have had since early in the recent war to sell them and purchase longer-term, higher-rate issues. Furthermore, the Federal Reserve System would purchase the short-term securities sold by these holders and thereby create additional bank reserves. In this way, the policy would contribute to further credit expansion and to a further decline in long-term interest rates. A decline in long-term rates caused by the pressure of credit expansion rather than by a surplus of current savings over the capital demands of business would be an inflationary influence in the real estate and security markets and would otherwise prove disruptive to financial processes. Monetization of the public debt stimulated by this policy could result in a huge additional

(Continued on page 38)

Chart III

GROSS NATIONAL PRODUCT AND THE MONEY SUPPLY



NOTE—Sources of data presented in chart are given below.

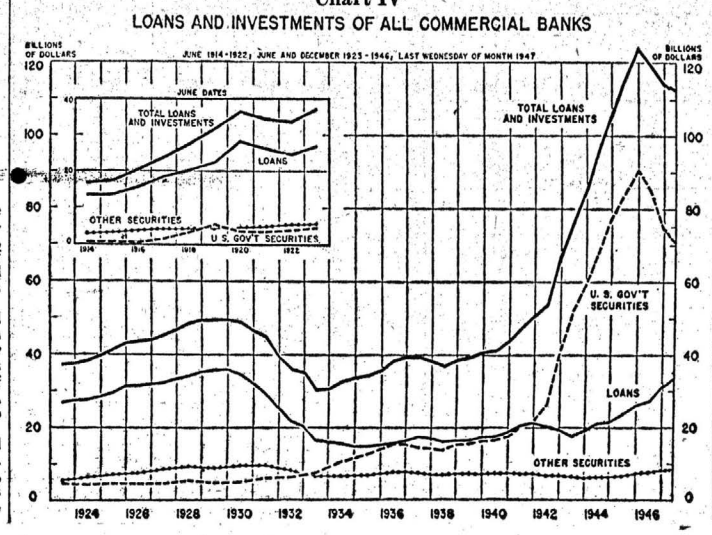
Gross national product: For years 1916-18, U. S. Department of Commerce estimates based on National Bureau of Economic Research estimates of the production of finished goods; for 1919-28, *Federal Reserve Bulletin*, September 1945, p. 873; beginning 1929, U. S. Department of Commerce estimates in *Survey of Current Business*, National Income Supplement, July 1947. Figures are annual totals for years 1916-38 and seasonally adjusted quarterly totals at annual rates thereafter.

Deposits and currency: Federal Reserve figures for all banks in the United States, partly estimated, and adjusted to exclude interbank deposits and items in process of collection. Figures through 1941 are from *Banking and Monetary Statistics* (Board of Governors), pp. 34-35; for later years from monthly issues of *Federal Reserve Bulletin*. Figures are for end of June, 1916-38; for end of June and December, 1939-42; for end of March, June, September, and December, 1943-46; for last Wednesday of March and June, 1947. Figures subsequent to December 1946 are preliminary.

U. S. Government securities held by individuals and businesses: Federal Reserve estimates based on banking and corporation data from various sources. For 1916 through June 1939 figures are from *Banking and Monetary Statistics*, p. 512; thereafter from *Federal Reserve Bulletin*, September 1947, p. 1104. Figures are for the end of June, 1916-35; for end of June and December thereafter. Estimate for June 1947 is preliminary.

Chart IV

LOANS AND INVESTMENTS OF ALL COMMERCIAL BANKS



Problems of Postwar Monetary Policy

(Continued from page 37)

expansion of bank credit and a decline in long-term interest rates to new low levels.

Various measures have been suggested for dealing with these problems of debt monetization and declining long-term interest rates. The more important are as follows:

(1) The Reserve System could permit short-term interest rates on Government securities to rise to a level at which banks would no longer be induced to sell short-term securities to the Reserve System in order to purchase longer-term securities in the market.

(2) Sufficient amounts of new long-term securities could be issued to check the decline in long-term rates.

(3) Monetization of the debt could be permitted to continue until long-term interest rates declined to a level at which banks would no longer be induced to sell short-term securities and buy longer issues.

(4) Adoption of one or more of the proposals made by the Federal Reserve Board in its 1945 Annual Report would provide a means of restricting the ability of banks to shift from short-term to long-term securities or to loan assets and could thus limit the extent to which banks could monetize the public debt.

These various proposals are discussed in the subsequent sections of this paper.

INTEREST-RATE POLICY

Determination of the level of short-term interest rates has traditionally been considered an important instrument of central bank policy; at the same time there has been considerable difference of opinion among monetary authorities and theorists as to the effectiveness of interest-rate variations in encouraging or discouraging borrowing and lending. Without attempting to settle this controversy, it may be said that monetary management cannot ignore the effect of interest-rate fluctuations, both short- and long-term; nor can it depend entirely upon interest-rate policy to accomplish its objectives. The postwar situation, moreover, presents many new aspects of the relation between interest rates and monetary policies.

Flexible Interest-Rate Policy.—The nature of the postwar monetary problem makes it necessary for central bank policy to place greater emphasis upon the **availability** of credit in influencing expansion and contraction of bank credit than upon the **cost** of credit. It is difficult, however, except through certain types of selective controls, to influence the availability of credit without having an effect upon interest rates. Thus adherence to stability of interest rates as the prime objective of monetary policy might prevent the adoption of policies to limit the availability of credit at times when such limitation was desirable.

Although small changes in interest rates might in themselves have little influence on the volume of borrowing and lending, complete avoidance of variations would prevent the adoption of policies flexible enough to bring about gradual adjustment of the money market to changing conditions of credit supply and demand. If interest rates were held unchanged when quantitative restrictions began to be needed, it might eventually become necessary to resort to drastic action in order to meet a situation after it had fully developed, which more flexible policies might have forestalled.

Inherent in the postwar situation, as already explained, is the tendency for long-term interest rates to decline even below existing unprecedentedly low levels. The large wartime accumulation by the public of funds held in currency, bank deposits, and short-term Government securities, as well as future current savings, will exert pressure toward lower interest rates unless there should be a correspondingly large demand for investment funds for capital expansion, or unless any gap in demand is offset by an increased willingness on the part of the public to hold liquid assets. Even in these circumstances the previously described process of debt monetization would make possible the satisfaction of part of the existing demand through bank credit expansion at low or perhaps even declining long-term interest rates. To supply capital demands through this process would contribute to inflation and economic instability.

The renewed decline in long-term interest rates from such causes would further reduce the return on family savings and decrease the incomes of endowed and savings institutions that depend on earnings from investments. Lower investment yields resulting from credit expansion would tend to discourage risk investment at times when increased risk-taking would be desirable to maintain economic stability. Individuals living on income from savings, life insurance companies, and educational and other endowed institutions have already been faced with difficult problems of readjustment because of declining interest rates. Further declines would seriously affect the livelihood of many of these individuals, impair the functions of such institutions, and alter established economic and social patterns. It would become essential for the Government to assume an increasing responsibility for such individuals and functions and to help bear their necessary costs.

Limitations on Flexible Interest Rate Policy.—While the above-mentioned aspects of the problem of interest rates indicate the desirability of a flexible interest-rate policy in preference to rigid maintenance of short-term rates at low levels in relation to long-term rates, other elements in the postwar situation make such a policy difficult to follow.

Permitting short rates to rise in order to prevent further monetization of the public debt, for example, would increase the cost to the Treasury of carrying its short-term debt and would complicate the Treasury's refunding problem.[5] It would also increase bank earnings, which have attained high levels as compared with former periods. In view, however, of the postwar decline in bank earnings, the increase in their expenses, and the likelihood of a further decrease in earnings if holdings of higher-coupon maturing issues are refunded into lower-rate issues, somewhat higher yields on short-term securities may be a desirable means of discouraging banks from selling more profitable assets and further monetizing short-term Government securities. In any case, a policy of raising short-term interest rates would cope with only one aspect of the postwar problem of further monetary expansion, namely, purchases by the Reserve System of short-term securities sold by banks and other investors in order to purchase higher-yielding longer-term securities. It would not prevent, although it might discourage somewhat, sale of short-term securities to expand other assets.

The Federal Reserve System's general instruments for regulating the expansion of bank credit and the money supply developed over a period when private indebtedness was the predominant factor in the nation's debt structure. Even at the end of World War I, when the Federal Government debt in this country stood at a record level up to that time, it was still just over one-fifth as large as private and other debt. By mid-1947, following retirement of part of the debt incurred in World War II, the Federal debt was 50% larger than other debt. These changes are shown in Chart V.

With the economy's total postwar debt made up of three parts Federal debt to two parts private and other debt, discussion of customary Reserve System instruments of policy is put into a new frame of reference. Changes in the volume of public debt result primarily from war and other operations conducted in the public interest. These changes are not likely to be influenced materially by regulation of the supply, availability, and cost of credit. In fact central banking policies need rather to be adjusted to public needs. In contrast, private debt is incurred on the basis of the expected productivity of investment in business and the satisfaction that consumers get from present as against future consumption. Demands for credit by businesses and individuals are responsive in some degree to monetary and credit regulation and may need to be restricted or stimulated in the interest of public welfare. There is little, if any, economic justification for considering public and private debt on the same basis with regard to the application of customary central banking policies. If traditional Reserve System methods of influencing changes in the amount of private debt through changes in interest rates are resumed, appropriate protections will need to be established against undue instability in the market value of the vast public debt.

Meanwhile, should the Federal Reserve System refuse to purchase government securities offered for sale and not taken by others, then interest rates on both public and private debt would be subject to wide fluctuations. With approximately $230 billion of publicly-held marketable and redeemable Federal debt, broadly distributed among banks, businesses, investment institutions, and individuals at nearly all levels of income, the possible effect of widely fluctuating interest rates upon operations and actions of these holders, and upon debt-management expedients is difficult to predict. The consequence of attempting to use such a remedy might be more harmful than the disease.

To prevent wide fluctuations in short-term rates, the Federal Reserve System would have to be prepared to purchase government securities at some level of rates. It is not possible to know how much of a rise in rates might be necessary to restrain sales to the System. With a substantial volume of government obligations maturing virtually every month, Federal Reserve policies must also take into account Treasury refunding operations.

Another risk in a situation in which the operations of financial organizations are dominated by public debt is the possibility that any substantial rise in short-term rates might be accompanied by a rise in long-term rates. While the prevention of further declines in long-term interest rates seems to be desirable, and toward this end some rise in short-term rates and some degree of uncertainty for long-term interest rates would be useful, particularly when bonds are selling at substantial premiums, there is a limit beyond which a rise in interest rates could not be carried without seriously upsetting the market. The events of 1946, when long-term bond prices fluctuated within a range of four points, indicate that purchases of these bonds at premium prices are not without some risk.

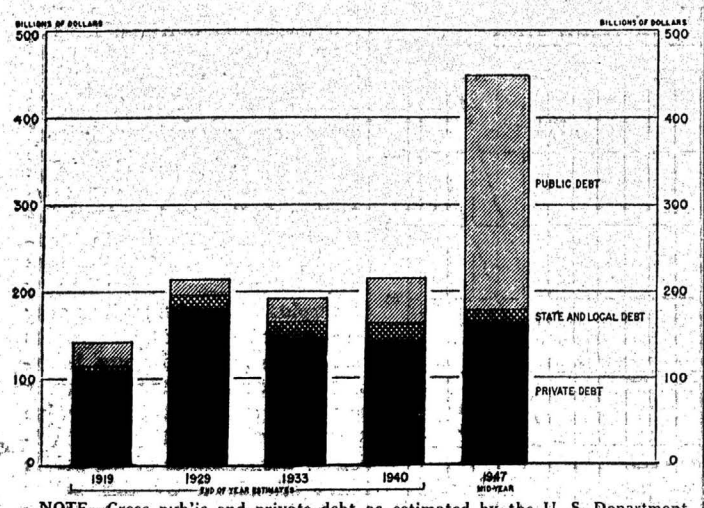
It is difficult to know how much of a rise in yields on government securities would be needed to discourage banks from selling these securities in order to make private loans or to invest in corporate bonds when there is an active demand for credit. Experience shows that increases in Federal Reserve discount or bill-buying rates have not always exerted effective restraint against credit expansion generated by speculative demands. Such increases would be even less effective in a situation where their primary effect would be upon prices of outstanding government securities, rather than upon private borrowers.

Experience with brokers' loans, which long served as liquid secondary reserves for this country's banking system, thus providing a type of central banking service, shows that banks will withdraw funds from the central money market in order to take care of the demands of their business and other customers and that they will not be discouraged from doing so by having to forego high money rates. In the case of brokers' loans other lenders had to be found to absorb called loans or securities forced to be liquidated, while in the case of government securities the banks could readily obtain additional reserves to take care

5 The aggregate current interest cost on the total public debt might not be increased above the present level, because refunding of maturing high-coupon issues with issues bearing lower rates would tend to reduce the total interest payable. Nevertheless, a rise in short-term rate would mean larger interest costs than would be incurred if rates did not rise.

Chart V

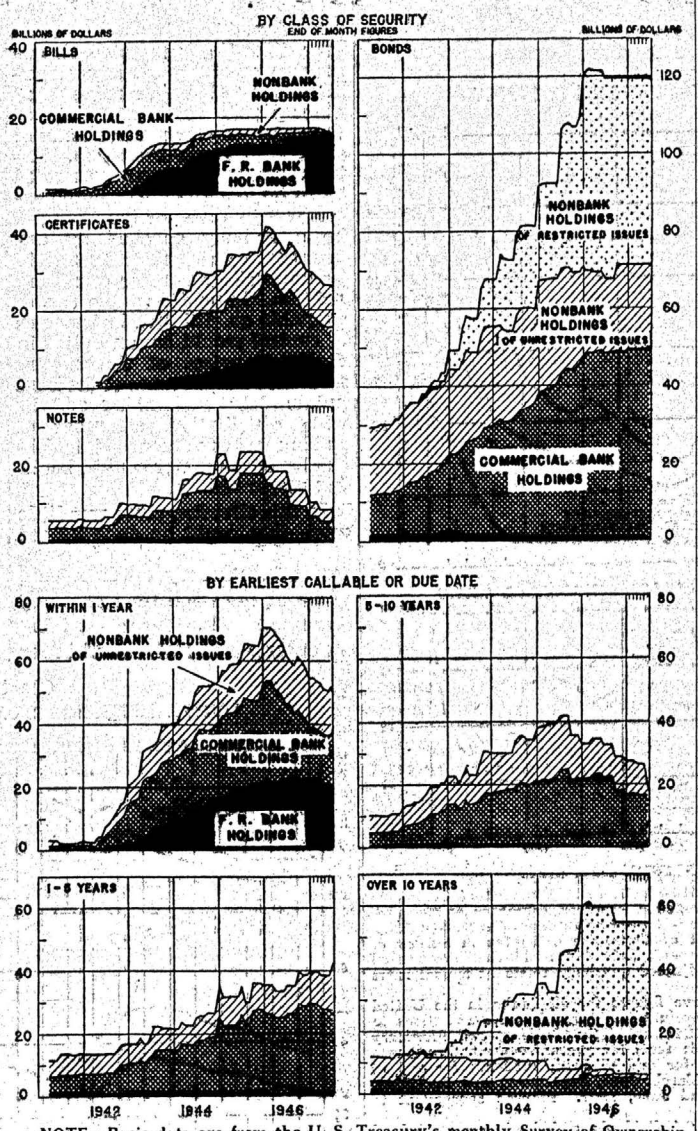
TOTAL PUBLIC AND PRIVATE DEBT



NOTE—Gross public and private debt as estimated by the U. S. Department of Commerce on the basis of data from various governmental and private agencies.

Chart VI

OWNERSHIP OF U. S. GOVERNMENT MARKETABLE PUBLIC SECURITIES



NOTE—Basic data are from the U. S. Treasury's monthly Survey of Ownership of U. S. Government securities, published in *Treasury Bulletin* and summarized in *Federal Reserve Bulletin* for October 1947, pp. 1312-13. Postal savings and prewar bonds are included; guaranteed securities are excluded. Data understate commercial bank holdings somewhat and overstate nonbank holdings.

of the needs of their customers by selling some of their securities to the Federal Reserve System.

Conclusions as to Interest Rates.—This discussion of the relation of interest rates to postwar monetary policy leads to the following conclusions: Continuance of a pattern of interest rates in which short-term rates are stabilized at levels much below long-term rates is conducive to further declines in long-term interest rates based on expansion of bank credit. Flexible policies allowing some variation in the spread between, and levels of, short- and long-term interest rates would help to reestablish control over credit expansion as well as to prevent a continuing downward movement in long-term interest rates growing out of monetization of the public debt. Moreover, by permitting gradual adjustments to changed situations moderate variations in the pattern and levels of interest rates might forestall or mitigate unstabilizing tendencies in the money market.

Substantial variation in short-term interest rates, however, in view of the large volume of public debt outstanding and its broad distribution among owners would have serious repercussions throughout the economy without exerting the same influence upon borrowing and lending as in the past when private debt was a more important part of the total debt structure. Maintenance of substantially higher interest rates furthermore, would raise the cost of the public debt, and widely fluctuating rates would greatly complicate the Treasury's task of refunding its large maturities. Finally, it is important to recognize that higher levels of short-term interest rates would not prevent shifting by banks, corporations, and others from the vast holdings of government securities in order to meet private demands for credit if these demands are particularly strong or banks are competing actively for such business. In other words, while sale of short-term government securities to purchase longer-term issues might be prevented by diminishing the existing spread between short- and long-term interest rates, the higher short-term rates would not prevent sales of government securities to expand private debt.

Under present and foreseeable conditions some flexibility in interest rates is desirable. In view of the limitation to which flexible interest-rate policy is subject as a heritage of war, however, other measures are needed to supplement the use of traditional Federal Reserve instruments of credit control.

DEBT-MANAGEMENT POLICIES

Since the problem of postwar monetary policy is so closely tied in with the value and distribution of the public debt, proper management of the debt could do a great deal to influence monetary developments. In view of the large portion of the public debt that is of short term—$52 billion of the marketable debt matures within one year and $95 billion within five years—flexible debt-management policies can be readily developed. Another element in the situation is that $33 billion of government securities are held by various government agencies and are readily subject to change as to form and maturity. Amounts of marketable issues of various types and maturities held by the various major groups of investors during recent years are shown in Chart VI.

Within the limits of market demands the Treasury can influence the distribution of the debt among various groups of holders by its choice of securities to be issued. For example, Treasury bills are almost wholly owned by Federal Reserve banks and, as long as the System purchases sufficient amounts of bills at rates below those that other holders will pay, changes in the volume of bills offered will be reflected directly in Federal Reserve holdings and hence affect the supply of bank reserves. Action taken by the Federal Reserve System in July, 1947, to eliminate the fixed ⅜% buying rate on Treasury bills permitted the rate on bills to rise to a level more nearly consistent with other market rates. This restored the bill as a market instrument and made it possible for the Treasury to vary the amounts of bill offerings and to use the bill as a more flexible instrument of debt management.

At the other extreme, long-term bonds ineligible for purchase by banks could be offered to holders of savings. It has been suggested that issuance of enough additional long-term bonds to satisfy the demand for such securities would keep long-term interest rates from declining further and provide funds with which the Treasury could retire short-term debt. Even in such a case, however, if the issue were sufficiently attractive, some holders of outstanding bank-eligible issues would be likely to sell these securities to banks and then purchase the new issue. This in fact occurred during the war loan drives. Consequently, additional offerings of long-term issues, even though they be restricted as to purchase by banks, may nevertheless result in further debt monetization.

Late in September, 1947, the Treasury introduced a variation of this proposal through the issuance of Series A investment bonds. These bonds, which are nonmarketable and redeemable, have features similar to the Series G savings bonds, though with differences as to eligibility for purchase, purchase limits, and maturities. They were issued to absorb the savings of the public in the hands of institutional investors not being invested in private outlets. The use of this type of security permits the Treasury to pay an appropriate rate for genuine long-term savings and provides an instrument for protecting the income of bona fide investors while also protecting them against capital loss in case of liquidation before maturity. At the same time, this type of security safeguards the Treasury against paying a high coupon rate on liquid investments to temporary holders.

The scope of this paper does not permit an exhaustive discussion of debt management or of its use to further monetary policies. Some aspects of the subject have been discussed in another paper in this series.[6] It is clear that Treasury and Federal Reserve authorities, through joint planning of policies and operations, should carry forward a debt-management program that will preserve the taxpayers' interest in maintaining a low level of interest cost, provide the Treasury with the necessary funds, and meet the legitimate investment needs of various investor groups. In addition, this program should facilitate the adoption of credit policies designed to restrict excessive bank credit expansion and at the same time maintain an orderly market for Government securities.

SELECTIVE CREDIT CONTROLS

In view of the limitations upon the use of traditional methods of credit policy under the changed situation brought about by war, increased reliance may need to be placed on other methods of credit control. Banking history shows that bank credit may contribute to economic instability as a result of undue expansion or contraction in its total amount, as a result of undesirable conditions that are largely localized in particular credit sectors, or as the result of a failure of desirable credit developments to occur in individual sectors. It is difficult if not impossible, to deal with such developments by using general credit instruments. Also, since these instruments operate by affecting the amount of bank reserves and thereby the availability, supply, and interest levels of all types of credit, their use and timing is necessarily influenced by the net balance of factors in the whole economic situation. Developments in localized credit areas may not be apparent in total bank credit soon enough for action to be taken in time to prevent a serious weakening of the credit structure. The use of general credit instruments to rectify a credit development that is narrow in scope might result in undesirable pressure in areas where the credit situation was essentially sound.

For the correction of unsound conditions in special credit areas, the Reserve System's general instruments need to be supplemented by special selective instruments. These instruments are discussed more fully in another paper in this pamphlet.[7] They include particularly controls over stock-market credit and over consumer credit, which have been effectively used. To these might also be added regulation of real estate credit, which, however, would entail difficult administrative and jurisdictional problems.

Another type of selective device, of a stimulative rather than a restrictive nature, is the guarantee of certain types of bank loans against loss by the lender. This instrument was used successfully and on a large scale in the case of war production loans, and has been employed to a limited extent by various peacetime agencies.

Selective instruments of the type described are helpful adjuncts to the general instruments of Reserve System policy, since they permit application of policies of limited objective and also differentiation in credit policy when forces of inflation or deflation are present only in a particular sector of the economy. They are not substitutes for the traditional instruments, however, and should only be introduced where the costs and gains to the credit system and to the economy are fairly well determinable in advance. These characteristics apply to regulation of security loans and consumer credit, as well as to the guarantee of bank loans. Permanent authority to regulate consumer credit and adoption of guarantee loan provisions would therefore be constructive measures that would strengthen the System's ability to serve the purposes for which it was established. Permanent regulation of security loans is already authorized by law.

PROPOSALS FOR ADDITIONAL CONTROLS

In view of the banking and monetary heritage of war finance, the Federal Reserve System is faced with a twofold responsibility for the longer run: to prevent speculative or otherwise excessive expansion of bank credit and at the same time to assure reasonable stability in the prices of the large volume of Government securities outstanding. There should be limits to the ability of banks and others to convert Government securities into additional bank reserves and these limits should be imposed without bringing about widely fluctuating interest rates.

It would not be possible to accomplish both of these objectives through exercise of existing powers of the Federal Reserve authorities. To assure effective discharge of the System's basic long-run responsibilities, additional instruments of general credit regulation such as those proposed in the 1945 Annual Report of the Federal Reserve Board are urgently needed. These instruments would serve to re-establish the System's functioning along traditional central banking lines.

The three basic plans proposed by the Board for consideration by the Congress may be designated by the following terms:

(1) A primary reserve plan.
(2) A secondary reserve plan.
(3) A bond limitation plan.

These three proposals have many similarities and also important differences. In each case adoption would require legislation that should permit considerable administrative flexibility because of the wide differences between individual banks and groups of banks. It would also be nessary to apply the provisions to all commercial banks, not only to member banks of the Federal Reserve System. Each of these powers could be so applied as to leave banks adequate ability to accommodate commerce, industry, and agriculture; in fact, only if applied in this way would the System's credit operations under the proposals be consistent with the purposes of the Federal Reserve Act. At the same time, any one, or some combination of the powers would help to restore the System's capacity to exert an overall restraint on undue expansion of bank credit by moderate but timely use of traditional instruments.

The Primary Reserve Plan.—This plan involves supplementary authority to increase commercial bank reserve requirements. The Board of Governors of the Federal Reserve System already possesses statutory power to vary reserve requirements within prescribed limits, but its authority to increase such requirements has been fully utilized since early in the war, except for a relatively small margin for further increases at central reserve city banks in New York and Chicago. In order to keep short-term interest rates on Government securities from rising above a specified level, any increase in reserve requirements might have to be accompanied by Federal Reserve purchases of short-term securities in an amount that might not fall far short of the increase in required reserves.

The principal effects of the measure would be (1) to shift a certain amount of short-term Government securities from commercial banks to Federal Reserve Banks, and (2) to reduce the ratio of multiple credit expansion on the basis of a given amount of reserves. It would, therefore, diminish the amount of short Governments available for sale to the Reserve Banks and also reduce the degree of multiple credit expansion that would be possible on the basis of any reserves created by such sales.

The plan could be applied to discourage further purchases of long term issues or increased lending by banks, while Federal Reserve support could keep short-term interest rates on Government securities from rising above some pre-determined level. This measure would, in conformity with present banking practices, be relatively simple to operate, and permit adjustments to interbank flow of funds in the same manner as at present.

The proposal would tend to reduce the earnings of commercial banks and increase those of the Reserve Banks. If the plan were adopted it might be desirable for the Reserve Banks to have power to pay some interest on reserve balances, in case bank earnings should be unduly reduced. Under a policy adopted in April 1947, the bulk of Federal Reserve Bank earnings over expenses and dividends at the statutory rate are paid over to the Treasury. This is accomplished by use of a provision of law authorizing the Board of Governors to impose an interest charge on the amount of outstanding Federal Reserve notes in excess of the collateral requirements and not backed by gold certificates. As a result of this policy, any increase in Federal Reserve Bank earnings would increase the receipts of the United States Treasury. Therefore, unless provision were made in applying the primary reserve plan for payment of interest on member bank reserve balances, amounts paid to the Treasury after its introduction would be increased.

Legislation authorizing higher levels of reserve requirements might also include provision for amending various aspects of the present requirements. It should authorize the counting of vault cash as reserves and provide for greater administrative flexibility in imposing different requirements on different types of deposits and in classifying banks for reserve purposes. As stated, similar requirements would have to be imposed on nonmember banks in order to prevent a growing disparity between reserve requirements of member and nonmember banks.

The Secondary Reserve Plan would establish a required reserve, in addition to balances with Reserve Banks, which might be held in Treasury bills and certificates equal to a specified percentage of net demand deposits.[8] This percentage might be placed initially at a level that would induce commercial banks as a group to retain the bulk of their present holdings of short-term Government securities—probably 10% to 20% of net demand deposits would be sufficient. Subsequently the percentage could be established at a level which would assure a commercial bank demand for such securities sufficent to encourage or discourage credit expansion or to maintain a desired level of rates without Federal Reserve purchases.

To facilitate transition to the new plan, as well as regular adjustments of bank positions required by interbank flows of funds, banks should be permitted to hold additional reserve balances with the Reserve Banks or cash in lieu of bills and certificates. This provision, which is a major feature distinguishing this plan from those proposed by Lawrence Seltzer and by the economic staff of the Committee for Economic Development, would be necessary to make the plan effective as a limitation on bank credit expansion.[9] Otherwise it would be necessary for the Treasury to supply bills or certificates to banks needing them to meet their secondary reserve requirements against expanding deposits. This would result in further pressure for bank credit expanion and deposits growth rather than in restraint, which it is the purpose of the plan to provide.

The secondary reserve plan has the advantage of permitting banks to retain substantial holdings of short-term Government securities, while limiting their ability to sell these to the Reserve Banks in order to make other loans and investments. Its principal distinction from the primary reserve plan is that under its operation the commercial banks could continue to hold the short-term Government securities whereas in the primary plan the Reserve Banks would hold them. This plan would establish short-term Government securities in a preferred market position over other types of short-term paper and thus permit in-

(Continued on page 40)

6 See Roland I. Robinson, "Monetary Aspects of National Debt Policy," in *Public Finance and Full Employment* (December 1945), the third pamphlet in this series.

7 Carl F. Parry, "Selective Instruments of National Credit Policy."

8 A reserve required to be held in some special issue of Government securities would serve the same purpose.

9 Lawrence H. Seltzer, "The Problem of Our Excessive Banking Reserves," *Journal of the American Statistical Association*, March 1940, pp. 24-36; Research staff (Melvin G. DeChazeau, Albert G. Hart, Gardiner C. Means, Howard B. Myers, Herbert Stein, Theodore O. Yntema), Committee for Economic Development, *Jobs and Markets* (New York, 1946), pp. 90-95.

Problems of Postwar Monetary Policy

(Continued from page 39)

terest rates on Government securities to be stabilized, while allowing fluctuations in other rates.

This proposal has been criticized because it would purportedly require the banking system to increase holdings of Government securities whenever there was an increase in deposits resulting from expanding loans.[10] This objection is not well taken. Bank loan expansion would increase the amount of reserves required to be held, just as it does now, and banks would have the same alternative as they have now of liquidating some other assets or of borrowing from the Reserve Banks. They would, however, not be able to reduce their holdings of Treasury bills and certificates, unless they had an excess, but would have to sell long-term issues out of their portfolios. They would use the proceeds of these sales to meet their increased reserve requirements, which could be held in part in the form of bills, certificates, or cash, or entirely in the form of balances with the Resreve Banks.

The Bond Limitation Plan would limit the amount of long-term marketable securities, both public and private, that any commercial bank could hold against its demand deposits.[11] In a sense this plan would merely extend the principle, recognized in banking law and pursued during the war, of restricting investment of demand deposit funds in long-term assets.

The limitation should apply to all bonds, or probably to all single-payment marketable securities having a final maturity of more than one year at time of issue, but it might be more limited in scope. Bonds within a year or perhaps within five years of maturity might be exempt from the limitation, but such exemption would cause sudden adjustments in the market and in the banking position as large issues passed from under the limitation. It would have to cover obligations of State and local governments and of corporations; otherwise United States securities would have a disadvantageous market position. It might also cover real estate and real estate loans, in which many banks invest large portions of their time deposits and capital.[12]

Adjustmeants of reserve positions between banks would not be particularly complicated by the bond limitation plan, although some reduction in bond portfolios might be necessary if banks lost deposits, particularly time deposits, and increases in portfolios would be permissible in case of additions to savings deposits.

While none of the plans is designed to restrict specific bank lending activities, except as regards their effects on overall credit expansion, this measure would probably have less direct restrictive effects than the others, except on real estate loans, and it might even encourage lending. It is primarily designed to restrict shifting from short-term securities into long-term securities, without restricting lending. With regard to bank investment, individual banks would be free to adopt whatever maturity composition of their investment portfolios, and whatever distribution among various types of bonds and real estate loans, would yield them the highest net rturn. The plan would not insulate the short-term government securities market from the effects of tightening credit conditions and consequently would not provide as much latitude as the alternative plans for the use of the customary general instruments of central banking policy.

APPLICATION OF THE PROPOSALS

Any of these various plans would set off a large part of the public debt in such a way as to free Government securities from the effects of changes in the supply of bank reserves and in interest rates on private marketable paper. Once established, any such plan could be fairly rigidly maintained, while traditional open market and discount rate instruments were largely relied upon for current policy in affecting availability, cost, and supply of bank credit for private purposes. Alternatively these new plans could be flexible in their application, with requirements and limitations being varied as bank credit and monetary developments and prospects might justify or require.

These proposals are in no way revolutionary or drastic and their application need not interfere with the ability of banks to supply the credit needs of the economy. They are designed to adjust the banks' greatly expanded lending capacity to those needs. Combinations of the secondary reserve and bond limitation plans are, in effect, already being applied in Canada. Regulation of secondary reserves of banks is accomplished by distribution among the banks on an allotment basis of special short-term issues exclusively for bank holding. Limitation of bond holdings is achieved under a special agreement with the banks that confines their holdings of bonds to a percentage of savings deposits. However, there are but ten chartered banks in Canada and such plans can be effectuated by administrative arrangements more readily there than in this country with 14,000 banks. Other countries have similar arrangements based on informal understandings or well-established banking traditions.[13]

Another point of emphasis is that the primary purpose of the plans is not to save interest costs on the public debt or to keep down bank earnings from investment in that debt—although they would contribute to these results—but is to enable the Reserve System to deal with the monetary situation resulting from the huge public debt. The major task of postwar bank credit and monetary policies is to re-establish conditions under which Federal Reserve control over general bank credit expansion can be effectively exercised through traditional central banking instruments. In accomplishing this task, it is important to recognize that the System is obliged to facilitate debt management by the Treasury at low cost and with minimum unstabilizing effects. The central problem, therefore, is to free the market for private credit from excessive influence of public credit and to further reconversion of the current operations of banks and other financial organizations from a public to a private credit basis. Adoption of one, or some combination, of these proposals, appears an essential step toward reinstating the traditional instruments of monetary regulation—discount rates, open market operations, and changes in reserve requirements—as sensitive, flexible methods of Federal Reserve policy.

Adoption of any one of the proposed measures would not necessarily mean relative rigidity in the level and structure of interest rates, except perhaps in certain categories of short-term Government securities. In fact, such rigidity would be inconsistent with a restored use of traditional Federal Reserve instruments of general credit policy. But some plan patterned along the lines of those proposed may be necessary before policies can be adopted which would accomplish an effective "defrosting" of interest rates on private debt and on that portion of the public debt held in the active money market. These measures are designed to set off a large part of the public debt and of bank investments in a way that would partly free them from the influence of changing interest rates. In all likelihood, variations in market interest rates would not seriously perturb institutional and other permanent investors holding savings bonds and marketable Government obligations. Marketable public-debt obligations held outside the banks, as well as private debt, could be traded freely in the active money market and permitted to fluctuate without the danger that these fluctuations would cause serious repercussions.

If the economy should be in position where investment demands exceeded the available supply of savings, then it would be preferable for interest rates on marketable securities to rise somewhat than for bank credit to be forced into an inflationary expansion. It would, on the other hand, be possible to support the market for long-term Government bonds and at the same time offset the effect on the supply of bank reserves of any Federal Reserve purchases. It would likewise be possible to prevent a repetition of the undue decline in the level of interest rates caused by an expansion of credit in the early part of 1946.

These instruments would not unduly restrict banks in making loans. It is the purpose of the proposals to restore to the System the power to limit excessive credit expansion—the function it was created to perform but is no longer able to fulfill. Any limitation either on the supply of bank reserves or on the ability of member banks to rediscount has its effects through exerting a restrictive influence on bank lending. The effects of the proposed instruments would not differ in this respect from those for which all credit regulative powers of the Federal Reserve System are designed.

If banks want to take care of the needs of their customers at times when there is an active demand for loans but when overall credit expansion is not desired, it would be better for the maintenance of a stable credit structure for them to sell securities of the kind that non-bank investors would absorb rather than of the kind that the Federal Reserve banks would have to absorb. Through the one process there would be no net credit expansion, whereas through the other there would be a growth in bank reserves which would permit multiple credit expansion.

Application by the Federal Reserve System of any one of the proposed powers could, and should be so regulated as to provide banks with adequate funds for meeting the economically desirable needs of commerce, industry, and agriculture. It is the System's task to *supply* the banks with enough reserves to meet those needs, while preventing expansion in the available supply of reserves beyond the amount essential for sound credit demands. The System has adequate power to permit needed expansion but finds itself today in a position of having no corresponding power to arrest undue or harmful expansion.

In summary, it may be said that because of a redundant money supply and the vastly increased capacity for further expansion, the credit situation in the postwar period is likely to be an unstabilizing influence upon the economy. The money supply, actual and potential, is disproportionate to current output and incomes, even at present inflated prices, and also to foreseeable prospective needs. In view of the situation resulting from war, one or more of the measures described is needed to restore more effective control over the supply and use of bank credit. Without such control, the national objective, as declared by Congress, of economic stability at the highest sustainable levels of production and employment may be seriously jeopardized.

10 See, for example, J. H. Riddle, *Interest Rates and Federal Reserve Policy* (Bankers Trust Company, New York, 1946).

11 Various formulae are possible for this plan. The 32nd Annual Report of the Board of Governors in describing this proposal in general terms suggested as a formula the relation of holdings of long-term securities to net demand deposits. A somewhat more complicated, but in practice more satisfactory, formula would relate such holdings to savings deposits plus capital accounts plus some percentage of demand deposits other than interbank balances without adjustment for collection items. This formula would avoid penalizing banks holding large amounts of cash items in process of collection and also avoid permitting banks to hold long-term assets against interbank balances.

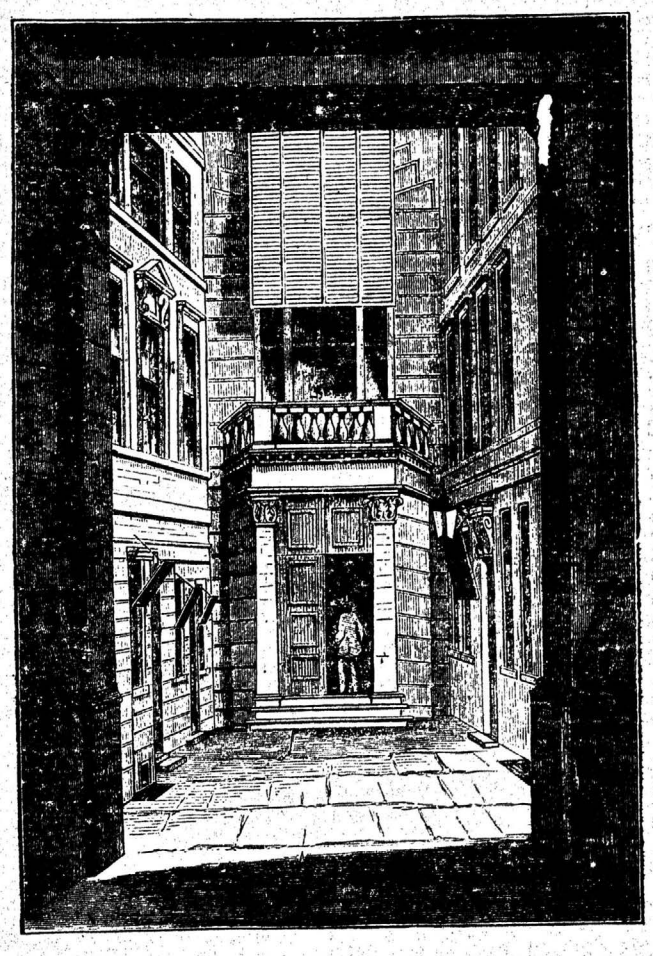
12 In this way, account could be taken in the statutory formula of existing national banking law with regard to investment in banking premises and real estate loans.

13 England and Belgium are examples.

The Change in London Stock Exchange Organization

(Continued from page 16)

corporation of the Exchange by Act of Parliament, however (a recommendation made by a Parliamentary Committee as far back as 1877), but there are no proposals as yet to nationalize the institution as was done in France with the Paris Bourse more than a century ago. Despite the speculation excesses that has prevailed in Great Britain from time to time, and the strong socialist principles that have spread among all segments of the population, the British Government is still following the principle laid down by a Royal Commission in 1877 that such a body of the London Stock Exchange "can hardly be interfered with by Parliament without losing that freedom of self-government which is the very life and soul of the organization," and, though recommending that the Stock Exchange be incorporated, it cautioned that "any external control which might be introduced by such a change should be exercised with sparing hand," adding further—"The existing body of rules and regulations have been formed with much care, and are the result of long experience, and the vigilant attention of a body of persons intimately acquainted with the needs and exigencies of the community for whom they have legislated. Any attempt to reduce these rules to the limits of the ordinary law of the land, or to abolish all checks and safeguards not to be found in that law, would in our opinion, be detrimental to the honest and efficient conduct of business."



Entrance to London Stock Exchange in Capel Court

Bartow Leeds Co. Admits

The admission on Feb. 1 of Philip K. Bartow as a general partner in the firm of Bartow Leeds Co., 57 William Street, New York City, dealers in U. S. Government and municipal securities, is announced today. Mr. Bartow became associated with the company in February, 1946. Following his release from active duty in the United States Navy in November, 1945, he rejoined the Guaranty Trust Company of New York with which he was associated from 1936 to 1941.

Johnson With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Ellis W. Johnson is now with Dean Witter & Co., 632 South Spring Street. He was formerly with Merrill Lynch, Pierce, Fenner & Beane.

With J. Barth & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Henry W. Wagner, Jr., has become connected with J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges.

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. 9	94.0	95.2	94.8	93.4
Equivalent to—					
Steel ingots and castings produced (net tons)	Feb. 9	1,694,300	1,716,000	1,708,600	1,633,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Jan. 24	5,336,287	5,326,137	5,285,440	4,671,550
Crude runs to stills—daily average (bbls.)	Jan. 24	5,446,000	5,344,000	5,543,000	4,760,000
Gasoline output (bbls.)	Jan. 24	16,747,000	16,236,000	17,013,000	14,422,000
Kerosine output (bbls.)	Jan. 24	2,403,000	2,489,000	2,334,000	2,231,000
Gas oil and distillate fuel oil output (bbls.)	Jan. 24	7,718,000	7,496,000	7,041,000	5,414,000
Residual fuel oil output (bbls.)	Jan. 24	9,182,000	8,880,000	9,698,000	8,260,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 24	100,586,000	98,751,000	91,269,000	98,030,000
Kerosine (bbls.) at	Jan. 24	11,997,000	12,975,000	16,293,000	14,528,000
Gas oil and distillate fuel oil (bbls.) at	Jan. 24	42,402,000	44,482,000	50,324,000	50,670,000
Residual fuel oil (bbls.) at	Jan. 24	51,094,000	51,601,000	51,896,000	47,805,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 24	771,992	811,286	599,357	821,928
Revenue freight rec'd from connections (number of cars)	Jan. 24	666,119	690,251	641,578	699,596
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Jan. 29	$99,683,000	$118,949,000	$54,364,000	$94,514,000
Private construction	Jan. 29	46,614,000	67,823,000	26,057,000	50,352,000
Public construction	Jan. 29	53,069,000	51,126,000	28,307,000	44,162,000
State and municipal	Jan. 29	43,115,000	40,171,000	23,611,000	18,828,000
Federal	Jan. 29	9,954,000	10,955,000	4,696,000	25,334,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 24	12,200,000	*13,080,000	8,500,000	13,200,000
Pennsylvania anthracite (tons)	Jan. 24	1,180,000	1,210,000	746,000	1,198,000
Beehive coke (tons)	Jan. 24	132,200	*140,500	103,500	117,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 24	227	*232	358	220
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Jan. 31	5,429,202	5,436,430	4,868,011	4,777,207
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Jan. 29	91	109	58	65
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Jan. 27	3.18925c	3.18925c	3.18925c	2.87255c
Pig iron (per gross ton)	Jan. 27	$40.17	$40.08	$37.98	$30.15
Scrap steel (per gross ton)	Jan. 27	$40.83	$41.33	$40.00	$31.00
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Jan. 28	21.200c	21.200c	21.200c	19.425c
Export refinery at	Jan. 28	21.500c	21.425c	21.425c	20.100c
Straits tin (New York) at	Jan. 28	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Jan. 28	15.000c	15.000c	15.000c	13.000c
Lead (St. Louis) at	Jan. 28	14.800c	14.800c	14.800c	12.800c
Zinc (East St. Louis) at	Jan. 28	12.000c	10.500c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Feb. 3	100.69	100.69	100.69	104.34
Average corporate	Feb. 3	110.70	110.70	110.15	117.60
Aaa	Feb. 3	115.63	115.82	115.24	121.88
Aa	Feb. 3	114.27	114.27	113.70	120.43
A	Feb. 3	109.97	109.97	109.42	117.40
Baa	Feb. 3	103.64	103.64	103.13	110.88
Railroad Group	Feb. 3	105.34	105.34	104.48	113.31
Public Utilities Group	Feb. 3	112.37	112.56	112.19	118.80
Industrials Group	Feb. 3	114.85	114.85	114.46	120.63
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Feb. 3	2.45	2.45	2.45	2.21
Average corporate	Feb. 3	3.13	3.13	3.16	2.77
Aaa	Feb. 3	2.87	2.86	2.89	2.56
Aa	Feb. 3	2.94	2.94	2.97	2.63
A	Feb. 3	3.17	3.17	3.20	2.78
Baa	Feb. 3	3.53	3.53	3.56	3.12
Railroad Group	Feb. 3	3.43	3.43	3.48	2.99
Public Utilities Group	Feb. 3	3.04	3.03	3.05	2.71
Industrials Group	Feb. 3	2.91	2.91	2.93	2.62
MOODY'S COMMODITY INDEX	Feb. 3	442.2	444.4	450.8	382.5
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Jan. 31	238.8	239.2	242.1	211.1
Fats and oils	Jan. 31	278.9	282.0	280.0	278.6
Farm products	Jan. 31	271.9	274.4	278.6	229.4
Cotton	Jan. 31	331.0	330.2	341.9	300.8
Grains	Jan. 31	310.2	316.2	305.3	200.7
Livestock	Jan. 31	259.1	261.7	269.1	230.4
Fuels	Jan. 31	220.8	*221.1	215.7	157.6
Miscellaneous commodities	Jan. 31	181.4	181.5	179.9	153.6
Textiles	Jan. 31	219.1	219.4	220.6	213.3
Metals	Jan. 31	162.1	161.5	160.8	142.3
Building materials	Jan. 31	233.6	*233.3	236.3	213.0
Chemicals and drugs	Jan. 31	155.3	155.3	156.4	154.7
Fertilizer materials	Jan. 31	139.8	138.5	137.7	125.5
Fertilizers	Jan. 31	142.5	142.5	141.8	133.6
Farm machinery	Jan. 31	137.2	134.5	134.5	124.3
All groups combined	Jan. 31	224.5	*225.2	225.3	189.4
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 24	188,717	162,359	114,444	155,432
Production (tons)	Jan. 24	188,022	193,150	126,659	173,720
Percentage of activity	Jan. 24	104	104	71	101
Unfilled orders (tons) at	Jan. 24	423,160	431,880	406,738	557,140
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Jan. 30	150.0	150.6	149.4	151.5
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Jan. 24	164.4	165.5	163.0	140.3
Farm products	Jan. 24	199.2	201.5	197.0	164.2
Foods	Jan. 24	177.4	181.2	177.8	155.9
Hides and leather products	Jan. 24	201.5	201.4	203.4	170.7
Textile products	Jan. 24	145.5	145.7	146.9	135.7
Fuel and lighting materials	Jan. 24	130.4	130.0	127.7	98.5
Metal and metal products	Jan. 24	153.9	153.2	152.0	137.7
Building materials	Jan. 24	191.3	191.1	189.1	165.5
Chemicals and allied products	Jan. 24	139.3	140.8	133.0	127.4
Housefurnishings goods	Jan. 24	137.2	136.9	135.3	122.5
Miscellaneous commodities	Jan. 24	123.6	123.0	121.5	110.0
Special groups—					
Raw materials	Jan. 24	184.8	186.0	183.4	152.1
Semi-manufactured articles	Jan. 24	156.5	157.1	157.4	138.6
Manufactured products	Jan. 24	156.5	157.6	155.0	136.0
All commodities other than farm products	Jan. 24	156.7	157.5	155.4	135.1
All commodities other than farm products and foods	Jan. 24	147.6	147.4	146.0	127.0

	Latest Month	Previous Month	Year Ago
BUILDING CONSTRUCTION PERMIT VALUATION IN URBAN AREAS OF THE U. S. —U. S. DEPT. OF LABOR—Month of November:			
All building construction	$494,000,000	*$603,000,000	$273,000,000
New residential	266,000,000	*347,000,000	150,000,000
New non-residential	162,000,000	*168,000,000	82,000,000
Additions, alterations, etc.	66,000,000	88,000,000	41,000,000
Non-Federal—all building construction	477,000,000	*596,000,000	263,000,000
New residential	260,000,000	*343,000,000	150,000,000
New non-residential	153,000,000	*166,000,000	73,000,000
Additions, alterations, etc.	64,000,000	87,000,000	40,000,000
Federal—all building construction	17,000,000	*7,000,000	10,000,000
New residential	6,000,000	4,000,000	------
New non-residential	9,000,000	*2,000,000	9,000,000
Additions, alterations, etc.	2,000,000	1,000,000	1,000,000
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of December.			
Manufacturing number	112	124	58
Wholesale number	33	26	16
Retail number	123	115	35
Construction number	26	25	18
Commercial service number	23	23	14
Manufacturing liabilities	$20,937,000	$12,574,000	$7,217,000
Total number	317	313	141
Wholesale liabilities	967,000	1,198,000	7,796,000
Retail liabilities	1,908,000	1,531,000	1,025,000
Construction liabilities	455,000	537,000	266,000
Commercial service liabilities	1,232,000	505,000	801,000
Total liabilities	$25,499,000	$16,345,000	$17,105,000
CROP PRODUCTION IN U. S. — U. S. DEPT. OF AGRICULTURE — Report issue of Dec. 17— (000's omitted)—			
Corn, all (bu.)	2,400,952	2,447,422	3,249,950
Wheat, all (bu.)	1,364,919	1,406,761	1,153,046
Winter (bu.)	1,067,970	1,095,648	870,725
All spring (bu.)	296,949	311,113	282,321
Durum (bu.)	43,983	43,017	35,838
Other spring (bu.)	252,966	268,096	246,485
Oats, (bu.)	1,215,970	1,231,561	1,497,904
Barley (bu.)	279,182	284,497	262,258
Rye (bu.)	25,977	25,405	18,879
Buckwheat (bu.)	7,334	7,406	7,124
Flaxseed (bu.)	39,763	39,980	22,585
Rice (bu.)	79,345	76,982	72,216
Sorghums for grain (bu.)	95,609	85,950	106,941
Hay, all (ton)	102,500	101,804	100,739
Hay, wild (ton)	13,306	13,179	11,544
Beans, dry edible (100 lb. bag)	17,164	16,828	15,859
Peas, dry field (100 lb. bag)	6,513	6,542	6,758
Soybeans for beans (bu.)	181,362	177,379	201,275
Peanuts (lb.)	2,251,640	2,125,205	2,038,355
Potatoes (bu.)	384,407	379,886	484,174
Sweetpotatoes (bu.)	57,178	58,316	66,424
Tobacco (lb.)	2,167,702	2,190,746	2,319,409
Sorgo sirup (gal.)	9,885	11,423	11,934
Sugarcane for sugar & seed (ton)	5,353	5,459	5,967
Sugarcane sirup (gal.)	20,270	19,365	24,450
Sugar beets (ton)	12,248	12,384	10,562
Broomcorn (ton)	33	32	44
Hops (lb.)	50,098	47,244	53,171
Apples, commercial crop (bu.)	112,503	112,503	119,410
Peaches (bu.)	82,981	83,857	86,649
Pears (bu.)	35,350	35,350	34,447
Grapes (ton)	3,094	3,029	3,120
Cherries (12 States) (ton)	181	183	230
Apricots (3 States) (ton)	199	196	339
Cranberries (5 States) (bbl.)	785	756	857
Pecans (12 States) (lbs.)	100,209	104,271	76,706
EMPLOYMENT AND PAYROLL — U. S. DEPT. OF LABOR—Month of November:			
Estimated number of production workers in manufacturing industries—			
All manufacturing	12,876,000	*12,849,000	12,449,000
Durable goods	6,574,000	*6,518,000	6,379,000
Non-durable goods	6,302,000	*6,331,000	6,070,000
Employment indexes—			
All manufacturing	157.2	*156.8	152.0
Durable goods	182.1	*180.5	176.7
Non-durable goods	137.6	*138.2	132.5
Payroll indexes—			
All manufacturing	344.8	*341.5	298.2
Durable goods	384.5	379.3	331.1
Non-durable goods	306.1	304.6	266.0
Estimated number of employees in manufacturing industries—			
All manufacturing	15,861,000	*15,831,000	15,271,000
Durable goods	7,986,000	*7,925,000	7,721,000
Non-durable goods	7,875,000	*7,906,000	7,550,000
PRICES RECEIVED BY FARMERS — INDEX NUMBER—U. S. DEPT. OF AGRICULTURE August, 1909-July, 1914=100—As of January 15:			
Unadjusted—			
All farm products	307	301	260
Crops	284	281	236
Food grain	322	318	223
Feed grain and hay	318	305	164
Feed grain	366	350	193
Tobacco	377	377	399
Cotton	267	275	249
Fruit	135	149	195
Truck crops	320	294	238
Oil-bearing crops	377	367	336
Livestock and products	328	320	281
Meat animals	379	352	306
Dairy products	313	311	292
Poultry and eggs	231	262	201
Seasonally adjusted—			
Fruit	147	164	210
Truck crops	277	271	204
Dairy products	299	288	279
Poultry and eggs	223	232	197
RAILROAD SELECTED INCOME ITEMS OF U. S. CLASS I RYS. (Interstate Commerce Commission)—Month of October:			
Net railway operating income	$76,433,363	$47,968,461	$85,255,054
Other income	16,909,777	14,158,696	16,633,347
Total income	93,343,140	62,127,157	101,888,401
Miscellaneous deductions from income	3,997,711	3,294,298	2,428,487
Income available for fixed charges	89,345,429	58,832,859	99,459,914
Income after fixed charges	52,760,954	23,053,739	61,717,562
Contingent charges	3,857,363	2,906,783	3,510,409
Net income	48,903,591	20,146,956	58,207,153
Depreciation (way & structures & equip.)	29,341,103	29,486,338	28,423,734
Amortization of defense projects	1,355,393	1,336,568	1,083,441
Federal income taxes	32,706,844	20,381,450	8,232,599
Dividend appropriations:			
On common stock	12,551,813	9,676,324	3,828,360
On preferred stock	7,915,305	1,189,238	6,173,905
Ratio of income to fixed charges	2.44	1.64	2.64

*Revised figure.

Current Business Situation

(Continued from page 3)

thing is true in the case of electricity.

It is interesting to note that both in the case of petroleum refining and electric power output, capacity has quadrupled in the last 30 years, but consumption has been multiplied about seven or eight times.

Another item on the side of supply is the freight car shortage. Freight car loadings last fall exceeded even the wartime peak, yet the shortage of freight cars was acting as a serious bottleneck to production. The situation has improved lately mostly because of the seasonal downturn in agricultural shipments. There has also been an improvement in the production of new freight cars, with monthly output now running almost 10,000 cars. It seems pretty clear, however, that the shortage of freight cars will be a recurring problem in 1948.

These are examples of shortages on the industrial side. The same kind of thing is true about food. Farm output is at capacity and it is hard to increase the supply of meat, grains, and other farm products beyond present levels. Today's supply is substantially above prewar experience. The shortages exist only relative to a vastly expanded demand both at home and for export.

Changing Food Habits

The high level of prosperity has been changing our food habits. Millions of people have shifted from cheaper foods to more expensive foods. Meat, for example, was consumed here at home last year by civilians at the rate of 156 pounds per capita, or 30 pounds more than 1935-39 average. Per capita consumption of chickens and turkeys was up about 7 pounds above the prewar level. On the average, each one of us ate almost 7 dozen more eggs last year than before the war.

As against these increases in demand for more expensive foods, there have been decreases in the consumption of cheaper foods, such as potatoes, sweet potatoes, wheat products, corn, dry beans, etc. The decreases, however, have been smaller than the increases, so that we have also had a rise in the total physical volume of food consumed per capita.

This year's overall supply of agricultural products is not likely to be any higher than last year's. In the case of meat, it is estimated that the supply will be down to 146 pounds per capita from last year's 156 pounds. The height of the shortage will come this spring when the supply of meat will be down sharply from last year's figure. The talk about meat rationing is going to grow considerably in the next few weeks.

Fortunately, there has been considerable improvement in the outlook for the winter wheat crop. Planting last fall got off to a slow start largely because of insufficient moisture. Conditions in the important south-west winter wheat area have improved to such an extent that a heavy yield of winter wheat is now foreseen.

Employment

So much for agriculture. The last item on the side of supply I wish to mention is that we have practically no unemployed people in our labor force. In the last part of 1947, unemployment dropped to about 1.6 million persons. This is about as low as unemployment can go, considering the fact that there are always some people in the process of changing jobs.

Non-farm employment continued to increase during 1947 and reached a new high of 51 million persons in December. This was about 2 million more than a year earlier, and about 5 million above the wartime peak. This is a striking demonstration of the tremendous ability of the economic system to use workers at the present time. The fact is, however, that we can throw in practically no more human resources to further increase our output. Hence, gains in output will have to come either from improved labor efficiency or a longer work week. The extension of the work week has been proposed by business leaders and recently also by Mr. William Green of the American Federation of Labor. Mr. Green's proposal was subject to certain important qualifications, but it is interesting that he mentions a longer week as a possibility.

The Demand Side

Now let us turn to the side of demand. I shall review briefly the developments in the major demand categories.

First of all, let us look at consumers. The demand from consumers is very closely tied to the flow of income as I suggested in discussing agricultural supply. Total personal income continued to expand to the end of 1947 to set new peaks. The latest figure we have is for November, when personal income was at an annual rate of $205 billion. This was a new high except for an abnormal figure in September when the cashing of armed forces leave bonds provided a non-recurring large source of income.

The continued growth of income has made it possible for consumers to spend more and more. Consumption expenditures reached a new high of $172 billion annual rate in the fourth quarter of 1947. This followed a consistent and sharp increase since the end of the war. Correspondingly, there was a sharp reduction in new savings made since the war period.

The key question here is what will happen to the ratio of spendings to consumers income after taxes? This ratio reached a low of about 75% at the height of the war—which means 25% was being saved. The spendings ratio has been increasing steadily ever since and is now about 94%.

Some people feel that this spendings ratio is abnormally high and will soon decrease. They argue that consumer spending has been temporarily enlarged by the use of accumulated liquid assets and by the big increase in consumer credit. On the other hand, I expect to see further increases in consumer credit this year and we still have a large amount of liquid assets spread among all income groups.

I do not believe that the spending ratio will decline much if any in 1948. One of the main reasons for this belief is that there has been an almost revolutionary change in the distribution of income in recent years. Before the war, it was typical for ⅔ or more of American families to have incomes of less than $2,000 with ⅓ or less receiving more than $2,000. Today, those figures have been reversed. Less than ⅓ of our families receive incomes below $2,000 and more than ⅔ are getting above $2,000.

A huge increase has occurred in the income groups receiving between $2,000 and $5,000. The proportion of families receiving such incomes has increased from ¼ in 1929 to more than ½ at the present time.

The increase in incomes above $5,000 has also been substantial. 7% of our families were in this group in 1929, 4% in 1941, and 15% in the latest study made, which was for 1946.

The effect of these shifts in income, plus the impact of high Federal income taxes in the upper groups, has been to push up spendings and retard savings. Accordingly, it seems to me that the spendings ratio will remain high until there are structural changes in the income flow or tax burden in the opposite direction.

What About Buyer's Strike?

This leads me to another question about consumer spendings, however. What are the chances of a buyer's strike? You may remember the movement in 1920 to wear overalls in order to beat the high cost of clothes. This type of thing could happen again, but I do not expect it to be an important factor in the broad economic picture this year. It is more likely that as demand for high priced products falls off, it will shift to lower priced goods and manufacturers will change their emphasis accordingly. Thus, a decline in demand for high priced suits leads to an increase in demand for inexpensive suits. We see it in a big growth in basement store sales of men's clothing. In the first 11 months of 1947, sales of men's and boys' wear in basement stores in the New York Federal Reserve District increased 45%, while sales in main stores went up only 7%, which was probably not enough to maintain physical sales volume, considering the higher prices.

It seems to me that shifts of this kind are very healthy since they are in the direction of keeping up high unit volume. They provide an example of the constant readjustments which represent such a healthy aspect of our free enterprise system.

The Gross National Product

So much for demand from consumers. Next, I should like to touch briefly on the other segments of our gross national product. The total output of goods and services — technically known as Gross National Product — reached a new high at an annual rate of $242 billion in the fourth quarter of 1947. Consumers expenditures absorbed about 70% of this total. The remaining 30% covered all goods and services purchased by governmental agencies and the broad group of private expenditures for what are customarily called capital goods.

The figure for government purchases of goods and services was $29 billion annual rate in the fourth quarter. Contrary to popular impression, this is an area of demand which I expect to see increase this year. State and local governments are enlarging their expenditures for highways, schools, etc. And the Federal government budget for the fiscal year beginning next July 1 is about $2 billion higher than in the present fiscal year. This may be reduced somewhat as Congress makes the actual appropriations. But I expect to see Federal outlays remain high so long as the world situation is unsettled.

There will be considerable talk about cutting the government budget sharply. We are all in favor of economy in government. But in the interest of realism, we should remember that the functions of government have expanded considerably over the years. If we want to see government expenditures reduced we should start by looking squarely at the respective functions and then we should tell our representatives in Washington which functions we want them to cut. Meanwhile, I think the total purchases of goods and services by all levels of government will increase above the $29 billion annual rate in the fourth quarter.

Capital Goods Demand

Now let us turn to the demand for capital goods, beginning with machinery and equipment. In the fourth quarter of 1947, business purchased machinery and equipment at an annual rate of $19 billion. This was more than three times the 1929 rate. There are widely divergent views on whether this rate will continue this year. Some people consider the present level highly temporary and expect a decline. Others argue that business needs vastly more capital equipment.

There is no doubt that present capacity is not adequate in a great many industries—as I noted in discussing the supply situation. The question is how much will business endeavor to increase capacity and replace equipment with new and better models. I am optimistic on this for 1948. I believe that equipment purchases will be stimulated by the desire to fight against high labor costs and labor inefficiency.

We have some interesting evidence for the early part of 1948 from a new formula developed by a mathematical economist.[1] The formula forecasts business purchases of machinery and equipment six months ahead. It is not necessary to explain its complicated makeup, except to say that it is based on the size of corporate profits and the level of interest rates as well as the relationship of equipment prices to prices generally. The formula works out very closely to actual figures for all years since World War I except, of course, the period in World War II when Federal controls were in effect. The formula suggests that equipment expenditures will run about as high in the first-half of 1948 as they were running in 1947.

Of course, there may be some tapering off in equipment purchases later on in 1948. Many people are becoming concerned that corporations are running into a shortage of capital. According to Secretary Harriman, corporations invested $26½ billion in capital goods last year. About $15 billion of this came from retained earnings and current depreciation allowances. The bulk of the remainder came from borrowings partly by private placement through insurance companies, etc., partly by public flotations of bonds, and a sizeable sum, of course, from bank loans. Only a small amount came from stock issues.

Some of these sources of funds may be cut down in 1948. The government has been tightening up bank reserves in its campaign to control inflationary pressures. It has been increasing short-term interest rates and the Federal Reserve support prices for long-term bonds have been reduced sharply. All of these actions have the objective of reducing the supply of available capital and making it more expensive to use it. It seems likely that corporations will find it more difficult to raise funds both from bank loans and from sales of securities. Also, this is likely to be true both for private placements of securities and for public flotations of securities.

It is to be hoped that a nice balance will be struck here between legitimate productive demands for new capital and the reduction of inflationary uses of funds. This problem is extremely serious and it may well be that battle of the recession will ultimately turn on final decisions made in this area by government officials.

Construction

Now let us turn to construction which has been an element of considerable strength lately. Total private construction of all kinds was running at an annual rate of about $11½ billion in the fourth quarter. Residential construction especially has been very strong notwithstanding the price problem. There were 82,000 dwelling units started in November or about the same as in August, although there is usually a sharp seasonal decline in the fall. The number of units started in recent months has been very close to the all-time high level of the middle twenties.

The need for new houses, of course, is enormous. We have had a large increase in marriages coming after a period when housing construction was low. There are several million more families today than in 1940. High prices are resisted, of course, but the unprecedented level of prosperity has increased the ability to afford better and more houses. It seems obvious that the relative demand for houses is still very high. Here again, however, it is necessary to point out the problem of maintaining adequate capital funds. The housing boom could be choked off if available credit were tightened up too much.

Inventories

The next item of demand is inventories. The peak in inventory growth was in the fourth quarter of 1946, when the physical volume of inventories increased at an annual rate of $5½ billion. The rate of increase was cut down sharply in the first-half of 1947 as the recession fear became important. Recently, inventory growth has leveled out at annual rate of about $2½ billion.

It would seem reasonable to expect this rate of inventory growth to continue for some time ahead. Inventories are still low relative to sales and in some lines are critically tight. This is particularly true in the case of steel products, and some building materials.

Of course, inventories could easily become excessive if a business recession were to develop. However, the fear of excessive inventories has acted as a very healthy restraint to inventory speculation so far.

Finally, I should like to refer briefly to the export situation. As you know, we have been selling considerably more abroad than we have been buying. This represents a net foreign demand on our productive capacity, and is a strong inflationary factor, which last year hit a peak annual rate of $10½ billion in the second quarter. The figure tapered off to an annual rate of $8½ billion of net foreign purchases in the last quarter. I am referring to the net amount which was financed from sources other than the U. S. Treasury. The increasing dollar shortage abroad makes it obvious that this rate will not be maintained in 1948. The European recovery program will shift some of these net exports to Treasury accounts, but some of them will probably drop out altogether under the shortage of available funds. There may also be some increase in American imports as a source of funds to foreigners for making purchases here, however.

If the amount of the net foreign demand declines further in line with expectations, there will be some easing of inflationary pressures. This could be cited as a bearish factor leading to a recession. However, I do not believe the decline will be drastic enough to cause a downturn in business, since I believe domestic demand is sufficient to absorb the bulk of the probable decline in net foreign purchases.

Conclusion

In conclusion, it seems to me that demand continues to outweigh probable supply in the economic outlook. If my reasoning is correct, the inflationary elements in the business situation accordingly will continue to outweigh possible downward pressures for some time. Also, inflationary pressures will be increased by the third round of wage increases which is already under way. As an illustration, I might mention that the United Automobile Workers are calling for a 30c an hour raise, of which 25c, would be basic pay and 5c would represent medical and other allowances. Also, it is likely

[1] See paper of Charles F. Roos, Dec. 29, 1947, before joint meeting of the American Economic Association and Econometric Society, Chicago, Ill.

that consumer incomes will be enlarged for additional spending by some form of tax reduction this year.

Of course, things seldom go on an even straight line. There may be temporary interruptions in a main trend. This year may see another wave of doubt and hesitation somewhat similar to the one which occurred last year in industrial production. This might occur as an outgrowth of the heavy concentration of tax collections by the government in the first quarter of the calendar year. Practically all of the government surplus for the fiscal year will be realized in these three months. This will be a very strong deflationary factor which will reduce bank deposits substantially. Nevertheless, it should be remembered that this tightness will be of a seasonal, temporary character. Leaving aside such temporary interruptions, it seems to me that the main stream of economic events will be on the inflationary side for some time ahead.

This is not to say that there is no danger of a recession or that the recession has been indefinitely postponed. I am of the opinion, however, that inflationary forces are more likely to continue to predominate this year than to be overwhelmed by deflationary forces. I want to remind you that this postwar period is different from our usual experience in that it is the first time we have gone from a fighting war into a cold war.

The major difficulties for 1948 would seem to lie in the possibility of a backfire from the anti-inflation efforts of the government and particularly if they result in putting an excessive amount of pressure on corporate capital. The instruments of credit control are blunt. They have a habit of hitting harder and broader than expected. It is to be hoped that the authorities will take care in using these instruments in our present situation.

The Franc Crisis and International Monetary Fund

(Continued from page 4)

the question was only whether it was a practical one under conditions not foreseen by the framers of Bretton Woods who dreamed of a "one world" economy of peace and prosperity.

French Proposals Were Realistic

The French have a long-standing reputation for being the most realistic of all nations and it probably was that basic feeling that led them to believe that the principle was not realistic under present conditions. They thought they had to do two things at the same time:

(1) Avoid any sudden large-scale price increase of essential goods which would unavoidably lead to another round of wage increases.

(2) Avoid fixing an arbitrary rate for the new franc in the face of the lack of any appropriate yardstick for determining correctly in advance the new rate of the franc.

Therefore, they decided to let the franc find its own price level on a free market but, at the same time, have exporters surrender 50% of their foreign exchange receipts at the new official rate of 214 francs to the dollar. That foreign exchange would be available for the purchase of essential imports. Moreover, it was decided to sell at the old rate of 119 francs to the dollar imports purchased with funds provided under the U. S. transitional aid agreement. All these measures were designed to help avoid large price increases for essential imported goods during the next few months and thus to assist in stabilizing the French economy on a new level.

The French, it is worth remembering, were accused twenty years ago of having deliberately stabilized the franc at a low level with a resulting drain of gold into France at the expense of Britain. Now they tried to avoid that "mistake" by letting the franc find its own level and yet they are again arousing British displeasure!

As a matter of fact, there is no way of determining the true value of a currency under conditions of artificially set prices and wages and scarcities of essential goods and services as are now prevailing in Europe. The "purchasing-power theory" which in spite of its numerous deficiencies provides some sort of crude yardstick and was widely used after the First World War is virtually useless under conditions as now exist in France and elsewhere.

Officials of the Fund point out that they would have accepted reluctantly the two principles of multiple currencies and a free franc market on a temporary basis as long as trade transactions would have been excluded from the free market. They feel strongly that to permit this would result in discrimination of the trade of other members and set a dangerous precedent. Moreover, they believe that other and less harmful methods of trade regulations are available to achieve similar aims as those intended by the French Government.

The French were under strong pressure to restrict the free market to non-trade transactions but refused to agree to such a compromise which would have been acceptable to the Fund. They probably felt that a restricted free market would have been too thin and not truly representative of the real forces of supply and demand. This may not have sufficiently assured French owners of gold and foreign exchange that they actually receive a fair value for the foreign holdings they may be willing to sell. It is well known that the French consider a strong inducement for franc repatriation as the very core of their plan.

Britain's Objections

Why was the French plan so strongly attacked by the British that Sir Stafford Cripps, Britain's economic czar, decided to dramatize the struggle and to re-enact Winston Churchill's dramatic flight to France during the war crisis of June, 1940. It is true that the French plan represents a real threat not only to Britain but to the whole European Recovery Plan. Why should it harm British foreign trade so greatly in view of the fact that export products of the two countries are hardly competitive.

Britain's anxieties can be correctly appraised only with a view to the basic economic philosophy of the Labor Government. British socialist planners feel that price stability is paramount for both economic and political reasons. They are willing to go to any length to preserve it and they are spending several hundred million pounds a year to maintain a stable internal price level (at least for goods included in the cost-of-living index). This very stability would be threatened by an adjustment of the external value of sterling. The British banked upon a price decline within two years of imported materials (such as happened after the First World War) and were disappointed in their expectations. Further steep price increases of imported goods unavoidably following an adjustment of the pound value could no longer be absorbed through increased subsidies. They would mean the end of the program of stability with all its political and economic consequences.

The French have promised to exclude the pound from their new free exchange market. But Paris is the leading exchange market on the Continent and quotations there (even if unofficial) could no longer be dismissed as unrepresentative and reflecting only insignificant transactions.

No country in the world is more dependent on international exchange and sensitive to fluctuations abroad than Britain. It was easy to maintain stability during a closed war economy bolstered by unlimited lend-lease contributions from America. Temptation to continue war-time regulations was irresistible to the Labor party planners. Yet is was questionable from the outset whether stability could be maintained during the storms and unavoidable fluctuations of the post-war adjustment period.

The French devaluation has now forced the British planners and advocates of ever stricter controls whose leader is Sir Stafford Cripps to reconsider their position and to weigh the question (of course in camera only) whether they have not followed an illusion by putting all their chips in the fold of "socialistic stability" which was so effectively compared with the turmoil in "capitalistic" America. Here is the true reason why the British Government reacted so vigorously to the French proposals. The French during recent months had turned more and more away from "dirigisme" as unworkable in peacetime. But the Labor Government probably did not expect that those "liberal" policies would be supported (though reluctantly) by the French Socialists who are an indispensable part of the present "Third Force" Government.

Growing Pains of the Fund a Preliminary for Improvement of Its Organization

The decisions of the Fund majority once again proves the age-old experience that it is easier to get support for a more passive policy and maintenance of the status quo rather than in favor of any bold experiment. Though there may be general agreement on broad principles, there are always those who are afraid to go out and fight for those aims.

The attitude of the Fund directors is even more natural in view of the fact that this was its first crisis since it started operations. Surely, it won't be the last one. This crisis has all the attributes of growing pains. It may be a good thing after all, if the management uses the opportunity for a thorough stock-taking, a full investigation of deficiencies in methods, procedures and human performances and a vigorous determination to make a better showing in the future.

Therefore, an analysis of some of the principal mistakes that require improvement seems more important than extensive arguments over past policies and errors.

First, the old rule needs recognition and re-affirmation that the easy way out in the short run is not always the best one from a longer range viewpoint. The Fund anxious to avoid trouble accepted the unrealistic franc par value. They hoped to get around a minor showdown and they got a major one in return.

Second, recent events showed the urgency for strengthening liaison between the Fund and its principal members. The Fund management did not deny that they were surprised with a final French plan submitted for consideration and approval on a take-it-or-leave-it basis. The French, in turn, appeared greatly surprised when opposition developed which they should have been expecting long before.

Obviously, the time for reconciling different positions and viewpoints is during the preliminary drafting stages of a plan. Once it has been formally approved by a government, considerations of prestige and personal pride become paramount and emotion is quickly substituted for reason.

The Fund, in order to meet future emergencies more successfully will have to do two main things.

First, it will have to keep in close touch with those members that may be confronted with monetary troubles in the not distant future. It should attach special representatives to those governments who should send regular reports to headquarters and keep informed on all details of plans under preparations. The Fund should analyze those reports and transmit its findings to other interested members who should then have a chance to present their own reactions to the Fund and to the member planning monetary reforms. This will be the appropriate stage for the Fund experts to work out compromise proposals and advance their own ideas for dealing with conflicting interests. To try this after plans have been completed as happened in the franc case will never lead to success.

Second, the Fund experts should learn from the long-standing practice of the military staffs which prepare detailed plans even for remote contingencies to have them ready whenever an emergency arises. After all, the French did not propose any new methods or solutions. Indeed, very similar ones had recently been adopted by Italy and given "reluctant" blessings of the Fund. (The Italian case was different since no par value had been established for the lira but the technique was very similar.) But apparently no well-thought-out plans were ready when needed and efforts to improvise them in a hurry were of no avail as could readily be expected.

Lack of American Leadership

A principal responsibility for the difficulties of the Fund falls upon the United States although this has not been emphasized by the polite and well-educated foreign representatives who were protagonists of the recent struggle.

Under present world conditions, the strength and influence of the Fund will be determined by the vigor and enlightened attitude of American leadership. This obvious fact was recognized in the instance of the International Bank a year ago. There the necessary conclusions were reached and an appropriate reorganization was carried out. The situation at the Fund is not identical by any means but similar in many ways. It may throw a heavy burden upon overworked American officials who are struggling with innumerable dificult problems at the same time but the fact as such will hardly be denied by anyone familiar with the actual conditions throughout the world.

Therefore, the American representatives at the Fund and the policy-making organizations of the Administration will have to realize that theirs is the outstanding responsibility for the functioning of the Fund regardless of the nationality of the leading officers of that institution.

In the circumstances, it was discouraging to see that the American representatives at the Fund instead of taking a lead in working for a solution of the crisis tended originally toward a position of "neutrality" and probably considered the whole matter something of a family quarrel among the members from Western Europe. Only gradually they appear to have realized that here was a question of great and even decisive importance for the future of the Fund.

But this is not the whole story. There seems to have been a complete lack or breakdown of liaison within the Administration itself. Such cooperation is supposedly assured by the National Advisory Council. Since the Council operates secretly, there is no way to determine whether he discussed the matter and issued any instructions to the American representatives with the Fund as provided for by statute.

However, there are persistent rumors in Washington that the American executive director of the Fund cast his vote with the majority against the French proposals while the State Department and the Treasury issued statements expressing satisfaction with the French plans. Indeed, such an attitude would have been fully consistent with the accepted American policy of favoring all steps toward free exchange markets and abolishment of restrictive trade measures.

The French were by no means the only ones who were shocked by these apparent inconsistencies of American policy. There are indications that they were led to believe that the United States would support their plans for free exchange markets and that this expectation was a contributing factor in their strong defense of those plans.

No Cause for Defeatism

When the Fund was launched, the experts had no doubt that this was a new venture into uncharted and difficult fields. Disappointments and failures were to be expected as a natural result. Therefore, there is no reason for pessimism over the failure of the Fund machinery to give a perfect performance when facing its first emergency. Much time will be required to gain the necessary experience and achieve the appropriate improvements of the organization.

Certain foreign reports expressed the opinion that the Fund had suffered a heavy and perhaps fatal loss of prestige. It is hard to believe that anyone familiar with the intricacies of the subject would agree with such statements. This is a field where perfection is feasible only in theory but not in practical application which can always lead only to compromises which will give complete satisfaction to nobody.

The showdown which was brought about by the franc devaluation may have served a useful purpose as a reminder to all concerned that the future of the Fund will be beset with troubles. However, there will be an urgent need to overhaul and improve the organization of both the Fund and the American policy-making setup as an indispensable prerequisite for a more satisfactory and effective future of international monetary relations and policies.

Joins Ted Weiner Staff

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Maynard C. Froemke is now with Ted Weiner & Co., 41 Sutter Street. He was previously with C. L. Vertin Co. and Buckley Brothers.

Carl H. Freeman Is Now With Central Republic

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO. — Carl H. Freeman has become associated with Central Republic Co., U. S. National Bank Building. He was an officer of Geo. W. Vallery & Co., Inc., in the past.

R. L. Hughes Opens

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—R. L. Hughes is engaging in a securities business from offices at 509 Seventeenth Street.

Business Prospects and Distribution Trends

(Continued from page 2)

price inflation to keep right on spiraling.

What happened in the spring of 1947 will happen again and without any last-minute reprieve. So perhaps it would be useful to summarize the developments then. Industrial production hit a postwar peak of 190 in March, as measured by the Federal Reserve index. It declined to 176 by July for a loss of about 7½%. Wholesale commodity prices reached 149.5 in March and reacted in the next three months. July saw the advance resumed.

Back of these figures was more than a little anxiety among manufacturers over the rapid accumulation of inventories and particularly their unbalanced condition. Industrial purchasing agents curbed forward orders, escalator clauses began to disappear and firm prices became more general.

Retailers staged a buying revolt against the higher prices their supply sources were quoting on fall goods. They had just come through post-Easter clearances which raised hob with net margins. They were determined to get better qualities and lower prices for fall. Manufacturers insisted that costs were up and prices could not be modified. Outstanding orders for a group of 296 department stores slumped to $351 million in May compared with $934 million in May 1946.

The tug-of-war between retailers and their merchandise sources ended in a victory for the manufacturers when the three-pronged push of the inflation forces made it clear that the direction was still boomwards. Let it be remarked in passing, however, that at every hearing before the Congressional sub-committees last fall, prominent retailers were positive in testifying that they did not like prevailing prices.

Efforts to Balk Inflation

In the industrial field there was no such battle as the merchants put up. Last spring Ford and International Harvester attempted with small price reductions to balk the inflation rise in response to President Truman's urging. Lately they have been compelled to reverse themselves due to rising costs. The escalator clauses which were banished last spring have been returning. General Electric brought in a new type by requiring price at time of shipment on heavy apparatus, but limiting the rise to 20%. Shortly thereafter GE reduced prices an average of 5% on consumer appliances. Some trade opinion was reported that this was done to bring prices into line with competitors although many of the products are still in short supply.

If this trade opinion is correct then, in perspective, it may turn out that the GE move marked the turning of the page from a sellers' to a buyers' market. Products and goods can still be short and consumers would pay premiums to get what they want. But a big manufacturer is not in business just today, he has a close eye on the future. He may take a little extra profit to bulwark himself against the time when more money is needed for promotion, for new machines to cut costs, for a dozen other contingencies, but competitively his aim and drive is to stay on top. Competitive prices must be met and beaten, especially at the tag end of a boom.

Boom At Tag End

A word slipped out then which, I suppose, represents my subconscious thinking on the business outlook. The boom is at tag end, I would say, for several good reasons:

(1) Supply pipelines, emptied by the war, are full again except for a few items, notably steel. And steel may feel the effect of a curbing of capital goods expansion. The European Recovery Plan, it now develops, will take no scrap and less raw steel than expected earlier.

(2) Bank credit was jumping too fast and steps have been taken to hold it down. Examiners were instructed several months ago to frown on loans for real estate and commodity speculation. What the central banking authorities want, and organized bankers join them in wanting, might be phrased this way: "Millions for production, but not one cent for hoarding."

(3) Competitive imports will begin to have their effect, slowly at first, but with increasing vigor as a result of the rate cuts that became effective Jan. 1 under the Geneva Agreement. About half our dutiable imports are involved.

As the supply side improves as a result of these factors, one can imagine that on the demand side we will have in industry less of the expansion that calls for men and materials to build plants and equipment for still greater outputs. I have not been impressed by the argument of several industrial leaders who have maintained that as long as their friends were going ahead with big building plans the business skies were clear and serene. This seemed to me like getting the cart before the horse—like in 1929.

Plants are built to make goods to sell to people—and if people don't like prices, or are fairly well supplied with goods, or can wait, then the plants can be built all right, but they may find no markets for what they are equipped to make. Of course we have the old principle of classical economics that everything comes from production. People make the plant, people make the machines, people mine or harvest the materials and what these people earn is the purchasing power that takes care of production.

That was probably true in the early days when everything that was made was readily sold. Today everything isn't readily sold, as you are well aware, and there is entirely too big a ratio between what a modern plant can make in production and the purchasing power released by its building. Or so it seems to me.

Concern Regarding Consumer Demand

But capital goods expansion is ebbing and the main concern on the demand side is consumer demand. Here the story in general merchandise lines is that high prices are taking their toll of unit volume. Sales are ahead in dollars but behind in items sold. That has always been a danger signal to retailing since the days of 1920. It is the reason why merchants don't like current prices.

The fault may not be that current clothing and home furnishing goods are too high. The reason might well be food prices, which are now taking 34.1% of disposable personal income, according to the Commerce Department, against 26.5% in 1941 and 23.9% in 1929.

In retail trade there is a feeling that Easter trade will furnish a pretty good indication of how consumer demand may be expected to act for the rest of the year. The stores have the "New Look" in fashions to help them sell goods, but they also have new and higher prices. So it will be a contest of the "New Look versus Prices."

For 1947, retail sales set a new all-time peak of $118 billion which was 18% above 1946. Durable goods volume, of course, climbed more sharply than non-durables. Automobile sales increased 75%. Food sales gained 23% with most of the increase represented by higher prices. Apparel sales were only slightly above 1946 and unit volume was lower.

Mail order and chain sales ran 19.3% ahead of 1946 in the "Times" compilation, while the department store gain was only 9%. This can be readily explained by the reappearance of hard goods. The chains and catalogue houses felt the absence of these goods in the war but now they have caught up and their gains are passing those of the department stores.

I have seen the theory advanced that department stores may be pricing themselves out of their traditional market. And I have heard an argument offered to ex-stores are special targets of the labor unions and as their wage and salary payments rise, their natural tendency is to move into higher price brackets.

Certainly there is a tendency in the upper ranks of the big stores to specialize, to open bridal and resort shops, antique corners, Deb rooms. These go by the name of "occasion" merchandising, but what they appear to represent is a try at specialty store business. Similarly, the department stores are expanding their branch store operations, a move on the chain store order. Again, the big stores have taken up advertised brands in a big way, which might be interpreted as a stroke at the independent store type of operation.

Increasing Competition

Now I was interested enough to ask on your behalf whether the jump on the band-wagon was just a passing fancy or whether it might be expected to live through the era of price competition which sooner or later will occur. The answer in several quarters was that it gave good promise of sticking. A survey to be completed shortly by the National Retail Dry Goods Association will furnish more specific information on this question.

Well, we see the department stores moving along several fronts against the competition of specialty stores, chains and independents. The chains, meanwhile, are pushing ahead with mass distribution and some of them are setting up bigger stores which are, in truth, department stores. We see the mail order companies expanding their retail store operations to a point where over-the-counter sales exceed by a good margin their catalogue business.

Some time ago we heard jokes about what the drug stores were selling and now there is a veritable hodge-podge of distribution, with no knowing who is selling what. From December, 1945 to June, 1947 according to the Commerce Department, home furnishing stores increased by 41%, automotive dealers by 38%, and the building and hardware firms by 28%. The overall retail increase was 17% in new stores.

Now men who promote sales will try and know where these increases have taken place so that their efforts are directed to the right spots. Their advertising plans will take account of population growth and shifts, the growing age of our people, the variation in income and other phases of the consumer market.

The ultimate consumer is important. He is the final judge. But of almost equal importance is the job of seeing that the "man who sells the man who uses the goods" is a customer and a customer who will stay in business over the troublous times ahead. Thus, we hear the sales manager of one of our largest appliance manufacturers say that retailers in his line number two and one-half to three times what they did before the war. He predicts a high mortality in this over-crowded field—and the brands mixed up in the bankruptcies will be mixed up in trouble too.

It is with this thought in mind that I offer the suggestion that one of the most remunerative types of advertising just now would be directed at finding sound and trouble-free distribution, and distribution which will carry the good product through the time of stress which is surely ahead.

Selling is not a lost art in this country but the experts agree that it has developed callouses in the seat of its pants and not on its feet over recent years. When the "Phony War" is over and the Blitz begins, you will want men and not mice on the firing line. Get them and you will find that good campaigns on good products at the right prices will score hits and fewer duds.

I hope my rambling here and there over the fields of business forecasts, distribution trends, the coming buyers' market, has not confused you too much. A business commentator today, as one analyst puts it, is often like good Lord Ronold, who flung himself on his horse and rode off madly in all directions. With the international situation what it is today, business forecasting is not only hazardous—it is downright guesswork.

If the shakedown, quite generally foreseen, does not prove too severe—if it is the moderate recession which was predicted so generally a year ago, then another opportunity will be offered to American industry to make good on its slogan of "more goods to more and more people at ever lower prices." Unfortunately, this principle, which is the keystone of our system, has been too often honored in the breach, rather than practiced over the recent past, as profit figures testify.

Of one thing business can be certain — the Cold War is on in deadly earnest. Our system and our way of life have been challenged. We must surely, each one and all of us, give a little more, so that we may share the more, all of us. We must prove in the Cold War that the right principles are Freedom, Democracy and Plenty.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

Acme Broach Corp., Ann Arbor, Mich. (2/9)
Dec. 2, (letter of notification) 40,000 shares ($5 par) common. **Price**—$5 a share. **Underwriter**—Dean W. Titus & Co., Ann Arbor. To build factory, pay obligations and for working capital.

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **Underwriter**—Herrick, Waddell & Co., New York. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind.

● **American Hostess, Inc., Akron, O.**
Jan. 29 (letter of notification) 230 shares ($100 par) common stock and 750 shares ($100 par) participating preferred stock. For working capital.

● **Atlantic Coast Fisheries Co., Boston, Mass.**
Feb. 2 filed $556,500 4½% general mortgage and collateral trust convertible bonds and 166,950 shares ($1 par) common stock. **Underwriter** — Doolittle & Co., Buffalo. **Offering** — The bonds are being offered to stockholders at the rate of $1,500 of bonds for each 1,000 shares of common stock held. The stock will be reserved against conversion of the bonds. Unsubscribed bonds will be publicly offered by underwriter. **Proceeds** — General corporate purposes. **Business** — Commercial fisheries.

● **Automatic Dialing Corp., Dover, Del.**
Jan. 30 (letter of notification) 6,000 shares (50c par) common. **Price**—$3 each. For working capital.

● **Aztec Mining Co. of Nevada**
Jan. 26 (letter of notification) 300,000 shares of non-assessable treasury stock. For mine requirements.

● **Bates Manufacturing Co., Lewiston, Me.**
Jan. 30 (letter of notification) 200 shares ($10 par) common stock. **Price**—$33. **Underwriter**—R. W. Pressprich

NEW ISSUE CALENDAR

February 6, 1948

Chic. Rock Island & Pac.____Cond. Sales Agreem't
Monsanto Chemical Co._____Preference

February 9, 1948

Acme Broach Corp._____Common
Cameron Aero Engine Corp._____Common

February 10, 1948

New York Chicago & St. Louis__Equip. Trust Ctfs.

February 11, 1948

Merchants Acceptance Corp._____Class A Stock

February 16, 1948

Iowa Power & Light Co., Noon (CST)_____Bonds

February 17, 1948

Philadelphia Electric Co._____Bonds

& Co., New York. This stock is being sold by Herman D. Ruhm, Jr., Lewiston, Me.

● **Bath and Tennis Club, Inc., Palm Beach, Fla.**
Jan. 26 (letter of notification) 2,650 shares of class A ($100 par) preferred stock. Offered to club members only. To repair hurricane damage.

● **Bennett-Ireland, Inc., Norwich, N. Y.**
Feb. 3 (letter of notification) 500 shares of 5% cumulative preferred stock (par $100) and 1,490 shares of common stock (par $20). **Price**—Preferred, $100; common, $33.333. This is partly a recission offer. Working capital and general corporate purposes.

● **Black Mountain Tramways, Inc., Portland, Me.**
Jan. 30 (letter of notification) 10,000 shares ($2 par) common and 2,300 shares of 5% preferred stock ($100 par). **Price**—Par in each case. To construct a ski tramway and develop a resort.

Cameron Aero Engine Corp. (2/9-13)
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. **Underwriters**—R. A. Keppler & Co., Inc. and Henry P. Rosenfeld & Co., New York. To provide operating funds, etc.

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 (Ohio) Economy Drug Co.**
Jan. 26 (letter of notification) 12,000 shares ($10 par) common stock. **Price**—$12.50 each. Additional working capital.

Clinton (Ia.) Industries, Inc.
Dec. 15 filed 210,000 shares ($1 par) capital stock. **Underwriting**—None. **Offering**—Shares are to be offered in exchange for 300,000 shares of Obear-Nester Glass Co., St. Louis.

● **Columbia Gypsum Products, Inc., Bremerton, Washington**
Jan. 28 (letter of notification) 300,000 shares ($1 par) common. For mining development.

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.

● **Coolidge Corp., Middletown, O.**
Jan. 29 (letter of notification) 1,000 shares ($100 par) cumulative preferred stock and 5,000 shares ($10 par) common stock. **Price**—Par in each case. For working capital and general corporate purposes.

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.

● **Curtis Publishing Co., Philadelphia**
Jan. 28 (letter of notification) 4,125 shares of common stock. To be offered at market (about $8), by Mary Curtis Zimbalist through Granbery, Marache & Lord, New York.

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** $24 per share. **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.

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.

● **Edge Realty Corp., Irvington, N. J.**
Jan. 30 (letter of notification) $30,100 of preferred stock. **Price**—$100. **Underwriting**—None. To increase working capital.

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.

● **Fitzsimmons Stores, Ltd., Los Angeles, Calif.**
Feb. 2 filed 10,000 shares of 6% cumulative first preferred stock ($100 par). **Underwriting**—Officers, directors and employees of the company will offer the stock to friends and associates. **Price**—$100 per share. **Proceeds**—To retire 7% preferred stock. Business: "Super Markets" in Los Angeles, Riverside, Colton and San Bernardino County.

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.

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**—Stockholders of record Jan. 30 will be given the right to subscribe for a securities unit consisting of two shares of stock and one warrant for each share of common stock held. **Price**—$4.10 per unit. **Proceeds** — To develop a plant and facilities for the company's subsidiary, Carolina Giant Cement Co., Harleyville, S. C.

● **Golden Leaf, Inc., Aspen, Colo.**
Jan. 28 (letter of notification) 400 shares of common stock. **Price**—$100. To construct a tavern.

● **Goldfield-Cripple Creek Mines, Inc., Denver**
Jan. 26 (letter of notification) 100,000 shares (par 10c) capital stock. **Underwriter** — Harry Joseph Newton, Denver. To pay loans and taxes.

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.

● **Hacienda Manana Hotels, Denver**
Jan. 26 (letter of notification); Charles Whitfield Davidson, doing business as Hacienda Manana Hotels filed 1,000,000 shares ($1 par) preorganization subscriptions. For hotel costs.

● **Humphrey-Ketchen Co., Boise, Idaho**
Jan. 21 (letter of notification) 1,000 shares ($100 par) preferred stock and 1,000 shares ($100 par) common. To buy new equipment and pay indebtedness.

● **International Asbestos Co., Ltd., Sherbrooke, Quebec**
Jan. 30 filed 1,500,000 shares ($1 par) common stock. **Underwriter**—Paul E. Frechette, Hartford, Conn., is the U. S. authorized agent and principal underwriter. **Price**—$1 each. **Proceeds**—To construct milling plant and purchase equipment. **Business**—Asbestos processing.

Iowa Power & Light Co. (2/16)
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., White, Weld & Co. and Shields & Co. (jointly); Salomon Bros. & Hutzler; Lehman Brothers. **Price**—By amendment. **Proceeds** — Construction. **Bids** — Bids for purchase of the bonds will be received by company at suite 2200, 105 W. Adams St., Chicago, up to noon (CST) Feb. 16.

Johnson Bronze Co., New Castle, Pa.
Nov. 10 filed 150,000 shares common stock (par 50¢). **Underwriter**—Lee Higginson Corp. **Proceeds** — Stock being sold for account J. P. Flaherty, a stockholder.

Kansas-Nebraska Natural Gas Co., Inc.
Jan. 23 (letter of notification) 2,200 shares of $5 cumulative preferred stock. **Price**—$104. **Underwriters**—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 ($95 par) preferred. **Price**—$95 a share. **Undewriter**—Kenneth Van Sickle, Inc., Emporia. For additional working capital.

● **Kramb Manufacturing Corp., Reno**
Jan. 26 (letter of notification) 20,000 shares ($1 par) common stock. **Price**—Par. For leasing a factory, machinery, raw material and operating 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.

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.

● **McDonnell Aircraft Corp., St. Louis**
Jan. 29 (letter of notification) 20,000 shares ($1 par) common stock. **Price**—$15. For indebtedness.

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. (2/11)
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.

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.

● **Miller-Wohl Co., Inc., New York**
Jan. 30 filed 59,000 five-year-bearer warrants to purchase (50c par) common stock by April 15, 1950. **Offering**—By seven holders, headed by Lehman Brothers, New York, holder of 23,000 warrants. **Price** — $6.75. **Business**—Women's apparel chain.

● **Minnesota Power & Light Co., Duluth**
Feb. 3 filed 100,000 shares (no par) common stock. **Undewriters**—To be determined by competitive bidding. **Price**—By amendment. **Proceeds**—Toward financing a $6,000,000 construction program and for other corporate purposes, which may include payment of a $750,000 temporary bank loan.

Monsanto Chemical Co., St. Louis (2/6)
Nov. 28 filed 250,000 shares (no par) cumulative convertible preference stock, series B. **Underwriter**—Smith, Barney & Co., New York. Price by amendment. **Proceeds**—To repay $10,000,000 of bank loans and for general corporate purposes.

● **Nalley's Inc., Tacoma, Wash.**
Jan. 15 filed 119,152 shares of common stock (par $1.25). **Underwriters**—Walston, Hoffman & Goodwin and Hartley, Rogers & Co., San Francisco. **Offering**—63,785 shares are to be publicly offered (25,000 on behalf of company and 38,785 for account of Marcus Nalley, Chairman); 20,000 shares will be offered to employees, executives and directors and 35,367 shares are to be issued in acquisition of all publicly held stock or partnership interests in certain subsidiary and affiliated companies. Business—Food products.

● **National Action Limb Corp., New York.**
Jan. 28 (letter of notification) 1,000 shares of non-voting cumulative preferred stock (par $100). **Price**—$100. **Underwriting**—Portion of issue will be distributed by Thomas Wentworth Boykin, Jr., of Greenwrich, Conn. Working capital for manufacture and retail distribution of artificial limbs.

● **Nevada-Stewart Mining Co., Spokane, Wash.**
Jan. 28 (letter of notification) 100,000 shares of non-assessable capital stock. **Price**—32 cents each. **Underwriters**—H. M. Herrin & Co., Seattle, and Pennaluna & Co., Wallace, Idaho. For developing mining claims.

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**—Offered for subscription by common stockholders of record Feb. 2 at $20 on the basis of one share for each six common shares held. Rights expire March 1. **Proceeds**—To pay off indebtedness.

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.

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); Lehman Brothers; Salomon Bros. & Hutzler. **Price**—By amendment. **Proceeds**—To be used for construction. Expected later this month.

● **Pacific Gas and Electric, San Francisco**
Jan. 29 filed 686,953 shares ($25 par) common stock.

(Continued on page 46)

(Continued from page 45)

Underwriting—none. **Offering**—To be offered at par to holders of outstanding common stock at rate of one share for each 10 held. **Proceeds**—To finance a construction program.

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. (2/17)
Jan. 20 filed $25,000,000 first and refunding mortgage bonds, due 1978. **Underwriter**—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 expansion program. Expected about Feb. 17.

● **Pittsburgh Consolidation Coal Co.**
Jan. 28 (letter of notification) 385 shares ($1 par) common and $38,000 of 20-year 3½% debentures, due July 15, 1965. **Underwriting**—None. **Price**—$30.83 each for the stock and $102.63 per $100 debenture. For general corporate purposes.

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.

● **Production Aids, Inc., North Hollywood, Cal.**
Jan. 30 (letter of notification) 14,987 shares ($5 par) preferred stock and 14,987 shares ($1 par) common stock, and 25,000 shares ($1 par) common reserved for conversion of the preferred. To be offered in units of one preferred and one common share at $6 per unit. For additional working capital.

● **Public Service Co. of Oklahoma, Tulsa, Okla.**
Jan. 30 filed $10,000,000 first mortgage bonds, series B, due 1978. Underwriters to be determined by competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Shields & Co. and White, Weld & Co. (jointly); Harriman Ripley & Co., Blyth & Co., Inc., Central Republic Co. and Lee Higginson Corp. (jointly); Glore, Forgan & Co., the First Boston Corp., Salomon Bros. & Hutzler. **Proceeds**—Prepayment of $1,700,000 of bank notes due April 20 and $1,375,000 of Oklahoma Power and Water Co. bank notes, and for expansion purposes.

● **Regina Cargo Airlines, Inc., Brooklyn, N. Y.**
Feb. 2 (letter of notification) 277,500 shares of preferred stock (par $1) and 500 shares of common stock (par $1). Price, $1 per share for each. Underwriting, none. Purchase of aircraft and equipment and 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.

● **Service Caster & Truck Corp., Albion, Mich.**
Jan. 30 filed 80,000 shares of common stock (par $1). **Underwriters** names to be filed by amendment. **Price**—$7. **Proceeds**—Proceeds together with funds from private sale of $600,000 of 4¾% debentures and $250,000 of 6% subordinated debentures, will be used to pay off indebtedness. **Business**—Hand lift trucks and similar equipment.

● **Sherman Products, Inc., Royal Oak, Mich.**
Jan. 26 (letter of notification) 150,000 shares (par $1) common stock. **Price** — $2 per share. **Underwriters** — Stoetzer, Faulkner & Co. and Bennett, Smith & Co., Detroit. For equipment, tooling costs and working capital.

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.

● **Stanton Chemicals, Inc., New York**
Feb. 3 (letter of notification) 1,766 shares of non-convertible stock (par $100) and 1,883 shares of common (par 10¢). Price, par for each. Underwriting, none. Construct plant, working capital, etc.

● **Steak 'n Shake, Inc., Bloomington, Ill.**
Feb. 2 filed 40,000 shares of 50c cumulative convertible participating preferred stock, ($1 par) and 160,000 shares (50c par) common stock, of which 40,000 will be sold and the remainder reserved for conversion. **Underwriter**—White & Co., St. Louis, Mo. **Price**—$8 for the preferred stock and $2.50 for the common. This stock is being offered by stockholders who are members of the Belt family. **Business**—Chain of retail restaurants.

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.

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

● **Alleghany Ludlum Steel Corp.**
Jan. 26 stockholders authorized an issue of 200,000 shares of preferred stock. Company plans to register 107,383 shares and offer rights to stockholders in ratio of one for 12. Probable underwriter, The First Boston Corp.

● **California-Oregon Power Co.**
Feb. 3, A. S. Cummings, President stated company has a tentative working schedule for sale of $4,500,000 first mortgage bonds and 100,0000 additional shares of common stock. Plans call for opening of bids on the offering on March 30, with bonds and stock being offered to the public on April 1. Proceeds of the bonds will be used to retire bank loans. Funds from the additional common stock, will be used to take care of business expansion in 1949. Probable bidders include: Halsey, Stuart & Co. Inc. (bonds only); Blyth & Co., Inc.; The First Boston Corp.; Merrill Lynch, Pierce, Fenner & Beane.

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.

● **Columbia Gas & Electric Corp.**
Jan. 30 reported corporation expects to offer $45,000,000 of debentures to provide funds for the 1948 expansion program. It is expected that the registration statement will be filed shortly and bids will be called for around the middle of March. Probable bidders include: Morgan Stanley & Co.; The First Boston Corp.

● **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; Merrill Lynch, Pierce Fenner & Beane and White, Weld & Co. (jointly).

● **Illinois Power Co.**
Feb. 2 company asked the SEC for permission to sell $15,000,000 of first mortgage bonds. The interest rate and price of the bonds would be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman, Ripley & Co., Inc., and Glore, Forgan & Co. (jointly), and White, Weld & Co.

● **Indianapolis Power & Light Co.**
Feb 3, Halsey, Stuart & Co. Inc., told the Indiana PS Commission it would be interested in bidding for the $8,000,000 bond issue planned by the company in financing part of its $38,000,000 expansion program.

The company had filed a supplemental petition asking permission of the Commission to sell the entire $8,000,000 issue to the Metropolitan Life Insurance Co. at par, the bonds carrying a coupon rate of 3⅛% a year, including Halsey, Stuart & Co. Inc. Other investment houses who may bid for the bonds are Otis & Co. (Inc.); Lehman Bros.; Blyth & Co., Inc.

● **International Bank for Reconstruction and Development**
Feb. 3, John J. McCloy, President said that he wanted to make it "quite clear" that the Bank was not contemplating another bond issue at present. Contending that he had been misinterpreted recently, Mr. McCloy said that "we have no bond issue in mind and for the immediate future we have all the money we can usefully employ."

● **International Harvester Co.**
Jan. 28, stockholders approved a proposal giving directors authority to issue convertible debentures. The board already had authority to issue either common stock or ordinary debentures. Company plans to raise from $80,000,000 to $100,000,000 in new capital through permanent financing. It has not yet been decided when the financing would be done or what form it will take, but the timing will depend on market conditions and the course of the company's business. Probable underwriters: Glore, Forgan & Co.; Harris Hall & Co. (Inc.); William Blair & Co..

● **Interstate Power Co.**
Feb 3 reported company plans to file a registration statement with the SEC shortly covering new securities required to put its plan of reorganization into effect. The securities to be sold include $20,000,000 in first mortgage bonds, $5,000,000 in debentures and common shares sufficient to bring the over-all proceeds from the financing to $28,635,500. The company has been discussing the financing with investment bankers.

● **Laclede Gas Light Co.**
Feb 21 stockholders will vote to authorize $6,084,050 of convertible debentures, $4,000,000 of new bank credit and such additional first mortgage bonds as may be permitted under the indenture. Company will have to spend in the next five years $12,500,000 for new property and $3,00,000 to convert customers to the use of straight natural gas to replace the mixed manufactured and natural gas now being served in the territory. Proceeds on the new financing will be used to pay off $6,500,000 of bank loans and to pay for the change over program.

● **Missouri-Kansas-Texas RR.**
Feb. 4 company asked ICC authority to issue $1,620,000 equipment trust certificates in connection with the purchase of equipment costing $2,027,440. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **New York Chicago & St. Louis RR. (2/10)**
Bids for purchase of $1,400,000 serial equipment trust certificates will be received at company's office, Cleveland up to Feb. 10. Certificates will be dated March 1, 1948, and will mature annually for 10 years, on each March 1, 1949-58.

● **New York State Electric & Gas Corp.**
Feb 3 company filed an aplication with the New York PS Commission for authority to issue $10,500,000 bonds and $6,000,000 of preferred stock. The preferred would have the benefit of a sinking fund of 2½%, according to present plans. The new securities are to be sold through competitive bidding. Proceeds would be used to finance construction. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Pennsylvania Telephone Corp.**
Jan 30 reported company may sell 40,000 preferred shares, with Paine, Webber, Jackson & Curtis and Stone & Webster Securities Corp. as underwriters.

● **Public Service Co. of New Hampshire**
Jan. 31 company asked the SEC for permission to issue and sell 199,627 additional shares of common stock (par $10) and use the proceeds for construction. Shares would be offered initially to common stockholders on the basis of one new share for each 3½ shares new held. Unsubscribed shares would be sold to an underwriting syndicate headed by Kidder, Peabody & Co. and Blyth & Co., Inc., for resale to the public.

● **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.

● **San Diego Gas & Electric Co.**
Feb. 4 reported company has plans under consideration for raising some $10,000,000 through sale of a "new money" bond issue. It is thought that the offering will be ready for the market by the end of March. Probable bidders include: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; The First Boston Corp.

● **Segal Lock & Hardware Co., Inc.**
Dec 12 stockholders authorized creation of $2,000,000 15-year 5½% convertible sinking fund debentures, to be offered for subscription by stockholders on a pro rata basis, at a discount. Unsubscribed debentures will be offered the public at par. Proceeds would be used to retire $415,000 short-term loan and for expansion.

● **Southern Co.**
The SEC Jan. 28 gave the company permission to negotiate privately for the sale of about $20,000,000 of additional shares ($5 par) common stock. Company is a subsidiary of Commonwealth & Southern Corp. Proceeds from the sale will be used by Southern to buy common stock of its operating subsidiaries, Alabama Power Co. and Georgia Power Co.

The money gained by these subsidiaries through the sale of their stock to Southern will be used for construction.

● **Southern Natural Gas Co.**
Jan 29 reported company contemplates sale of $20,000,000 bonds and debentures in near future. Probable bidders include Blyth & Co. Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp.

● **Southern Ry. (2/18)**
Bids for purchase of $10,680,000 equipment trust certificates, series "NN," to mature in 20 equal semi-annual installments, will be received at company's office, Room 2018, 70 Pine St., New York, up to noon (EST) Feb. 18. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; The First Boston Corp.; Harriman, Ripley & Co.; Harris, Hall & Co. (Inc.).

● **Utah Power & Light Co.**
Jan. 28 reported company working on plans for $3,000,000 new mortgage bonds, plus $5,000,000 new debentures. Probable bidders include: Halsey, Stuart & Co. Inc.; The First Boston Corp. and Blyth & Co., Inc. (Jointly); Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, R. W. Pressprich & Co. and Equitable Securities Corp. (Jointly); Smith, Barney & Co. and Union Securities Corp. (Jointly); White, Weld & Co.; Harriman Ripley & Co.

● **Warren Petroleum Corp.**
Feb 2 reported company contemplates new financing in form of convertible preferred stock, with Merrill, Lynch, Pierce, Fenner & Beane as underwriters. Stockholders will vote Feb. 20 on creating a new preferred issue and on increasing authorized common stock.

Observations

(Continued from page 5)

company officials, who throughout the compaint by implication seem to be charged with wanton neglect of their stockholders' interests through confusion or rank stupidity. Such complaint against business management would likewise pertain to its non-use of competitive bidding, which the Attorney General wants to make universally compulsory, in disregard of the higher pricing which would be foisted on the community of inexpert investors.

In any event, the complexity of such phases of the situation is so great, and practical experienced knowledge of actual trade practice is so essential, that the determination of the future of this important segment of the economy should be controlled by the Congress or one of its established specialized agencies, rather than *ex cathedra* by the Attorney General.

Our Reporter's Report

The taste of institutional investors has been running strongly to railway equipment trust issues since the turn of the year, it was pointed out in market circles this week.

Eight such issues have been offered through competitive bidding in the interval and snapped up with little or no delay by the ultimate holders.

This type of security naturally has considerable attraction for those who have the job of investing other people's money. Invariably of serial maturity they afford the opportunity for filling out gaps in investment portfolios.

As a general rule they are not too large and have the added pull of being secured by the actual equipment they are issued against, normally covering up to about 80% of the total cost of such assets.

Insurance companies, trust accounts and banks have shown lively interest in this market, finding ample basis for the operations in the record of these issues over a period of years.

Averaging about 10-years' maturity the trust certificates brought to market this year have afforded yields ranging from 2.95% on Lackawanna's offering to about 2.35% on a recent Chesapeake & Ohio issue.

The bankers' fondest hope now is that carriers do not get around to offering such securities in profusion to the detriment of the market.

Bunching New Issues

It hasn't happened recently but there have been intervals, not too far back, when investment bankers were at their wit's end to figure out how they were going to compete for several issues of securities on a given day.

As a matter of fact, more than once the situation became such that potential issuers had to be prevailed upon to revise their offering schedules in order to avoid a difficult situation.

James J. Caffrey, recently resigned as Chairman of the Securities and Exchange Commission, must have been giving that problem considerable thought at times. For now he joins those who lament this recurrent condition.

Meeting with a group of reporters the other day, he declared that he is unable to understand why corporate finance officers get themselves caught in such a position. Bankers have maintained right along that such a setup is not conducive to the best results for the issuer.

Over-The-Counter

Looking back over the situation Mr. Caffrey, who is now with the law firm of Gordon, Brady, Caffrey & Keller, noted the good that had come about under the Truth in Securities Act and its administration by the Securities and Exchange Commission and declared himself all for the operation.

He admitted there still were things to be done from an administration standpoint, such as proceeding with simplification of rules and procedures. He expressed himself as all for oral solicitation of orders for new issues, once they have been awarded, provided the potential buyer gets a prospectus before the sale is closed.

He strongly favors bringing the unlisted securities under the law. Mr. Caffrey made one point on which he probably would get plenty of argument, namely that New York is too exacting for transactions of less than $20,000,000.

The record hardly shows this to be true. On the contrary underwriters like that kind of deal, since they can be handled with more compact groups.

Wet Blanket

Standard Oil Co. of California is not looking for any new money and likely will not have to in the near future, it is telling inquiring investment firms.

H. D. Collier, Chairman, says the company has no capital plans under consideration and that inquiring firms are being turned away since the company is comfortably fixed for needed funds.

Repayment of advances by Arabian-American Oil plus dividends from that source have bolstered treasury cash and the company still has a call on the bulk of a $75,000,000 bank credit obtained in 1947.

Taking Down Stock

Stockholders of two utilities have exercised their accruing "subscription rights" substantially in full it is indicated in current reports.

Southwestern Public Service Co. received subscriptions totalling 135,389 shares for its offering of 103,115 shares of additional common.

Meanwhile Cincinnati Gas & Electric Co. holders have entered orders for 187,924 of the 204,000 shares additional common offered by the company, or roughly 92% of the total.

Partlow With Kidder, Peabody

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—E. C. Partlow, formerly with Smith, Barney & Co., in the statistical department, has become associated with Kidder, Peabody & Co., 135 South La Salle Street.

With Neergard, Miller Staff

(Special to THE FINANCIAL CHRONICLE)

ST PETERSBURG, FLA.—Carl L. Cook has become affiliated with Neergard, Miller & Co.

With Herrick, Waddell & Co.

(Special to THE FINANCIAL CHRONICLE)

INDIANAPOLIS, IND.—Lewis D. Morgan is with Herrick, Waddell & Co., Inc., Merchants Bank Building.

Morgan Stanley Offers Phila. Electric Pfd.

Morgan Stanley & Co. heads a group of 63 underwriters that is offering to the public today (February 5) 150,000 shares of Philadelphia Electric 4.3% Preferred Stock (par value $100 per share) at $100 a share and accrued dividends.

Net proceeds from the sale of the new Preferred, as well as from the sale of $25,000,000 of new bonds expected to be offered by the company at competitive bidding on Feb. 17, 1948, will be used to provide new capital for the company's planned construction program through 1948 and the early part of 1949. The Company's overall program contemplates expenditures of approximately $235,000,000 during the six-year period, 1947-1952, inclusive, of which about $48,000,000 was expended in 1947 and about $50,000,000 is planned for 1948.

The new Preferred Stock will be redeemable on or before Dec. 31, 1952, at $104 a share; thereafter but on or before Dec. 31, 1957, at $103 a share; and on or after Jan. 1, 1958 at $102 a share; in each case plus accrued dividends.

In the opinion of counsel for the underwriters, the new preferred will be a legal investment for trust funds in Pennsylvania and is exempt from the existing 4 mill Pennsylvania State personal property tax and the existing School District personal property taxes in Philadelphia and Pittsburgh.

Following the Preferred Stock financing the company's outstanding capitalization will comprise $180,000,000 first and refunding mortgage bonds; 724,720 shares of preferred, $100 par; 802,990 shares of $1 Dividend preference common stock and 9,726,240 shares of common stock. In addition, subsidiary companies had outstanding as of Oct. 31, 1947, an aggregate of $40,168,185 principal amount of long-term debt.

Gross income and net income of the company for the first ten months of 1947 amounted to $19,127,169 and $15,973,516, respectively, as compared with $22,840,318 and $17,711,096, respectively, for the full year 1946.

Joins Atwill Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI BEACH, FLA.—Robert A. Canon has been added to the staff of Atwill and Co., 605 Lincoln Road.

With Buckley Brothers

(Special to THE FINANCIAL CHRONICLE)

SAN DIEGO, CALIF.—O. Wendell Larson is now affiliated with Buckley Brothers, 625 Broadway.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

What has happened in this capital during the last several days has been an intensification of the purely maneuver phase of the political battle of 1948. If you have a business or a profit over which the politicians have been fighting, recent developments look like nonsense. They don't add up to much. They are not decisive. And if you think that, you probably are right. For what is showing up is a great deal of enveloping of later objectives, a pushing from this place to that, the taking of steps designed to cause later steps that will put the other fellow behind the 8-ball, and get one's self out from in back of it. It's a little on the soteric side for even the sophisticated outside of this center of the political trade. But the obscure steps are part of the business.

The important thing is that what has been happening most recently doesn't point the way to the final turnout of legislation, or let you know whether your business head will be cut off.

* * *

Take this matter of the President's stand on foreign aid, for instance. Mr. Truman seemed to say he would buy full-scale foreign aid and not a cent less. If the Congress didn't want to give him all the $6.8 billion that he asked, Mr. Truman would tell them to go chuck it into the Potomac.

Mr. Truman is firmly convinced that the Marshall Plan is popular political merchandise. He is in effect daring the Congressional majority to try to snip off a billion or so. He knows that at least a billion is going to be cut off the foreign aid appropriation. And unless he is the most daring of politicos, he will actually ring up the sale notwithstanding.

All Mr. Truman is trying to do is to get an appropriation for foreign aid as close to his dollar figure as possible. If he is right on his brand-line of political merchandise, the nearer he can succeed the better for him. So if foreign aid is popular the more nearly he succeeds in his objective, especially by pushing a Congressional majority which seemingly is reluctant, the greater his prestige and popularity with the voters.

* * *

There are already large signs that when the time comes, the Administration will be willing to compromise. The Brookings proposal for an official of Cabinet rank to handle foreign aid sounds like the independent agency most of the Congress has been wanting. Seemingly the Administration would go for this, because it looks like something that didn't originate with the Republican majority.

Then, too, there was this hint that General Marshall might be willing to go for a one-year program without a four-year, $17 billion authorization. Then Mr. Truman cast doubt on this apparent compromise. Sure he should. He hasn't yet been called and until all the money is on the table he doesn't have to show his cards.

As for the Republican contention that they couldn't think of binding future Congresses to carry out a four-year commitment, this is a maneuver, too. After all millions of babes not yet born are committed to pay taxes for the "social security" of those now living.

* * *

Right down the same alley is the hoisting of Marriner S. Eccles from his well-worn seat as Chairman of the Board of Governors of the Federal Reserve system, and replacing him with Tom McCabe.

The official explanations, designed to conceal the true objectives, are a source of considerable amusement here. Nobody had any objective in mind for doing it. The change accomplished nothing. Mr. Truman is still yes and no for Mr. Eccles' secondary reserve scheme. The President liked the credit navigation of his ancient mariner. He just wanted a new navigator.

That is the official line. All that can be gleaned from official explanations is that a couple of Federal Reserve boys, Marriner Eccles and Matt Szymczak, were innocently walking along the thin ice of Washington. They weren't making faces at anybody or calling names or spitting on any one. All of a sudden one or two bad boys, identity unknown, came up from behind them and tripped them up. They didn't see 'em. Some radio and news men said maybe it was John Snyder. It couldn't have been, because Johnny loves Marriner, he said so. Official explanations leave as the only plausible reason for that shift that maybe Harry Truman just got tired or looking at, or maybe listening to, Marriner S. Eccles, and wanted a different pitch of voice.

* * *

It's a pretty good hunch that no bright newspaper man will collect the 64 silver dollars for getting the absolutely correct answer to this riddle. The one man who knows the answer neither talks in his sleep nor at cocktail parties, and he doesn't keep any columnist pets.

* * *

One thing which the Eccles-McCabe shift is expected to do is to inspire more confidence. Even though Mr. Eccles shouldn't take all the rap for dropping the premiums on the long-terms, since the Federal Reserve doesn't do such things without Treasury clearance if not prompting, a good many gents worried about the prices of these bonds are the same who are worried about the Eccles plan of the secondary reserve.

* * *

Mr. Eccles' demotion to Vice Chairman also has a direct bearing upon the secondary reserve plan. Here the political maneuvering comes in. Every sign since the President announced his "ten-point" program point up clearly that (1) none of the Executive agencies had done the least bit of staff planning to operate the provisions (except consumer credit); (2) that nearly all Mr. Truman's subordinates were for the most part opposed to the controls covertly if not openly. This suggested as the only tenable conclusion that Mr. Truman proposed the controls solely to put the Congress on the spot, because he knew the Congress would not enact these controls and so would catch the blame for the high cost of living.

* * *

Mr. Eccles acted, however, as though he thought the President really meant to curb the expansion of bank credit. He vigorously pressed his proposal to require commercial banks to hold short-term securities equivalent to 25% of demand deposits as a secondary reserve. The President was repeatedly embarrassed by people asking where did the President stand in view of Treasury opposition.

Mr. Truman probably didn't understand at the time but since has been told that curbing bank credit is a proposal, as one government economist who may not be identified explained it: "This is a plan to cut the head off the business boom and the question then is whether the whole body will collapse."

A recession now to avoid a worse collapse later—Federal Reserve Dogma—is not part of the Truman dogma also. Mr. Truman has cast his die on inflation prevention as an argument, predicated on continued inflation, not on preventing it by promoting some deflation. The President tried to side-step the issue in his Economic Report by hiring a re-write man to do an excellent job of synthesizing the pro and con views on credit restraining. It pleased both sides, who quote it in substantiation of their conviction that the President is with them.

* * *

If Mr. Eccles had not continued to talk secondary reserve the thing might not have come to a head. Now it has. Basically powerless on its own initiative to affect credit conditions, the Reserve Board must sell its argument to the Treasury. The Reserve Board has now discovered that there is a reality to the logic of the greater force. Its independence and theoretical coequality in credit matters is about the same as Canada's international independence would be if, say, the Dominion proposed an alliance with Russia. Hence the FR Board "majority" for Mr. Eccles' views is largely academic.

* * *

Mr. Eccles' passing has cleared the way for dropping the secondary reserve. This may not be admitted at first, because the reason for asking Eccles to hang on as Vice-Chairman was to give a semblance of consistency to the President's demand for curbing of bank credit. The secondary reserve may even be affirmed shortly should that hunter for plots, Chairman Tobey of the Banking committee, ask his customary blunt questions when Thomas McCabe comes up for a hearing on his confirmation.

* * *

Fundamentally the passing of Eccles from the front door to the vestibule of the Reserve system means that the way is clear for a delay in considering the entire credit phase of the inflation picture. Unless Messrs. Tobey, et al., get too direct, the whole subject of credit control will be held in storage until after the tax collection pressure is off the banking system. Then if the Administration feels that additional reserves are worth risking, it can plump for a more conventional increase in reserves but to a much less deflationary degree. And when that time comes, if ever, the Treasury and Federal Reserve Board will sing the same tune.

Under these circumstances the administrative officials are squirming and the President, forgetting that he advocated rationing of scarce foods, suggested that rationing had not yet been decided upon, certainly not without price control.

BUSINESS BUZZ