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Why I Am Opposed To Military Training

By HON. ARTHUR CAPPER*
U. S. Senator from Kansas

Asserting universal military training is conscription, Senator Capper cites France's experience as proving peacetime conscription is not effective defense weapon. Contends best minds in armed services oppose system, but are barred from expressing views.

I have received a number of letters asking me to state my position on universal military training, so-called. Believing that many of you who have not written are interested in the subject, I am glad to state my position, and some of the reasons for taking and maintaining that position.

Sen. Arthur Capper

I am opposed to universal military training. I am opposed to military conscription in peacetime.

The two may not be the same, but it is my firm belief that universal military training, so-called, would be just the preliminary, the first step, the camel's nose under the tent, toward military conscription in peacetime.

If any of the bills authorizing universal military training come to a vote in the Senate while I am (Continued on page 36)

*A radio address by Sen. Capper over Station KAKE, Feb. 12, 1948.

The Devaluation of the Franc

By RENE LEON

Holding return of France and Italy to free money markets presages bankruptcy of "managed currency," Mr. Leon lays failure of International Monetary Fund to avert move to its neglect of fundamental disequilibrium in international payments. Says no suitable yardstick exists today for fixing monetary parities, and criticizes Britain's policy of maintaining Sterling Area intact. Holds France, as regards international payments, is in better position than Britain.

France's recent decision to open a free market for gold and foreign currencies, coming on the heels of Italy's action liberating the Lira from its former fixity, presages the bankruptcy of the system of "managed currency." For these are further proofs, if proofs were needed, that it is idle to go counter to natural forces.

Rene Leon

Objections to France's action came principally from the International Monetary Fund and from England. From the Fund because France acted independently and in violation of the Fund's rules and regulations. From England because of fear that the Pound would be undermined. Although seemingly justified neither of these objections had the slightest validity as it is here proposed to demonstrate:

The Fund was set up with the view of restoring the gold standard in a new form. All currencies were to be expressed in terms of gold and their gold equivalence maintained by way of facilitating conversion between them. Members' subscriptions were to be paid in gold or its equivalent in terms of the various currencies. Despite the inequality in the economic positions of the various na- (Continued on page 28)

The Realities of Foreign Aid

By HENRY HAZLITT*
Associate, "Newsweek"

Mr. Hazlitt declares that irrespective of institution of Marshall Plan, or of the size of American aid, decisive determinant of Europe's recovery will be abandonment of economic and political postwar policies recipient governments have been following. Maintains with continuation of socialization, nationalization, monetary debasement, exchange control, and general collectivism, our help will only worsen Europe's situation.

I have already dealt at length with the basic facts and principles involved in the proposed program of foreign aid in a book which some of you may have read called "Will Dollars Save the World?" I should like here, therefore, to confine myself to suggestions for a positive program, with only an incidental explanation of some of the reasons for these suggestions.

Henry Hazlitt

I

Marshall Plan or no Marshall Plan, Europe will not recover as long as European governments retain the economic policies they have been following since the end of the war. Europe has driven more of its own private capital underground than the total amount it is asking from us. As long as socialization, nationalization, unbalanced budgets, monetary debasement, general price-fixing, exchange control, and the whole collectivist network of gov- (Continued on page 26)

*An address by Mr. Hazlitt before N. Y. Society of Security Analysts, Jan. 30, 1948.

EDITORIAL

As We See It

The Silly Season in Politics

The quadrennial silly season in national politics is upon us again. A President, a Vice President, one-third of the Senate and the entire House of Representatives are to be elected next November. Candidates, would-be candidates, and dummy candidates have as usual begun to spend many hours strutting and fretting upon the stage in hopes of attracting favorable attention from voters sufficient in number for their purposes. Experience may or may not have proved this to be the best way of getting oneself elected to public office. For second raters, it may indeed be about the only way open to them.

But however all this may be, the scene is never edifying. It is particularly discouraging in times like these when good hard sense, a knowledge of history, and constructive ability are so much needed in all holders of public office, legislative or executive. To the thoughtful citizen who is eager to do what he can to help lead his country out of the morass into which it and the rest of the world appear to have fallen in recent years it is particularly disheartening. It leaves him no choice but to select one candidate or another from a list, all of whom have been playing about the same political game and about the real views and intentions of whom

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Questions and Answers on Combating "Inflation"

By WALTER E. SPAHR
Professor of Economics, New York University
Executive Vice-President, Economists' National Committee on Monetary Policy

Dr. Spahr analyzes various "inflation" concepts and points out desirability of using more precise terms. Says best monetary system cannot prevent rise and fall in prices, since causes of price fluctuations are found in forces affecting supply and demand, but that a defective monetary system can be an important factor in causing rising prices. Holds present monetary system is defective because not redeemable in gold. Examines causes of decline in purchasing power of our dollar and suggests cures. Explains how irredeemable paper money makes Congress subservient to pressure groups.

(1) What is "inflation"? The word "inflation" has no widely-accepted precise meaning in Economic science. A popular conception of it is that it refers to something that is socially injurious. Perhaps the most popular and useful meaning attached to the word is that "inflation refers to the depreciation of a currency in terms of goods and services—that is, to sharply rising prices. It would contribute much to exactness in discussions of money and prices if the term "inflation" were dropped from our vocabularies and if more precise words were employed to describe the price or monetary situation we have in mind.

Walter E. Spahr

(2) **Is currency depreciation, or "inflation," pronounced in this country?** If one uses the term "inflation" to describe a relatively sharp depreciation in the purchasing power of our money in terms of goods and services, then such "inflation" is pronounced in the United States.

The general cost of living at the end of 1947, as compared with the average for 1940, had risen some 65 per cent. This means that at the end of 1947 the consumers' dollars, in general, would buy only 61 per cent as much as in 1940, and that it required $1.65 to buy what $1.00 would buy in 1940.

In terms of wholesale commodity prices, the purchasing power of the dollar had declined approximately 50 per cent during that period. (The indexes were 78.6 for 1940 and 159.8 for October 29, 1947.)

Should one think of "inflation" in terms of depreciation of our money in respect to gold, then there has been none in the United States since the weight of our standard gold dollar was fixed on January 31, 1934. By a system of indirect conversion, running from our commercial banks through the gold certificates held by the Federal Reserve banks and back to the gold held by the Treasury, our irredeemable paper money has been kept on a parity with the gold dollar. But this maintenance of parity of our irredeemable paper money with gold by our system of indirect conversion is not the same thing as the maintenance of the purchasing power of the people's money and bank deposits. This purchasing power has declined sharply, and with relative rapidity, since 1940.

(3) **Did our monetary system contribute to the depreciation of the purchasing power of our dollar?** Rising prices have been caused by several factors of which the nature of our monetary sys-

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Special Tax Problems in Purchase And Sale of Securities

By ISIDOR SACK, C. P. A.*

Mr. Sack discusses legal and accounting aspects of Federal tax regulations dealing with short sales, puts and calls, "when issued" transactions, premiums on bonds, defaulted interest bonds, payments of dividend arrears, dealers' sales, and stock options to officers and employees. Says Treasury regulations dealing with short sales are a wide open invitation to tax manipulation. Holds rules dealing with "when issued" transactions are equally unreal, and criticizes tax regulations given regarding employee stock options. Advises as to tax on preferred stock arrears.

Short Sales of Securities

We ordinarily think of a sale as being the taxable event in a business deal but a short sale is an anomalous transaction in that it may be made before the securities are owned by the seller and the taxable event does not occur until the sale is completed by the delivery of the securities sold. The mechanics of a short sale are neatly described in *Commissioner v. Wilson*, 163 Fed. (2d) 680 (C. C. A. 9, 1947).

Isidor Sack

The gain or loss is computed when the transaction is completed by the delivery of the securities and the difference between the basis of securities delivered and the sales price is the profit or loss and the *date of delivery* (not the date of sale) is the date when the transaction is completed.

The holding period is determined by the length of time during which the securities delivered were held by the vendor. If he always owned the securities he will have a long or short-term gain depending on the span of time between date of purchase and date of delivery to the buyer. If, however, he bought the securities only for the purpose of making the delivery against the sale, the gain will be short term.

The decisions and the Commissioner's rulings sanction short sales of securities that are owned as well as securities that are not owned. This makes possible the conversion of what would otherwise be a short-term gain into a long-term gain.

To illustrate: If an investor owns a security which has increased in price before the six-month holding period, he can make a short sale of that security and not complete the sale by delivery until after he has held the stock for six months and then use the shares he owns for delivery against the short sale, thus completing the transaction after the long-term holding period has commenced.

In commodity trading similar rules apply and the Commodity Exchange Authority has made public disclosure of the common practice of keeping long and short trades open, and in a press release the early part of this year showed how a trader could make a profit

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*An address by Mr. Sack at Federal Tax Lecture Series, sponsored by the New York State Society of Certified Public Accountants, New York City, Feb. 3, 1948.

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Time to Retire SEC

SEC created because of belief in 1934 of an existing emergency. Its regime marked by imposition of hardships contrary to the public interest. Attempts to curtail its powers, a slow process, but partially rewarded by passage of Administrative Procedure Act and occasional misfiring of its price control policy. Capitalism, our system of free enterprise, endangered by the Commission's existence.

When the Securities Exchange Act of 1934 was passed there was a feeling in some spheres that a national emergency existed in the securities industry which required some form of administrative control.

In effect, the rationalization contained in Section Two of that Act entitled "Necessities for Regulation as Provided in this Title" is but another way of saying that there then existed a national emergency.

An emergency is a sudden condition calling for immediate action. Thus we hear of a war emergency, a housing emergency, an emergency caused by a hurricane or disaster.

It is one of chief characteristics of an emergency that sooner or later it comes to an end because in and of itself it constitutes a departure from normal conditions.

If we are correct in our position that the Securities Exchange Act of 1934 was the product of an existing emergency, then judging by the use the Securities and Exchange Commission has made of the powers entrusted to it, the wide and continued extension of those powers, it must be the belief and the intention of this Commission that the instant emergency shall and will never end.

Whether the creation of the Commission was the correct answer to the conditions existing in 1934 is not free from considerable doubt.

The search for a whipping boy lighted upon Wall Street and as is frequently the case in a punitive expedition the proposed cure created hardship, injustice and interference with our system of free enterprise.

Right now all this is high-lighted in the treatment being accorded to the financial statements filed by brokers and dealers pursuant to Rule X-17A-5, promulgated by the Commission.

Through many letters, brokers, dealers, and their associations have called to the attention of the Commission that as an inducement in a campaign for enlarged circulation, a financial publication is arranging to publish these financial statements.

These communications to the Commission have protested such conduct and have insisted that the filing under Rule X-17A-5 should be treated as confidential.

Despite the fact that part of the filings under this rule are treated as confidential under certain prescribed circumstances, the Commission has declared itself helpless with respect to the financial statements claiming that these are public records, hence available to everyone and that the SEC can do nothing about it.

The Commission says, in effect, that even though the Act itself does not prescribe the filing of annual financial statements by brokers and dealers and such requirement is made only by rule of the Commission, it is utterly powerless to prescribe confidential treatment for such statements.

Here is a recent explanation made by a representative of the Commission: "The obvious purpose of requiring brokers and dealers to file financial reports is not only to aid us in the enforcement of the Act, but also to afford persons the opportunity to ascertain the financial responsibility of the firms with which they do business. As a matter of fact most exchanges and the National Association of Securities Dealers, Inc., have rules requiring their members to furnish their financial reports to customers on request." (Our research shows that the NASD has no such rule and we doubt, too, that most of the exchanges of the county, with the exception of the New York Stock Exchange, have one—Editor.)

With the contention that *inter se*, a customer has the right to ask his broker or his dealer for a financial statement, we find no fault; even in everyday commerce this is not an

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What Business May Do From Now On

By A. W. ZELOMEK*
Economist, International Statistical Bureau

Mr. Zelomek, holding commodity price inflation will end of itself, warns credit inflation may continue and, though less spectacular, is more dangerous. Says business position is weaker and credit conditions tighter, and commodity peak price near. Holds government buying partly responsible for current high prices, and concludes new powers over credit are badly needed.

Let me consider first the commodity price inflation. Perhaps I shall disappoint you when I say that the commodity price inflation, in my opinion will end of itself whether we do anything about it or not. That does not mean that nothing should be done about it. But if I can defend the opinion that commodity prices even now are not far from their peak, then it is late in the day to be talking about remedies, and some of the remedies that have been proposed might do more harm than good. So let me describe the present situation as I see it.

A. W. Zelomek

First of all, let me admit that the banks, so long as the Federal Reserve continues to support the price of Treasury securities, have access to almost unlimited reserves, which can be expanded at the rate of approximately six to one into bank credit. There is an almost unlimited amount of credit upon which businessmen can draw, *if* they want to use it and *if* the banks want to provide it. Similarly, there is still a large supply of liquid assets and credit upon which individuals can draw, *if* they want to. There is plenty of fuel ready and available to stoke a far hotter inflationary fire than we have now, provided businessmen and individuals want to use it and the banks are willing.

This is the situation that worries the financial and monetary experts. I don't blame them. The inflationary potential is there in the banking system, bigger and stronger than it has ever been before in history. But I don't agree with them that our greatest inflationary danger is now, or that it lies in the commodity price structure. What will determine the duration of the commodity price inflation, as I see it, is what businessmen, banks, and the buying public will do; not what they could do.

Let's start with the business community, and try to discover the economic facts by which we can make a guess as to its probable psychology.

Last Year's Recession Interrupted Prematurely

The first fact is that there was a moderate recession in business activity during the second and third quarter of last year. Production declined by about 7½% between March and July. The wholesale price average declined slightly, and individual commodities dropped more sharply. A little further decline during the third and fourth quarters of last year, particularly in prices, and I believe most of the distortions in our economy would have been ironed out.

But the decline was interrupted.

Poor weather spoiled the corn crop. Retailers, some of whom were undercommitted, ordered heavily during the third quarter, in preparation for the fall and holiday selling periods. Wage increases for coal miners provided an excuse for sharp price increases in coal, steel and mass-production industries. After restrictions on building were removed, this industry recovered from a poor start. Payments to veterans in September helped reverse a trend of sales that had become increasingly unfavorable through August. The Government helped speculative psychology along by steadily bidding up the price of wheat. At the same time, inflationary fears were stimulated by rather irresponsible discussions of the Marshall Plan.

These developments were all stimulating, and they came along in rapid succession. The mild recession in business activity was cut short, and new highs were reached by most business indexes by the end of the year.

Business Position Now Weaker

Now we come to a second fact, which will help us in estimating what businessmen may do from now on. This recovery left business in a weaker position than it had been in March, before the moderate decline began:

(1) Order backlogs generally are a little lower.

(2) Stock-sales ratios have generally increased.

(3) The financial position of business has deteriorated. Profits were at record high levels last year, but business nevertheless was forced to reduce further its liquid assets, and to increase its bank debts and new security flotations.

(4) Money is harder to get and a little more costly.

(5) Prices are higher and therefore more vulnerable.

(6) The amount of speculatively held commodities, gray market supplies, is probably greater.

Of course, any guess about future psychology is no more than a guess. Perhaps there will again be a rapid succession of stimulating outside events, as there was in 1947, to keep things humming. Perhaps businessmen will throw all caution to the winds, drawing on bank credit and other resources to the fullest possible extent, to further increase inventories and expenditures for new plant and equipment. Perhaps banks will abandon the caution they have assumed, and perhaps investors will suddenly become eager to absorb large amounts of new securities. I admit these possibilities. But to me it seems a little safer at this stage to bet against them than to bet on them.

Credit Conditions Tighter

I believe we are equally safe in guessing that the banks will not ease up in their credit policies during the next few months. The official steps to tighten money markets have been comparatively mild—lowering of the support price for Treasury securities; an increase in the rediscount rate; and an increase in reserve requirements for Chicago and New York banks. But the banks themselves have joined in voluntary action that promises to be most effective. Every piece of commercial paper is being scrutinized with the greatest of care. Loan applications that are in any way questionable are being by-passed. Lending policies, at this point, are impressively tight.

Frankly, gentlemen, I do not usually have much confidence in the effectiveness of voluntary measures. The affected groups too often have a self-interest that restricts their full cooperation. But I recently made a trip through some 23 states, and I talked to a lot of bankers. They were badly worried last October and November. I am not in the least surprised that they have joined so quickly and so effectively in the voluntary program suggested by the Board of Governors of the Federal Reserve System, and outlined more formally by the American Bankers Association.

Retirement of Government debt during the first quarter will also

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*An address by Mr. Zelomek before the Business and Professional Men's Group, University of Cincinnati, Cincinnati, Ohio, Feb. 6, 1948.

Letter to the Editor

Calls Baruch Modern Santa Claus

Theodore Prince writes Editor views expressed by Mr. Baruch to Senate Foreign Relations Committee are Utopian and would kill Marshall Plan. Attacks plans to stop inflation.

Editor, "Commercial and Financial Chronicle":

The extended statement made by Mr. Bernard M. Baruch to the Senate Foreign Relations Committee on the Marshall Plan offered a panacea of Utopian remedies to our much troubled Congress, that seemed to place Santa Claus as the presiding and bounteous giver to our much troubled senior legislators on Capitol Hill.

Theodore Prince

Mr. Baruch proposes that we buy all nonperishabe raw materials produced anywhere in the world "for the next four years"; extend the President's present tariff authority for the next three years; that the countries of Europe form a "political, economic and defensive union under the United Nations"; that the United States guarantee a "firm promise to go to war in joint defense if any of them are attacked"; that the European nations organize "to liberate and use every productive resource of the continent" and for certain purposes mentioned by him "so as to protect the peaceful interest of Germany's neighbor"; "stabilize all European currency and establish realistic rates of exchange."

A two-year peace proposition drive here with longer hours and overtime "to work for peace as we worked for war"; reduction of major food and agriculture prices in exchange for guaranteeing farmers an assured price for the next three years; in return for this rollback, stabilization of wages. Set up a capital issues committee to review all capital issues, public and private. Set up a digging committee to scrutinize all Federal works and expenditures. Postpone tax reduction for two years and restoration of the excess profits tax by 50% of the cut from war levels. Systematic substantial lowering of the national debt "which is a terrible threat to our security."

Mr. Baruch claims these measures here stated in substance "put into effect promptly, can boost production sufficiently to cover the Marshall Plan and still break the present inflationary cycle almost immediately." Mr. Baruch emphasizes "Work—Production—Thrift — They made America—They can now save the World." Who is going to do all this?

A New Despotism

This gargantuan aggregation of remedies if finally set up as envisaged by Mr. Baruch would make the Soviet autocracy look like a Sunday School Choral Society. The blessings of this furious welter of politics, economics, bureaucracy, experimentation with new systems of controls and bureaus here and abroad, of all classes of top men, middle men, with an army of regulars and dispensers of economic harmony and well being, is just a beneficient dream. We need simplication of processes and thought and amplification of democratic processes, not the piling on of complicated systems and bureaucratic amplitudes. The innumerable combination of ensuing complications and impotencies are legion.

Would Kill the Marshall Plan

The first result of these suggestions would be to kill the Marshall Plan, for sufficent fear has already been manifested by some of the nations that their sovereignty will be impaired by foreign regimentation. The Soviet Union is already pounding this idea into the heads of all people of the sixteen nations. We only need publish this plan to give all the communists of Europe a successful battle cry against any such plan.

Guarantee of Peace

Again, are we going to guarantee peace? Wilson tried it. Byrnes at the Dumbarton Oaks Conference side-stepped the elimination of the veto for fear the Security Council of the United Nations could vote us into war.

What Caused Inflation?

We have issued some $265 billion of fiat money in effect, spent some $400 billion for goods that have been thrown into the gutter—that's war. Are we going to begin all over again? That's inflation, but we can't stop it by working less and paying more and taking on a new "cold war" with far extended obligations all over the world unless we conceive these problems fundamentally and try to simplify them rather than complicate them. We cannot undo a great calamity in a day. It takes time. We are still paying off veterans of the Civil War.

The destruction incalculable is of such nature that it will take years for us to produce enough goods to put us back to where we were before the war.

If we have too much goods in relation to money we have a depression. If we have too much money and too little goods we have prosperity or inflation. We have destroyed a trillion dollars of property and created much more than a trillion dollars of money in some form or other all over the world. We have impoverished ourselves in goods and enriched ourselves in insignias of payment or dollars. To the extent that this margin is wide we have almost worthless money, as in Hungary and China, against real money as here and in Switzerland, notwithstanding that this real money is worth less in terms of actual buying power than before the war. There is no way that this high imbalance can be restored for years to come.

Government Spending—No Cure For Inflation

The great architect of this inflationary structure was the Government itself. In 1945, the head economists of the administration predicted we would have a recession in the Spring of 1946 with 8 million unemployed. That started the orgy of raising wages to stem the coming depression. The effort to keep these raises from effecting heavy costs was futile as any repression simply brings black markets into being, everywhere and every time. Now, 12 million more are employed than

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Observations . . . .

By A. WILFRED MAY

The Economic Follies of 1948
The Political Show Is Getting a Record Run

Apparently the most definite result of the commodity markets' sharp declines, is the fillip given to the economics show being staged in the nation's political theater.

The first scene in the latest act employing the politician's stunt of dressing-up in the costume of economist, consisted of Mr. Truman's across-the-chest demonstration of an elaborate price-chart at his press conference of last Thursday.


A. Wilfred May

Unfortunately for the progress of the President's valiant campaign to accomplish the unprecedented coup of reelecting a party-in-power even in the event of a possible depression, his sense of timing went askew. For the simultaneous natural and orderly fall in the nation's commodity markets (a situation about which he professed ignorance) supplied the out-of-power Republicans with the most effective imaginable rebuttal to the Democrats' strategic line that only the granting of the demanded controls can prevent further inflation and crash. Mr. Truman put on his show in a vacuum of unreality. For the price of wheat was dramatically extending a three-week fall, to the extent of 60 cents per bushel, without those controls the President was reiterating are indispensable to prevent its further rise.

Taken at its face value, the President's statement to the nation can only mean that he opposes the existing orderly price-recession—and at the same time predicts a crash if his program is not adopted. Unfortunately for our democratic processes and the dignity supposedly surrounding the position of Chief Executive of the nation, one is forced to the conclusion that—during the balance of 1948 at least—his own statements cannot be viewed at their face value, nor can his economics verbiage be considered anything other than deliberate camouflage and prostitution of that profession's integrity for his capture of the electorate.

In what other light can Mr. Truman's repeated professions of the dire necessity for price reduction be viewed, when before the naturally-induced decline in wheat has fairly got under way his Secretary of Agriculture rushes to the press with the announcement that the government will soon again bull the market to the tune of 40 million bushel purchases? Just how does this "comforting" reassurance fit into a serious deflation program?

Those "Greedy Speculators"

But the Pauley cause celebre furnished the real Gilbert-and-Sullivan political burlesque in this area. Act one saw the President pontifically scolding the "greedy speculators" for allegedly trading on the people's misery for their own profit. Act two disclosed Mr. Stassen's charges that Mr. Truman's and his administration's very own Mr. Pauley was actually one of the most prolific of those speculating devils. In Act three Mr. Pauley, after denying the charges, admitted them with bitter recrimination concerning the political motivation of "Candidate Stassen" rather than of the office-holding Truman. (The epilogue was occupied with Mr. Pauley's resignation).

This week's political show is staged by Congressman Andresen, in accusing the Administration of enriching the speculators through disseminating largesse of "inside knowledge" of the coming break; and of ruining the wheat farmers by causing "the bottom to fall out" of the markets.

New Directions in Brain-Trusting

Whatever may have been the shortcomings of President Roosevelt's earlier and original brain-trusters, their efforts at least were devoted to furthering the welfare of the nation as they saw it. Mr. Truman's present board of strategy, on the other hand, is performing most ably but wholly in the groove toward the goal of getting its chief elected. Here a most effective job seems to have been done in putting their political opponents in a hole—in very subtly getting them into the Hobson's-choice dilemma of being subject to the public's future blame in the event of either a further price upswing or a collapse. This is the result of Mr. Truman's warnings of *both* inflation and "crash"—most cutely designed and accomplished, but a kind of strategy whose use by the highest officer in the land at this crucially epochal time in world affairs is to some of our citizenry decidedly on the disgusting side.

Misrepresentations about our domestic economy's workings have seriously affected the legislative course of the Marshall Plan's adoption, because here again the President has sowed his political alibi seeds in advance. In discussing the amount of funds for a project whose needs have not the slightest scientific measure, Mr. Truman has "warned" that if the Congress does not give him every penny he has demanded, he cannot be responsible for the result of another "operation rat-hole."

Tax and Budget Skulduggery

Then, too, we have the top-level political skulduggery about taxes and the budget. After twice vetoing Republican-generated bills designed to relieve the taxpayer of a small part of the wartime impost, on the major ground of the inflationary repercussions, the President nevertheless could turn about to woo the voter by offering to swell the spending stream through proposing a $40-a-head bonus device. And his attitude toward budget-cutting, which should be welcomed as a prerequisite to any manner of tax relief, is one of advance nose-thumbing at the constructive economizing aims of responsible Congressional committee members who happen to be his political adversaries.

* * *

No inference should be made from the above observations of a charge of White House monopoly on political motivation. But this writer does feel that some slight measure of self-discipline should be looked for there, both to preserve some dignity in the Presidency and to further the continuance of the democratic form of government in its last remaining stronghold.

The State of Trade and Industry

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

A modest decline occurred in manufacturing activity the past week with output in some lines moderately under the level of the preceding week. Production generally, however, was somewhat in excess of that which prevailed in the like week of 1947.

Deliveries of raw materials were delayed in some areas and bad weather and continued scarcity of some fuels hampered production in certain lines. The Bureau of Mines in its current estimate of domestic crude petroleum necessary to meet the demand in February, 1948, placed the amount at 5,331,000 barrels daily.

* * *

Inclement weather in many sections of the country the past week continued to have an adverse effect on consumer purchasing and, as a result, retail volume declined moderately. The dollar volume of consumer buying was slightly above the level of the corresponding week a year ago and shoppers generally continued to seek staple items of good quality.

Dollar volume of wholesale trade declined fractionally in the week, but reflected modest improvement above the level obtaining in the like week of 1947. Retailers continued to be cautious both in ordering large amounts of merchandise and in making long-term commitments. Collections were generally reported to be prompt with deliveries slow in some areas.

* * *

At the close of last week the United States Census Bureau reported a drop of 798,000 workers from employment rolls in January due to seasonal factors. The decline brought the total number of persons holding jobs down to 57,149,000, the lowest level since last April.

* * *

The decline experienced in commodity markets last week was looked upon by many as a wholesome turn from the upward spiral of commodity prices experienced since the close of the war and more in the nature of a long-overdue corrective.

This was especially true of grain prices which were inflated by the world demand for food. However, with crop conditions showing improvement both at home and abroad, less justification obtains for such high prices and they could not hope to continue at such peak levels.

Looking back to a somewhat similar period following World War I, it appears that history is once again repeating itself.

* * *

Encouraging was the report from the Bureau of Mines of the United States Department of the Interior on Saturday, last, on copper output in 1947.

According to the Bureau, the general absence of labor-management disputes, such as plagued 1946, featured the production phase of the copper industry in 1947 and was chiefly responsible for the gains of 39% in mine output, of 42% in smelter production from domestic ores and of 58% in refinery output from domestic primary materials. The Bureau also stated that gains in 1947 production were assisted by the highest annual price since 1918 and a slight improvement in over-all mine labor supply.

* * *

With factory sales of motor vehicles totaling 468,704 units in December—the high month for 1947—the automotive industry wound up the year with total United States factory sales of 4,796,399 cars, trucks and coaches, the Automobile Manufacturers Association announced recently.

The total exceeded 1946 by 55%, and was topped only by 1929's factory sales of 5,358,420 units and 1937's 4,808,974 cars, trucks and coaches. December factory sales represented a 19% increase over November, and exceeded the previous high month for 1947, October, by 7.5%. Exports of motor vehicles in 1947 amounted to 512,353 units, or 10.7% of the year's total production, the above authority stated.

* * *

Maintaining that industry's staggering expenditure for plant and equipment continues a key factor in our economy, "Business Week," in its current editorial "Outlook," emphasizes how immense is the job of building for the postwar market not to speak of problems encountered in marketing the new production.

Showing anew how all industry prospers from expenditures in hard-goods lines, particularly on production equipment, it dramatizes the role of profits in today's expansion and states that planning rests more and more on ability to plow back earnings. Taking up its final point of the survey of industry's capital expenditure plans, it warns of the impact if spending suddenly should be cut.

Present plans of corporations with regard to expansion, it points out, call for smaller outlays on plant and equipment in 1949. It states, however, that additions to budgets must not be ruled out as

(Continued on page 25)

N. Y. State to Market $300,000,000 Bonus Bond Issue in March

Frank C. Moore, Comptroller of the State of New York, announced on Feb. 10 that he plans to sell on or about March 2, the initial installment of $300,000,000 of an authorized issue of $400,000,000 bonds, proceeds of which will be used to pay a bonus to the State's World War II veterans. Date of sale of the forthcoming offering was decided on after a series of conferences between Mr. Moore and representatives of banking groups. The $300,000,000 bonds will mature in equal annual installments from Jan. 1, 1949 to Jan. 1, 1958 inclusive. A constitutional amendment providing for the $400,000,000 authorization was ratified by the voters of the State at the November, 1947, general election. Although full faith and credit obligations of the State, the entire debt is to be retired from the proceeds of special taxes sanctioned by the voters for that purpose. To implement the bonus payments, Comptroller Moore borrowed $100,000,000 on one-year notes early in January. Bonus checks to veterans are now being transmitted at the rate of 13,000 a day, with the total daily disbursement aggregating about $3,000,000, Mr. Moore disclosed.


Frank C. Moore

Joins Frank Newman Staff

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—Joseph F. Mazy has been added to the staff of Frank D. Newman & Co., Ingraham Building.

Courts Adds to Staff

(Special to THE FINANCIAL CHRONICLE)

ATLANTA, GA.—Joseph H. Atkinson is now with Courts & Co., 11 Marietta Street, N. W., members of the New York Stock Exchange.

1948—An Appraisal and Forecast

By JULIAN D. WEISS*
President, First Investment Corporation, Los Angeles, Calif.

Though admitting current year forecasts are optimistic, and no important near-term decline in business is anticipated, Mr. Weiss warns that large business volume, higher break-even points, and more rigid cost structure increases vulnerability of industry, lessens proportion of earnings prudently paid in dividends, and increases reliance on capital markets for new financing. Sees no sustained major upward movement of stock prices in immediate months ahead, and advises selectivity in purchases.

A year ago business forecasters were overwhelmingly pessimistic. Subsequent events proved their conclusions incorrect.

In contrast, the current year's forecasts are optimistic. This is illustrated by various surveys including the recent poll of executive opinion reported in "Fortune" magazine.

Julian D. Weiss

We submit that the economic situation is now more vulnerable and embodies greater risks than a year ago. As discussed below, an important decline in business activity is not anticipated over the near term. However, by way of illustration, corporate profits are vulnerable, particularly thinking in terms of the trend which well may have its inception in the third or fourth quarters of 1948.

Our analysis, as submitted below, first considers the business outlook and then the market outlook. These are two radically different things. For psychological and technical and other reasons, one can't simply conclude that the market will roughly parallel (though with some anticipation) the Federal Reserve Board Index of Industrial Production.

*Mr. Weiss prepared this article as of Jan. 26.—Editor.

Current and Prospective Economic Situation

1948 has started under favorable auspices. Business activity is being maintained at all time peak levels, as measured by the FRB Index of Industrial Production (physical volume measurement). National income (a dollar figure and affected by price level) is running at a rate well above $200 billion, which compares with about $164 billion in 1946; around $161 billion in 1944 and 1945; with $97 billion in 1941; $72 billion in 1937; and $83 billion in 1929. Consumer purchases have been at all time peaks and continue to be favorable. Business expenditures for capital goods have been at high levels, especially the latter part of 1947. Budgeted expenditures for heavy goods for the first quarter of 1948 are at an annual rate in excess of $17 billion, (adjusted for seasonal factors), and at a slightly lower rate than for the last quarter of 1947. Unfilled orders, particularly for heavy goods manufacturers, are remaining around peak levels; and incoming orders in recent months have been strong and continue that way, in contrast to the decline in March-May, 1947. There is virtual assurance that such key basic industries as steel, automobiles, building, oil and farm equipment face demands guaranteeing capacity operations. These strong demand factors promise a continued high level of business activity in 1948; with a working premise being that in the first half of the year it will approximate the peaks of the second half of 1947; and the second half of 1948 promises a slightly lower level. Further, unlike the 1921 crack-up period, credit currently is not strained.

In light of these factors, why is our broad viewpoint one of caution? This approach and conclusion is not predicated on absolute levels nor major current weaknesses; but rather on the idea that from a forecasting viewpoint, prospective trends are more important than absolute levels; and because it is apparent (for the reasons enumerated below) that our economic risks are increasing. Our economy is becom-

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The Case for Common Stocks

By THOMAS W. PHELPS*
Partner of Francis I. duPont & Co.

Citing the choice between "things" or money as the most basic investment decision, Mr. Phelps points out the numerous advantages of stocks over both inert assets and our present money. Listing the bullish industrial elements, both existing and expected, he ascribes low market levels to under-supply of available equity capital related to supply of stocks, and urges tax reform, together with effort to sell them to farmers and union members.

Nowhere is pride of opinion more expensive than in the stock market. To my mind the best financial advice in the Bible is "Blessed are the meek, for they shall inherit the earth." I may be taking liberties with the Good Book to translate meek as meaning modest or humble, but I do so on the basis of the high correlation I have observed between meekness in that sense and success in investing.

Thomas W. Phelps

Perhaps it will help to make clear how I feel about common stocks if I tell you something that happened at home this week. Much to my surprise, my 13-year-old son asked me, "How was the market today?"

"All right," I said (actually it had declined a little), "but what makes you ask?"

"I just wanted to know if it was going your way," he replied.

I could see that something was worrying him, so I gave him this picture:

When you play football you belong to one team and you stay on that team until the end of the game, win, lose or draw. But when you go into the stock market you sole object is to decide in advance which side is going to win, and to join that side. If any time thereafter you think the other side is going to win you change sides as fast as you can. The object is to be on the winning side as much of the time as you possibly can.

But how do we decide in advance which side is going to win?

The Choice Between Things and Money

The most basic of all investment decisions is whether to put our savings in "things" or in money. "Things" include land, buildings, mines, ships, grain, cotton, pepper, oil and diamonds to mention only a few. Common stocks are pieces of paper evidencing ownership of "things" in common with other owners of the same "things."

Money includes the currency in our pockets, the deposits in our bank accounts and contracts for the delivery of money sometime in the future. Such contracts, I do not need to tell this group, are what people know as bonds. Admittedly it is sometimes difficult to draw a line between what is really a common stock and what is really a bond. For all practical purposes, however, the distinction is as clear as that between darkness and light, which is a perfectly valid distinction even though most of us would be hard put to it to draw a line between day and night.

To my mind, the acid test of sound money is that over the years it shall cost approximately as much to produce an additional unit of that money as that additional unit will buy. Gold meets that test.

Unfortunately for our peace of mind, problems in economics never are simple. As Francis I. duPont, the founder of my firm, used to put it, in economics we always are working with dirty test tubes. He meant that it is never possible to isolate a single cause and study its effects. Thus we find money is valued not alone for what it is but for what we can buy with it. That really is the basis of the argument of those who say that inflation of the money supply can be cured by production. Conversely, when people can't buy the things they want, some of them buy whatever they can without much regard for what it costs.

Making Worthless Money Valuable

An inherently worthless money can be made valuable if the issuing government has the power to require enough of it to be paid back to the government in the form of taxes. Twenty-five years ago I saw both the purchasing power and taxing power theories work out in practice in the Belgian Congo. Native labor was wanted for the copper mines but the natives had no use for money, though it was good money by civilized standards, convertible into gold. The trouble was that the natives wore almost no clothing, their women did what little work was necessary for their existence, and much of their food grew wild. Having no use for money the natives naturally would not work for it. Ultimately the money-labor problem was solved along two lines. First a head tax was imposed. That meant that each adult male native had to raise a few francs each year just for the privilege of breathing the fresh air of the Congo. For most of the natives, the only way those francs could be obtained was by working in the mines. Compelling men to work to pay taxes, however, comes pretty close to compelling them to work, period. Men work best when fear of punishment if they don't work is combined with hope of reward if they do. The mine owners built villages, offered free housing to the natives, and, as soon as they were settled in those villages, tempted the women with attractive displays of merchandise in company stores. Once the native wives began to do competitive buying in the company stores, the heat was on their men folk to work to keep up with the African Joneses.

Aside from inherent value, taxes and purchasing power there is another factor which tends to sustain the value of money. That factor is habit, or what we might call the rigidity of the social structure. The more complex a society, the more economically

(Continued on page 28)

*An address by Mr. Phelps before the Bond Club of Buffalo, N. Y., Jan. 28, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

The Truman Administration is acting quite smug about the "revolt" in the South. Undoubtedly its attitude has been bolstered by the reports of the cynical newspapermen who covered the recent meeting of Southern governors at Wakulla Springs, Fla. All of these young men concluded that it was just a lot of spouting off on the part of these governors and they all agreed that in the end the South would once again be found sheepishly in the Democratic column.

Carlisle Bargeron

I am not one to say this will not be the case. On the other hand, I should not in the slightest be surprised to see the "revolt" grow into serious proportions. For one thing, I have been in the South twice recently and the feeling is intense.

You have only to be talking with people down there for 10 minutes when the "race question" inevitably comes up and the epithets you hear about Truman are indeed shocking.

The South has no feeling towards the Republicans on this matter because they have never expected any better of them. It is a fact, too, that any revolt on the South's part now would only tend to elect a Republican Administration which the Southerners have always held in contempt because of their political solicitude for the Negro.

They refer to a Republican in the South as a "Black Republican." The Republican party's attitude towards the Negro is solely responsible for the South's having had the one party system.

They wonder now what it has availed them. The party of which they have been the nucleus, in success and in adversity, has turned on them as they see it and is forcing down their throats things infinitely worse than anything the Republicans ever attempted. They have every reason to believe, indeed, that under the next four years of Republican administration they will have less trouble than they are having under the Democrats, not that the Republicans aren't giving lip service to the very same things which the New Deal Democrats are mouthing but their racial problem under the Republicans heretofore hasn't been troublesome. It was first made troublesome for the South when its own political party came into power.

This is the way influential people in the South are thinking. It is rather ridiculous for the young reporters to write under the circumstances, that the Wakulla Springs meeting will come to naught.

I was just as cocksure in the 1928 campaign. For the first time political writers of the newspapers went into the South in that campaign because of the furore that had been stirred up against Al Smith. These fellows go around in every campaign testing the sentiment.

All of us felt the intenseness in the South but practically every one of us reported complacently that notwithstanding this feeling, the South would likely continue to vote Democratic. It did no such thing. Four States of the Solid South, Virginia North Carolina, Florida and Texas were overturned.

I have good reason to believe that at least two other States, Alabama and Georgia, returned a majority for Hoover but they were counted in the Democratic ranks. It so happened that I was a tremendous admirer of Al Smith and this disgusted me, but it happened nevertheless.

The fellows now who are writing so cocksurely about the South, who are dismissing the Wakulla Springs meeting as just a lot of blowing off of steam, had better go back and read what happened in the '28 campaign. The Truman Administration had better do so.

I'll say this much, the way in which Truman is trying to exploit the Negro vote is downright offensive. The Republicans are trying to match him, admittedly, but somehow they don't seem to be as offensive on the subject as the Democrats. One shouldn't say "Democrats" either, because it is the New Dealers who are pressing the matter.

Governor Dewey may think he is helping his Presidential candidacy by having Senator Ives press in the Senate a version of New York State's FEPC. The Governor is mistaken. It is causing him, in fact, to lose friends among Washington correspondents and editors previously devoted to him.

One reason is because several of them have talked with him at one time or another in the past about New York state's FEPC and he has told them that it sickened him in the stomach but that it wasn't doing any harm because it wasn't being enforced.

Now, these editors and correspondents see Ives pressing it as a matter of Federal legislation.

Bob Taft wants the Negro vote just as much as any of them but it is another one of the decent things about him that he will not support this measure. It is utterly nonsense to say that it is a bill to prevent discrimination against the Negro in employment. It is a bill to tell the employer that he can't employ whom he wants to employ.

Two With Herrick, Waddell in Fla.

(Special to THE FINANCIAL CHRONICLE)

Carl H. Dekle of Lakeland, Fla. and Harold B. Cornwell of Bradenton, Fla., are connected with Herrick, Waddell & Co., Inc. of 55 Liberty Street, New York City.

With Vic Wikle & Assoc.

(Special to THE FINANCIAL CHRONICLE)

ANDERSON, IND.—James Colbert is with Vic Wikle & Associates, Inc., Citizens Bank Building.

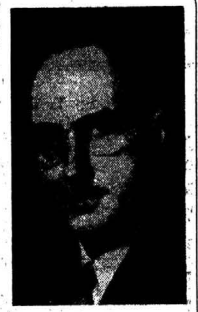
Technical Considerations in Market Analysis

By ALEXANDER H. WHEELAN*

Vice-President, Morgan, Rogers & Roberts, Inc., Investment Counselors

Asserting function of market technician is to determine where market is at any given time on trend basis, Mr. Wheelan discusses methods of tracing trends of both general market and of individual issues. Indicates limitations of general averages as trend index, and contends studies in market technique are largely studies in law of probability as relating to market movements. Stresses co-ordination of fundamental and technical considerations in testing market, and says conditions warrant view 1948 will be prosperous, but holds basic factor in investment policy should be prudent selection of stocks.

In discussing technical considerations in market analysis, it is pertinent to review the elements that create market movements. Market fluctuations result from the operation of supply and demand. This simply means that thousands of individuals create price changes as a result of buying and selling which is motivated by their knowledge and reasoning, or by emotions — hopes, fears, etc. The millions of shares turned over every week in the stock market are dealt in by many people in different circumstances who have widely divergent objectives in their market operations. Some are institutional investors, trust companies, investment trusts, etc. Other "professionals" include Stock Exchange members, market advisory organizations and "insiders" such as bankers and large corporation executives. Then there are the professional operators, the businessmen speculators, the occasional traders and the board-room sitters.



Alex. H. Wheelan

The operation of these component groups is what makes the stock market. The influence of any group varies at different times and none dominates the market for long. The individuals comprising certain of these groups are long range investors. Some have investment accounts which are more-or-less permanent and are active in the market only to keep commitments in favorably situated industries and to alter the balance between stock and bond investment in line with changes in the business cycle. Others take market positions to catch intermediate term swings and these individuals may remain out of the market for long periods of time. Still others are active in the market most of the time, always ready to catch trading moves either with long or short positions. It is fair to assume that the professionals are successful in most of their operations or they could not long remain in business —for trading in securities is their business. It is also a fair assumption that many of the non-professionals are unsuccessful in their market activities as indicated by their being locked in as "involuntary investors." The market mortality rate has been large in the past and every bull market attracts a new crop of uninformed individuals who buy and hold shares at prices which later prove to be too high.

Methods of Market Analysis

The thousands of people who deal in securities or give market guidance use a great many different methods of market analysis. Fundamental research into background economic factors is widely employed, together with statistical studies of balance sheets, earnings and profit margin factors and considerations of management, competitive position and related values, etc. Technical studies are an entirely different approach to market analysis, using only the action of the market itself for judging the probable future course of the market in general or of individual stocks. One branch of technical analysis uses automatic or mechanical devices for giving buying and selling indications. The Dow Theory is in this category, as are relative velocity studies, trend barometers, oscillators, moving averages, cycle studies and countless means for reducing the market to mathematical formulae. Another branch of technical analysis is directed toward the development of good market judgment in estimating the relative strength of Supply and Demand in the market, and in individual stocks or commodities, to determine when to buy, when to sell, how much of a price movement is indicated and how to limit risk. The Point and Figure Method falls into this last category of market analytical procedure and I place great emphasis on this particular method of technical analysis.

Every transaction in the market is both a purchase and a sale. The reasons that motivate human beings in their purchase and sale of equities are infinite in number. Transactions are made because of varying estimates of value and more particuarly of prospective value. Great differences of opinion are always present, also difference in the needs and objectives of buyers and sellers both on a long and short-term basis. Moreover, the emotional reactions of traders have a great deal to do with their decisions to buy or sell. The sum total of what everybody knows or believes, or hopes or fears about the value and prospective value of an equity is crystalized in the market place and determines the price. As the needs, thoughts and emotions of traders change from day to day, even from hour to hour, the bid and asked quotations of equities are altered and this is reflected by price changes in the market. Price fluctuations are the response to changes in the composite Supply-Demand relationship in the market.

As market action is plotted on stock charts, it becomes immediately apparent that activity confined to narrow range limits is followed by a definite move to a substantially higher or lower price level where another trading range occurs before the next important price swing takes place. These phases of market action within a trading range result from the operation of supply and demand at the price level in which it occurs The result of the activity of buyers and sellers may keep the market in a neutral position for a while. But sooner or later either buying power or selling pressure will dominate to the point of causing the price to rise or fall from the trading range and to create either uptrend or downtrend action. The trading range represents the field in which buyers and sellers battle it out and finally reach a conclusion as to which is the more powerful. If the total composite urgency to sell at a certain price level is greater than the willingness to buy, the price will decline to a level which attracts buyers. On the other hand an excess of buying power at a given price level will cause an advance to a level

(Continued on page 34)

*An address by Mr. Wheelan before the Association of Customers' Brokers, New York City, Feb. 11, 1948.

Public Utility Securities

Atlanta Gas Light Company

Consolidated Electric & Gas Company, a holding company in process of integration, recently issued to each share of its own preferred stock (in retirement of same) seven shares of Atlantic Gas Light common stock. The exchange was approved by the SEC and a Federal District Court, with no indicated opposition to the Court proceedings.

There has been an over-the-counter market in the stock since the date of the Court confirmation of the plan. According to a study of Atlanta Gas Light recently prepared by Blair & Co., 38% of the shares had been acquired by residents of Georgia as of Dec. 23, indicating the confidence of local investors in the company.

The company was incorporated 92 years ago, and in recent years has benefited by the war-stimulated growth of Atlanta, plus the increasing demand for natural gas (only about 7% of output is manufactured gas). Continued rapid growth for the Atlanta area is anticipated by the company, since it is planning its expansion program to service a metropolitan area population of 900,000 in 1956 compared with 500,000 in 1947.

The use of natural gas is particularly important in the south since it can be used advantageously for house heating as well as cooking and hot water heating. Rates are so low that there is practically no competition from coal or oil for house heating.

Regarding the company's natural gas supply Blair & Co. report as follows: "The company purchases its entire supply of natural gas under two contracts from Southern Natural Gas Co. These contracts expire in 1949. However, inasmuch as Atlanta Gas Light is one of Southern's largest customers the extension of these contracts is anticipated. To bear out this assumption, we note that the company recently contracted with Southern Natural Gas Co. to supply Atlanta Gas Light with 200,000,000 cubic feet of gas per day by the end of 1948. Southern Natural has embarked on an expansion program. It is the intention of Southern to build a duplicate line to the Atlanta area which would double the present supply of Atlanta gas Light Co. This parallel line will be delayed due to the inability to get large pipe. However, in the meantime, the capacity of the present line is being enlarged by about 30% by increasing the pumping station capacity."

The company's growth in recent years has been rapid and consistent. Revenues increased from $5,612,000 in 1937 to $13,901,000 in the 12 months ended Sept. 30, 1947; and an increase to nearly $16,000,000 is forecast by 1950. In common with other utilities, the company's share earnings have failed to keep pace with the gain in gross, but nevertheless have increased from 79¢ in 1942 to $2.01 in the September 1947 period (both figures based on the new number of shares, 802,553). An initial common dividend of 60¢ per share was paid in December a quarterly dividend of 30¢ will be paid March 1, indicating a regular $1.20 rate.

Earnings for 1948 will be affected moderately by an order of the State Commission to reduce rates $276,000 a year effective Jan. 2. After allowing for the 38% Federal tax saving this would amount to about 21¢ a share. However, with the anticipated growth the rate cut may soon be absorbed.

The pro forma capital structure as of Sept. 30, 1947, was as follows:

	Amount	%
First Mortgage Bonds, 3% due 1962	$7,015,000	36.3
Preferred Stock, 4½% (20,000 shares, $100 par)	2,000,000	10.4
Common Stock & Surplus (802,553 shares, $10 par)	10,286,000	53.3
Total	$19,301,000	100.0

The stock is currently selling around 17 to yield 7.1%, with a price-earnings ratio of about 8½. Based on a table prepared by Blair & Co. the stock would appear to compare favorably with other natural gas stocks on a basis of yield and PE ratio.

Model, Roland & Stone N. Y. Exchg. Members

Model, Roland & Stone, 76 Beaver Street, New York City, announced that the firm has become a member firm of the New York Stock Exchange and an associate member of the New York Curb Exchange. The firm also announces that Frits Markus has become a general partner.

With Herrick Waddell Co.

(Special to The Financial Chronicle)

PHILLIPSBURG, KANS.—Clarence W. Glassen is with Herrick, Waddell & Co., Inc., 55 Liberty Street, New York City.

Kenneth Cameron Is With Walston, Hoffman

(Special to The Financial Chronicle)

LOS ANGELES, CALIF.—Kenneth C. Cameron has become associated with Walston, Hoffman & Goodwin, 550 South Spring Street. He was formerly an unlisted trader for J. A. Hogle & Co.

A. W. Lindgren Is With A. H. Bennett Co. Staff

(Special to The Financial Chronicle)

KANSAS CITY, MO.—Axel W. Lindgren has become associated with A. H. Bennett & Co., 1004 Baltimore Avenue. He was formerly with Slayton & Co., Inc.

Phil. T. Barmonde Mgr. First Colony Dept.

Philip T. Barmonde, formerly manager of the trading department

Philip T. Barmonde

ment of Seaver & Co., is now associated with the First Colony Corporation, 52 Wall Street, as manager of the trading department.

How Individual Can Help Stop Inflation

The National Rockland Bank of Boston suggests six definite steps each individual can take today to help stop inflation:

(1) Write your Congressmen today, telling them you want government expenditures sharply curtailed and the national debt substantially reduced.

(2) Work to the best of your ability to increase the production and distribution of goods, food, and services.

(3) Help conserve articles in scarce supply.

(4) Borrow personally only when absolutely necessary and for your business only when it increases production or aids distribution.

(5) Practice thrift generally.

(6) Buy and hold U. S. Savings Bonds.

The six-point program outlined above is suggested to individuals by the bank in a new booklet, "The A-B-C of Inflation in the United States," by Roger Amory, Board Chairman.

Inflation, its causes and effects, and various curbs, are set forth in an easily read and understandable way. Mr. Amory emphasizes the weaknesses of some of the remedies being applied or suggested, and stresses the need of concerted interest and action if the fight against inflation is to be won.

Copies of this article are obtainable at The National Rockland Bank of Boston.

New Teletype Number

ST. LOUIS, MO.—The Mercantile-Commerce Bank & Trust Co. of St. Louis announces that their teletype number has been changed to SL 553 in order to provide for an additional machine.

Wilson with Hannaford Co.

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—Guy E. Wilson has become associated with Hannaford & Talbot, 519 California Street. He was previously with Wilson, Johnson & Higgins.

Harris, Upham Co. Adds

(Special to The Financial Chronicle)

SAN FRANCISCO, CALIF.—William W. Adams, Jr., has been added to the staff of Harris, Upham & Co., 232 Montgomery Street.

Dealer-Broker Investment Recommendations and Literature

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

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

Bank Portfolios—Detailed information—Gordon Graves & Co., 30 Broad Street, New York 4, N. Y.

Break Down of Government Bond Portfolios—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Also available is a **Break Down of Sources of Gross Income** for 20 New York City Banks.

Charts—922 charts in spiral bound book covering 12 complete years, and showing monthly highs, lows, earnings, dividends, capitalizations, and volume on virtually every stock listed on the New York Stock and Curb Exchanges —single copy $10—yearly (six issues) $50—F. W. Stephens, 15 William Street, New York 5, N. Y.

Platinum—Analytical brochure—Bache & Co., 36 Wall Street, New York 5, N. Y.

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

United States Government Securities and the Money Market—Review of 1947 and outlook for 1948 Bankers Trust Company, 16 Wall Street, New York 15, N. Y.

* * *

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.

Central Illinois Public Service Co.—Analysis—Edward D. Jones & Co., 300 North Fourth Street, St. Louis 2, Mo.

Delta Airlines—Analysis—Schwamm & Co., 50 Broadway, New York 4, 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.

Electrolux Corp.—Circular—Ward & Co., 120 Broadway, New York 5, N. Y.

Also available is a circular on **Northern Engineering Works.**

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.

Park City Consolidated Mines Co.—Year-end analysis and information on company which is listed on the Salt Lake City Stock Exchange—R. V. Klein Co., 170 Broadway, New York 7, 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**, 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.

United States Plywood Corp.—Memorandum—Freehling, Meyerhoff & Co., 120 South La Salle Street, Chicago 3, Ill.

Worthington Pump and Machinery Corp.—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is a tabulation of the data on **Bank Stocks** and an analysis of **Thompson Products, Inc.**

COMING EVENTS

In Investment Field

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. 20, 1948 (Philadelphia, Pa.)
Philadelphia Securities Association Luncheon at the University Club.

Feb. 23, 1948 (Houston, Tex.)
Investment Dealers Association of Houston annual field day and dinner at the Houston Country Club.

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

March 5, 1948 (New York City)
New York Security Dealers Association 22nd Annual Dinner at the Waldorf Astoria.

March 12, 1948 (Toronto, Ont., Canada)
Annual Dinner of the Toronto Bond Traders Association at the King Edward Hotel.

April 23, 1948 (New York City)
Security Traders Association of New York 12th Annual Dinner at the Waldorf-Astoria Hotel.

Nov. 15-18, 1948 (Dallas, Tex.)
National Security Traders Association Convention.

The End of Bretton Woods?

By PAUL EINZIG

Commenting on British opinion regarding French defiance of International Monetary Fund, Dr. Einzig reports opponents hail it as permitting Britain to follow her own monetary policy, since the Fund is no longer a super-State in monetary matters. Says French move creates distrust in sanctity of international contracts.

LONDON, ENGLAND.—The decision of the French Government to defy the International Monetary Fund by disregarding its objections to the establishment of a free market in francs and of a dual currency has been widely interpreted here as a mortal blow to the system established at Bretton Woods. The main innovations contained in the Bretton Woods Agreement were the acceptance of a high degree of uniformity in the basic principles of the monetary systems and policies of member countries, and an unprecedented degree of discipline to which member countries were prepared to submit voluntarily. France has now departed from the rules of uniformity which outlaw multiple currency practices and fluctuating exchanges. She has also disobeyed the International Monetary Fund. This was the first open breach of discipline since the application of the Bretton Woods Agreement.

Dr. Paul Einzig

The fact that France was able to defy the International Monetary Fund with apparent impunity has created a profound impression on British opinion. Opponents of the Bretton Woods Plan have welcomed the French decision with relief and even enthusiasm. For, even though its immediate effects are apt to be highly detrimental to British interests, the precedent created by France is considered highly valuable from a British point of view. Fears that vital British interests would have to be sacrificed by blindly obeying the majority rulings of the Executive of the Fund have become materially allayed. The main opposition to Bretton Woods was based on the possibility of a refusal to authorize Britain to devalue sterling adequately notwithstanding the imperative need for such a devaluation. It is now felt that should such a situation ever arise, all the British Government would have to do would be to follow the French example. No sanctions were applied against France, beyond withholding the facilities of the Fund, and it is assumed, therefore, that in a similar situation no sanctions would be applied against Britain.

This being so, the International Monetary Fund is no longer regarded as a super-State ruling over sovereign States in monetary matters. It has come to be regarded as a voluntary association of Governments in which majority decisions are not binding to the minority. It seems that the Fund itself has accepted this limitation of its powers, and no longer harbors ambitions that were in the minds of its authors. This at any rate appears from the absence of any disciplinary action against France. The rule under which the Fund can require its members to sever all relations with a Government is not applied. And, according to reports, the Fund has not even tried to stop Chile from following the French example by establishing officially a system of multiple currencies and fluctuating exchange rates.

Supporters of Bretton Woods deeply deplore this course of events. They feel that if, for no matter what reason, the Fund had no wish to enforce its authority in the case of France, it ought to have concealed its disapproval of the French action. By protesting against it in public without doing anything about it, the Fund has disclosed its impotence which is detrimental to its prestige. From a British point of view the adverse psychological effects of the publicity of the unsuccessful efforts to try to prevent France to apply the solution of her choice were particularly pronounced. Apart from the failure of the intervention of the Fund, the Paris visit of the Chancellor of the Exchequer in an 11th-hour attempt to dissuade the French Government from taking the course decided upon was apt to exaggerate the importance of the event from the point of view of its possible repercussions on sterling. It is pointed out that an attempt to persuade currency cranks that their freak system is not the only one that could possibly solve their difficulties was foredoomed to failure.

To the argument that the Fund had to make a public protest against such a flagrant departure from its basic rules the answer is that perhaps the rules of the Fund are too rigid, or their attempted application premature. The rules were devised as the ideal towards which the world should progress. It is arguable that in existing conditions of disequilibrium it would be difficult to expect countries to adapt themselves to rules which suit to conditions of stability. The absence of any public protest in the case of the Chilean decision seems to indicate that the Fund has realized the need for a high degree of elasticity in the application of its rules.

One of the most deplorable effects of the French experience has been the development of a wave of distrust in the sanctity of contracts. Many people who were formerly in favor of the multilateral system are now inclined to reconsider their attitude. They ask themselves whether after all it was worth while to reduce Imperial Preference, under the Geneva Trade Pact, seeing that international trade agreements are apt to be treated by other countries like scraps of paper. It will take a little time before the shock administered by the unilateral French action is forgotten.

Phila. Securities Ass'n To Hold Luncheon

PHILADELPHIA, PA.—Philadelphia Securities Association's guest speaker at their luncheon on Friday, February 20 will be Congressman Hugh D. Scott, Jr., of the Sixth Congressional District of Pennsylvania, who recently returned from a tour of 19 foreign countries. The luncheon will be at the University Club and will be presided over by Dudley R. Atherton, Jr., of F. S. Moseley & Co., recently elected President of the Association.

With Newberger, Loeb Co.

Newburger, Loeb & Co., members of the New York Stock Exchange and other Exchanges, announce that Sidney N. Baruch, registered representative, has joined their organization at their branch office at 525 7th Avenue (38th Street), New York City.

Mortgage Interest Rates for 1948

By SIGURD R. WENDIN*

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

After reviewing mortgage interest rates as affected by government fiscal policy and New Deal legislation, Mr. Wendin concludes easy money days appear to be over. Holds that basically government interest rate sets the pattern for all rates. Notes relative decline of mortgage investment by banks, and says indications point to further stiffening of interest rates, but looks for continued pegging of government bonds. Sees ample credit available on high grade risks at higher rates.

The question of what has caused the drastic changes of the last several months in the mortgage money market is not only of vital importance to real estate appraisers, but to every thinking person, but the answer is involved with many factors affecting the well being and security of every citizen. Mortgage interest rates are but one phase of the overall interest problem, and their direction is influenced by the current and probable directions of other types of interest rates as reflected by government bond yields, corporate bond yields, and the return on common stocks. I believe the rate is merely the price of credit set by demand and supply and governmental policies rather than the interest rates in themselves influencing in any substantial degree money and credit conditions. You all may recall an example of the reverse when the Roosevelt Administration came into power in the early thirties, it was thought if interest rates could be lowered substantially business would be induced to borrow because of the cheapness of money, and then in turn business would improve. Actually, very little money was borrowed in spite of low interest rates because the prospects for profits were not particularly good.

Sigurd R. Wendin

You, as appraisers, hold one of the keys to the causes, for as you raise or lower your values per unit of property so is the mortgage volume raised or lowered. Of course, none of you would render anything but conservative appraisals and thus you have not been contributors to the present upset conditions which in part stem from the excessive appraisal practices which arose immediately after World War II, mainly in the GI mortgage field. Had appraisals been lower, then the rising trend of mortgage demand would not have been so rapid and we still might have been in sellers market for mortgages.

Before discussing specific causes it should be emphasized that under the capitalistic system it is fundamental that credit and business should go hand in hand. A high rate of business activity with a low volume of credit is an impossibility. If we can analyze the probabilities for the demand for credit and the availability of the supply of credit, the causes for mortgage interest rate changes should become evident.

Effect of Fiscal Policy on Rates

In order to obtain a broad sweeping prospective, a brief review would appear worth while, and especially so because it will illustrate the tremendous influence of government fiscal policy as modifying or attempting to control certain fundamental forces. It was not until after the 1929 crash that much though was given to governmental control of most of all of our activities. Looking back upon the period prior to 1929 it might be termed that such a period was the one in which free enterprise was as close to being free as would be practically possible in a modern civilization, but the crash of 1929 brought into being newer concepts of the relationship between the State and the individual. Every phenomena which we saw in this country was not peculiar to us alone. Rather it was a world wide change. The trend toward a managed economy was evident everywhere, but varying in degree. For purposes of this discussion controls other than those affecting the money market concern us only indirectly, but during the post crash period there came into being the Securities and Exchange Commission, the Home Owners Loan Corporation, the Reconstruction Finance Corporation, the Federal Housing Association, and many other quasi governmental financial control institutions, which directly or indirectly had for their purpose either the control of, or the facilitation of credit. Depending upon your personal viewpoint, you may argue that the SEC made it easier, or more difficult, to adequately finance industry, or you may say that the HOLC was a fine setup because it helped to bail you out of some poor mortgages or that the FHA was wonderful because you could make big loans with low equities, but the point which you cannot overlook is that the government had to borrow the money to start most of these ventures, even though eventually in many cases, part or all was paid back. The avowed purpose of many of these institutions was to provide low cost credit. Now some of the activities of these institutions have been virtually eliminated. The RFC no longer buys G.I. loans for example. Now the easy money days appear to be over.

Decline in Bank Mortgage Credit

The policy of easy money adopted by the Roosevelt Administration coincided with basically favorable fundamental conditions. Deficit financing was the order of the day, which in turn increased the supply of dollars available for lending, while the demand for private credit remained relatively low. Remember, during the period 1932 to 1946 we never once balanced the budget. During this period the deficit generation of bank deposits increased the credit supply. It also was apparent many countries of the world had unstable currencies and political uncertainty, and when in February of 1934 we decided to pay $35.00 an ounce for gold instead of $20.67, gold began to flow into this country at increasing speed. Gold is the basic credit supply. At the end of January, 1934, monetary gold stock was $4 billion $36 million. In February as the result of valuation it was $7 billion $438 million, and from that point on the trend was almost constantly upward until the end of the war. By the end of 1941 the gold supply had reached a level of about $22 billion, or roughly three times that existing in February, 1934. During the war years for the most part, the figurse was between $20 and $21 billion, but last spring the trend again started upward and today the gold supply is at an all time high, approximately $22 billion $800 million. Clearly then, the supply of credit as reflected by gold was constantly on the increase until 1941, after which it remained relatively stable. If we use total bank deposits as another measures, the volume was $37 billion $766 million on Jan. 31, 1934, and by 1941 the figure had risen to $63 billion $436 million, and currently is around $143 billion. Note that while the gold supply stabilized during the war period, deposits increased almost 2½ times. Plenty of money to loan out had been manufactured, but the volume of bank money is subject to credit changes and fluctuates more than gold. If either type contracts it lowers the supply of credit and bank money is contracting as a result of debt retirement. As an indication of the demand for credit loans in all banks may be used as a guide. On Jan. 1, 1934, there were approximately $22 billion of loans. At the end of 1941 the figure was $26 billion, 616 millions, and the latest preliminary figures for the year end indicate about $42 billion of loans. That is only an increase of 26% between 1934 and 1941, and current figures present a 90% increase over the 1934 figure. Investment increases were largely the result of government financing, because other types of investments held in the banking structure remained relatively constant. On Jan. 1, 1934, investments totalled $18 billion $542 million and at the end of 1941 $34 billion $511 million, with the peak being reached in 1945 of $109 billion, $865 million, and current figures are around $93 billions. The reduction of investments tends to reduce bank money supply, and the increase of private credit acts as an offset.

Investments in banks dropped during the years 1946 and 1947 approximately $15½ billions, and other types of securities went up slightly, so that most of the decline was caused by redemption of government securities, or sale of government securities by the banking structure in order to take up loans. For these two years loans went up almost $12 billion. During that two-year period deposits declined approximately $8 billion, but the gold supply increased $2 billion. These facts thrown into proper relationship one with the other, drive home the point that something has happened to the relationship existing from 1932 through 1945, and that something is the demand for credit in relation to the supply has changed in favor of a greater demand and therefore, in a free economy the end result is a stiffening of the interest rate or the price to be paid for credit.

Since you are predominantly interested in mortgages and if we

(Continued on page 29)

*An address by Mr. Wendin before the Society of Residential Appraisers, Detroit, Mich., Jan. 27, 1948.

Illinois Brevities

Of the $105,000,000 Chicago Transit Authority revenue bonds which were marketed last August, the 211 members of the underwriting group apparently distributed $83,148,000 at retail and $22,281,000 were sold to other dealers by means of 7,931 separate sales, according to a study released by Harris, Hall & Co., The First Boston Corporation and Blyth & Co., Inc., managers of the investment banking group. These figures add up to slightly more than the total issue, which is no doubt due to the circumstance that some bonds were included which were handled twice.

Of the amount sold at retail by members of the group, it appears that about $43,101,000, or 25% were sold to 4,732 individual investors, $15,659,000, or 19%, to insurance companies, fraternal orders and pension funds, $17,602,000, or 21%, to banks, and $6,786,000, or 8%, to other corporations and organizations. Sales of $4,953,000 of the bonds were known to have been made to owners of bonds of Chicago Surface and Elevated Lines.

The most placements were made in Illinois where $31,691,000 bonds were sold, with New York next with $24,985,000 and Pennsylvania third with $5,599,000.

* * *

The Service Recognition Board of the State of Illinois will receive sealed bids until Feb. 17 for the purchase of $85,000,000 service recognition, series B, coupon bonds. This represents the balance of the $385,000,000 soldiers' bonus issue which was approved by the voters in Nov., 1946.

On April 29, 1947, the first $300,000,000 of these bonds, designated series A, were awarded to a syndicate headed by the First National Bank, the Harris Trust & Savings Bank, Northern Trust Co., Continental Illinois National Bank & Trust Co. and Halsey, Stuart & Co. Inc., all of Chicago, at a price of 100.06, and were immediately reoffered to the public at prices to yield 0.75% to 1.80%, according to maturity. Of the $300,000,000 issue, one-half carries a 1½% interest rate, and the balance a 1¾% rate.

* * *

An issue of $25,900,000 1¾% Board of Education 1948 tax anticipation warrants, dated Feb. 13, 1948, were purchased on Jan. 20 by a syndicate headed by Halsey Stuart & Co. Inc. and William Blair & Co. They were reoffered on Jan. 21 at a price to yield 1.40%.

* * *

A banking syndicate headed by Morgan Stanley & Co., and including, among others, Paul H. Davis & Co., Glore, Forgan & Co., A. G. Becker & Co., Inc., Central Republic Co. (Inc.), Harris, Hall & Co. (Inc), The Illinois Co., Kebbon, McCormick & Co., Bacon, Whipple & Co., Julien Collins & Co. and Farwell Chapman & Co., all of Chicago, on Jan. 27 publicly offered 399,990 shares of Bendix Aviation Corp. common stock, par $5, at $28 per share, for the account of General Motors Corp., the selling stockholder. The offering was oversubscribed.

* * *

The first annual report of the Tucker Corp. reveals that the company is now producing 25 "pilot cars" for introductory showing this Spring, and that it has spent $5,651,208 from June, 1946 to December, 1947 in getting ready to produce its new automobile. First deliveries of production-line cars to the public is scheduled for later in 1948. Current assets at the close of last year were $12,577,718 (including over $12,000,000 in cash) and current liabilities totaled $2,683,846.

Financing of the company was done through the sale of dealer franchises and a public stock offering. The net amount received from the sale of franchises to 1,394 dealers and 75 distributors totaled $7,397,415. A total of $14,829,191 was received from the sale of 3,490,000 shares of $1 par value class A common stock. This resulted in total proceeds of $22,226,606 from franchise sales and the stock offering.

* * *

A nationwide syndicate headed by Kebbon, McCormick & Co., and including, among others, A. C. Allyn & Co., Inc., Ames, Emerich & Co., Inc., and Mullaney, Ross & Co., all of Chicago, on Jan. 22 publicly offered 343,000 shares of $1 par value common stock of Glass Fibers, Inc. (Ohio) at $10 per share, the proceeds to be used as follows: $549,850 to pay in full debt to RFC; $800,000 for construction of a bonded mat plant and an air filter plant; and the balance of approximately $1,637,934 for further expansion and for working capital.

* * *

Ray T. Haas, Chicago, on Jan. 9 offered publicly 24,000 shares of 5% cumulative convertible preferred stock of The Lock Nut Corp. of America, Chicago, at par ($12.50 per share) as a speculation. The net proceeds are intended to be used in payment of a chattel mortgage obligation and taxes, etc., and the balance to be added to working capital. The Lock Nut Corp. fabricates a line of standard nuts, bolts and rivets and also makes various special items.

* * *

A group of 63 underwriters headed by Morgan Stanley & Co., and including, among others Glore, Forgan & Co., Chicago, on Feb. 5 publicly offered 150,000 shares of Philadelphia Electric Co. 4.3% preferred stock at par ($100) and accrued dividends. The net proceeds from the sale of this stock and from the proposed sale of $25,000,000 first and refunding mortgage bonds, 1978 series, will be used to provide new capital for the Philadelphia Electric Co.'s planned construction program through 1948 and the early part of 1949.

* * *

Lee Higginson Corp., Chicago, and Maynard H. Murch & Co., Cleveland, on Jan. 28 publicly offered 75,712 shs. of common stock (par $1) of Wolf & Dessauer Co., Fort Wayne, Ind. at $8 per share. The same underwriters placed privately with two life insurance companies an issue of $1,200,000 4⅛% notes. Of the 75,712 common shares offered, 50,000 shares are from an estate, the remaining 25,712 shares being sold by the company from its treasury stock. Net proceeds to the company are to be added to its general funds.

* * *

An underwriting syndicate headed by Halsey, Stuart & Co., Inc. of Chicago, and including among others, Dempsey & Co., Detmar & Co., Ketcham & Nongard, Mason, Moran & Co., Mullaney, Ross & Co., Alfred O'Gara & Co. Patterson, Copeland & Kendall, Inc., and F. S. Yantis & Co., Inc., on Jan. 22 publicly offered $40,000,000 Southern California Edison Co. first and refunding mortgage 3⅛% bonds, series A, due 1973, at 102.187% and interest. The offering was oversubscribed.

* * *

LeRoy Woodland, Treasurer of Chicago Park District, announces that $2,966,000 of refunding bonds, series B, of The Chicago Park District of Cook County, have been called for redemption. Holders of the called bonds may receive immediate payment of the full redemption price (par), plus accrued interest to March 1, 1948 (the redemption date).

* * *

Among those participating in the public offering on Jan. 22 of $10,000,000 5% sinking fund collateral trust bonds due 1968 of Northeastern Water Co., at 100% and accrued interest, were A. C. Allyn & Co., Inc. and Bacon, Whipple & Co.

* * *

Sills, Minton & Co. Inc. and Straus & Blosser, both of Chicago, on Jan. 20 participated in the public offering of 110,000 shares of DeWalt, Inc. (Pa.) common stock (par $2.50) at $15 per share.

New York Security Dealers Ass'n 22nd Annual Dinner March 5th

The 22nd Annual Dinner of the New York Security Dealers Association is scheduled to take place in the Grand Ballroom of the Waldorf Astoria Hotel on Friday evening, March 5th, according to Hanns E. Kuehner, Joyce, Kuehner & Co., Chairman of the Dinner Committee.

Hanns E. Kuehner

A large number of reservations have already been made and many out-of-town guests are planning to attend. Members of the Securities & Exchange Commission, New York Stock Exchange, New York Curb Exchange, banks and business organizations, as well as the financial editors of the leading New York papers will be present.

Bertram Seligman, of Ward & Co., is Chairman of Ticket Committee.

Bertram Seligman

Wellington Hunter of Aetna Securities Corp., is handling hotel reservations for out-of-town guests.

John J. O'Kane, Jr., John J. O'Kane, Jr. & Co., is Chairman of the Entertainment Committee.

Subscription: Tables seating 10 $125.00
Individual tickets 12.50

Reservations must be made promptly to permit printing of names of members and their guests in the official Dinner Program.

Duke Hunter

Harry R. Amott, Amott, Baker & Co., Editor of the 1948 Year Book, and George A. Searight, Aetna Securities Corp., Chairman of the Advertising Committee report that over 125 dealers, banks and business organizations already have reserved space in the forthcoming issue which will be distributed to approximately 5,000 dealers, banks and institutional investors throughout the United States.

John J. O'Kane, Jr.

H. R. Amott

George A. Searight

Trust Administration and Current Economic Problems

By MARCUS NADLER*

Professor of Finance, New York University

Dr. Nadler, in commenting on trust officers' problems, points out deflationary forces are growing and readjustment is nearer at hand than generally believed. Sees possibility of aid to Europe as offsetting effects of deflation, and says problem of credit control is more difficult because of inflow of gold and its repercussions on business. Recommends, should recession set in, trust officers should again buy without hesitation long-term bonds and high grade preferred stocks.

No other profession has been confronted with so many difficult problems during the past generation as that of the trust officer. The trust officer's function is to conserve the wealth left in trust for the benefit often of helpless people, widows, and orphans. It has always been a difficult task to preserve wealth; it has been particularly difficult during the last three and one-half decades. The investment officer who started his career in 1910 at the age of 25 is now 63. He can look back on World War I, which saw the destruction of great empires and the rise of Communism. He witnessed one of the greatest booms in American history, based to a large extent on speculation and bank credit; and one of the severest depressions that ever befell mankind, one which wiped out or drasticaly reduced the value of assets in which trust officers invest funds. He witnessed the rise and fall of Fascism and Nazism and the greatest war in history of mankind, which was accompanied by more destruction than all the wars fought during the 19th century.

Dr. Marcus Nadler

During his 38 years of service, this trust officer saw wide fluctuations in prices of equities. He saw bonds of corporations which he considered gilt-edge depreciate to an unbelievable extent. For example, the average price of 60 high-grade corporate bonds declined from 100.8 in August 1930 to 60.6 in June 1932; while 3⅛% U. S. Governments of 1946/49 declined from 101 2/32 on July 22, 1931 to 83 on Jan. 11, 1932. He witnessed the rise of new industries and the liquidation of many marginal and obsolete enterprises. He saw the growth of the income tax from its infancy in 1913 to a giant during World War II, and he saw our economy becoming more and more rigid. Yet, in spite of all these great changes and confusion, the tasks of the investment officers were successfully met. Most of them were able not only to conserve but in many instances to increase the wealth entrusted to them. This is indeed a great tribute to the ability of the trust officer to adjust himself to rapidly changing conditions. This performance of the past gives us hope for the future.

Although this hypothetical officer has seen much during the past few decades, the problems ahead of him are as great as any he has ever faced in the past. It is not easy to see these problems clearly because conditions today are perhaps more complicated and difficult than ever before. But they exist just the same.

The Current Economic and Political Scene

In studying what the future holds in store for us so as to be in a position to adopt a sound investment policy, we have to take into account present economic and political conditions, because they are bound to have a marked effect on conditions in the future. In the United States, the forces of inflation are gathering momentum. The spiral of wages and prices is accelerating. The index of the cost of living (1935-39=100) rose from 129.3 on V-J Day to 164.9 on Nov. 15, 1947, and is now higher than at the peak reached in 1920. Despite all the predictions that the repeal of controls imposed during the war would stimulate production, thus increasing competition and preventing a rapid rise in prices, the index of wholesale prices (1926=100) has risen from 105.5 on V-J Day to 164.5 on Jan. 10 and is still rising. National income in 1947 rose to over $200 billion. We had practically full employment of nearly 60 million people, which only a few years ago was a dream to be achieved some time in the distant future. But in spite of this prosperity, many people are disturbed and puzzled. These are the people whose income has not kept pace with the constant increase in the cost of living and whose standard of living has decreased. The great prosperity the United States enjoys at the present time has been achieved largely at the expense of those people who lived on fixed income, such as beneficiaries of trusts or those whose salaries are more or less fixed.

The situation abroad is also not too rosy. The world is split in two, and the gap between the East and the West is widening. Civil war is raging in China, and there is unrest in the Middle East and in many other parts of the world. An ideological war is being waged between the ideas emanating from the Soviet Union, which stands for the absolute control of the means of production by the State and does not recognize political and individual freedom, and the ideas emanating from the United States, which stands for the system of private enterprise, political democracy, and freedom of the individual. In this ideological war, one part of the world looks toward the Soviet Union for guidance; other nations, notably those in western Europe, where democracy and freedom are deeply rooted, look toward the United States for guidance and assistance. What we do during the critical year of 1948 will have an important bearing not only on conditions in our own country but also on the future of western civilization. The course of coming events will determine the future of the work of trust officers, since it will determine whether or not there will be any accumulated wealth to administer. Our generation is faced with a responsibility as great as that which confronted our sons when they were called to the colors to defend the country against an external enemy. Will we live up to our responsibilities?

The Problem of Inflation

The most important problems before the nation today are to

(Continued on page 30)

*An address by Dr. Nadler before the Mid-Winter Trust Conference of the American Bankers Association, New York City, Feb. 10, 1948.

Prices, Profits and Productivity

By JULES BACKMAN*

Associate Professor of Economics, New York University

Contending prices act as rationing as well as stimulating device, and the black market is merely the price system in operation, Dr. Backman asserts free price system "is one of greatest inventions of all time." Says profits are lubricating oil in our economy and represent charge for taking risks. Pictures increased productivity as bridge between wage increases and their impact on prices and profits, and holds problem is not merely a question of stable price level but of balanced price relationships.

The manifold activities in our economy are integrated through the operation of the price system. Prices furnish the guideposts which indicate how resources will be utilized. I like to distinguish between the rationing function of price and the stimulating function of price. An understanding of these two functions is vital to an appraisal of the various measures of control which are suggested from time to time. Prices act as a rationing device by determining who gets what resources. When prices rise, the least necessitous buyers are out off, while when prices decline, new buyers find that they can afford to acquire the product. If prices are not permitted to perform this rationing function, goods can be allocated only by one of three other methods.

Jules Backman

(1) Government rationing, priorities and allocations under which the government decides who shall get the available supply.

(2) Waiting in line. Under this arrangement it is a question of first come, first served. The long lines outside butcher shops during the war and early postwar period represent an outstanding illustration.

(3) Knowing the right people. Under this arrangement, contacts become the important determinant of allocation of supplies.

The black market is merely the price system in operation. An awareness of these alternative methods of distributing goods indicates why most students of this problem insist that when prices are controlled, it must be accompanied by rationing.

The stimulating function of price refers to how the price system operates to induce a larger supply of goods or in bringing the goods to the market. The importance of the latter point has been well illustrated in many European countries where supplies have of-

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*An address by Dr. Backman before the Mortgage Bankers Association of America at the New York University Graduate School of Business Administration, New York City, Jan. 29, 1948.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

Only a few annual reports for the year 1947 thus far have been released by fire insurance companies. Among them are: Aetna Insurance Co., Continental Insurance Co., Fidelity-Phenix Fire Insurance Co., St. Paul Fire & Marine Insurance Co. and Automobile Insurance Company.

Premium volume of Aetna Insurance Company and affiliates totaled $93,638,410 in 1947, a gain of $14,598,033 over 1946 or 18.5%. Aetna Insurance Co. alone, the parent company, wrote $53,886,830 in 1947 compared with $46,366,276 in 1946, an increase of 16.2%. Due to the many unusual and large catastrophe losses during 1947, underwriting losses were sustained for the year. On a statutory basis the underwriting loss of the parent company was equivalent to $4.38 per share on 1,000,000 shares, but when adjusted for the increase in premium reserve equity, the net underwriting loss is reduced to $1.12 per share. Net investment income was $2.19 per share, and total net operating profits were equivalent to $1.17 per share. In 1946 net investment income for the parent company was $2.10 per share on 750,000 shares and net underwriting profits were $2.00 per share.

In commenting on underwriting losses in his "Letter to the Stockholders", Mr. W. Ross McCain, President, said:

"This has been a heavy loss year. Many large and unusual losses have occurred in addition to the normal losses; such as Texas City, the tornado losses in Texas and Oklahoma and other western states, the great Florida-Mississippi-Louisiana hurricane; forest fires of Maine, the large dock and wharf losses in New York. Until business conditions become normal, we may expect the abnormal in our industry, but it is not expected that the unusual type of losses will continue.

"The heavy losses have had the effect of convincing the supervisory state authorities of the necessity for rate increases and in practically every state, some help along this line has been secured. . . . We enter the new year of 1948 with confidence."

Continental Insurance Company's premium volume in 1947 advanced 37% over 1946 to $50,983,678. Statutory underwriting results showed a loss of $0.49 per share, but net underwriting results, after adjustment for increase in premium reserve equity, amounted to a profit of $1.37 per share, while net investment income was $2.95; after Federal income taxes of $0.18, total net operating earnings were $4.14 per share compared with $3.65 in 1946.

Fidelity-Phenix reported a premium volume of $41,959,460 in 1947, a gain of approximately 39% over 1946. Statutory underwriting results were equivalent to a loss of $1.92 per share, but adjusted results were equivalent to a profit of $0.85 per share; net investment income was $3.29, and total net operating profits, after Federal taxes of $0.10, were $4.04 per share compared with $4.05 in 1946.

St. Paul Fire & Marine Company and affiliates wrote 40% more business in 1947. Consolidated net earnings for the company were $9.07, comprising $5.59 net underwriting, $3.80 net investment income and $0.32 taxes. In 1946 net underwriting was $2.17, net investment income, $3.70 and taxes, $0.18, or a total of $5.69 per share.

Automobile Insurance Co., subsidiary of Aetna Life, reported a net premium volume of $35,675,859 for 1947, an increase of 27.7% over 1946. Statutory underwriting results were equivalent to a loss of $2.21 per share, but adjusted net showed a profit of $1.77 per share; net investment income was $2.36 and total net operating profits, $4.13 per share. In 1946, net underwriting results were equivalent to a loss of $0.17 per share and net investment income was $1.85.

North River Insurance Co. and United States Fire Insurance Company wrote 21.3% and 11.7% more net business, respectively, in 1947 than in 1946. No earnings figures have as yet been reported.

To summarize: the average increase in net premium volume written in 1947 over 1946 for the seven companies cited, was 27.9%, ranging between a maximum of 40% for St. Paul Fire & Marine and a minimum of 11.7% for United States Fire.

Underwriting losses were reported by Aetna for 1947, and underwriting profits by Continental, Fidelity-Phenix, St. Paul and Automobile, on an adjusted net basis.

Total net operating earnings were lower in 1947 than in 1946 for Aetna, approximately the same in both years for Fidelity-Phenix, and higher for Continental, St. Paul Fire & Marine and Automobile Insurance.

Leffingwell Chairman; Anderson Heads Exec. Comm. of J. P. Morgan

George Whitney, President of J. P. Morgan & Co. Incorporated, 23 Wall Street, New York City, announced that at a special meeting of the board of directors, R. C. Leffingwell was elected Chairman of the board to succeed Mr. Lamont, and Arthur M. Anderson was elected Chairman of the Executive Committee to succeed Mr. Leffingwell.

Mr. Leffingwell became a partner in J. P. Morgan & Co. in 1923 and Mr. Anderson in 1926. Both have been officers and directors of the incorporated company since its formation in 1940.

Mr. Whitney, who became a partner in J. P. Morgan & Co. in 1919, continues to be the President and Chief Executive of the company, as he has been since its incorporation in 1940.

Willy Winkle Joins Staff Of Quincy Cass Associates

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Willy Winkle has become connected with Quincy Cass Associates, 523 West 6th Street, members of the Los Angeles Stock Exchange. He was formerly with Butler-Huff & Co., of California. Prior thereto he was with Huff, Geyer & Hecht, Inc. in New York City and was with Mackubin, Legg & Company in Baltimore.

Vincent M. Doherty With Leedy, Wheeler & Alleman

MIAMI, FLA.—Vincent M. Doherty has become associated with

Vincent M. Doherty

Leedy, Wheeler & Alleman, Inc., Florida Bank Building, Orlando, Fla. He was formerly in the Miami office of Ranson-Davidson Co., Inc. and prior thereto was with Strauss Bros., Inc. and Corrigan & Co.

Hardcastle Elected

The board of directors of the Pennsylvania Salt Manufacturing Co. has elected Y. F. Hardcastle, Pennsalt Vice-President in charge of manufacturing, as a board member, it was announced by Leonard T. Beale, company President.

Y. F. Hardcastle

Mr. Hardcastle has been Vice-President since 1927, and in this capacity supervised the 98-year-old chemical company's manufacturing operations through the period of its greatest expansion.

Mr. Hardcastle is a director of the Main Belting Co., Philadelphia, and is a member of the American Electro Chemical Society, the Philadelphia Chamber of Commerce and the Chemist Club of New York.

Will Admit Alexisson; To Be Granbery, Marache & Co.

Effective March 1, the firm name of Granbery, Marache & Lord, 52 Broadway, New York City, members of the New York Stock Exchange, will be changed to Granbery, Marache & Co.

Gustave A. Alexisson will become a partner in the firm on March 1. He was formerly with Hornblower & Weeks and G. M.-P. Murphy & Co.

Howard Andrews Dead

Howard E. Andrews, a partner in the former stock brokerage firm of James B. Colgate & Co., New York City, died at the age of 66 after an illness of several months. He had been with the Colgate firm for 25 years before its dissolution several years ago. At his death he was associated with Gude, Winmill & Co.

On Brady & Co. Staff

Charles W. Dolbeer is with Brady & Co., 52 Broadway, New York City.

A Time for Caution in Banking: Burgess

Prominent banker, commenting on banks' role in curbing inflation, says, although banking situation is safer than at other similar critical periods, banks should exercise caution in lending, in investing and in new undertakings.

Addressing the American Institute of Banking in New York on Feb. 7, W. Randolph Burgess, Vice-Chairman, The National City Bank of New York and former President of the American Bankers Association, warned his hearers that "today banking faces a situation new to the actual experience of many of us, but very old in terms of the history of the United States and other civilized countries. It is the universal history of inflation."

W. R. Burgess

Continuing, Mr. Burgess stated:

"Wholesale commodity prices are now within a few points of the peak which they reached in 1920. This peak is also about the same as was reached after the Revolution in 1779. Similar, but not quite such high prices were reached after the War of 1812 and after the Civil War.

"The cause of these high commodity prices was the same in each one of these five war experiences. That cause was monetary inflation—an expansion of the country's money supply to meet wartime expenditures. It is nothing that happened last month or last year but developed over many months. There have been plenty of warnings.

"The four previous wartime price inflations all had a common conclusion. They all broke disastrously and sharply from their high points, and the country experienced a depression. There is, of course, no inevitable law that the present boom in the United States will end in a serious depression, but it will happen again this time unless we show greater wisdom than we did in any one of the four previous occasions.

"The economic forces which will decide the result are, many of them, beyond the reach of the banker. There is, for example, the inflationary force of huge government spending. The economists for years have been talking about the merits of 'compensatory spending,' under which the government would spend heavily in depression but cut down its spending in a boom. Yet here we are, with the largest peacetime budget in history, at a time of boom when under all the rules the budget should be curtailed. Also the government is supporting farm prices when those prices have led the cost of living upward. Politically we are practicing ostrich economics.

"But there are some things a banker can do about inflation. There are ways in which we can apply the experience of the past to our present problems. In the interest of our banks and our customers this is a time for caution—caution in lending, caution in investing, and caution in new undertakings. It is time for a steady hand and for courage as well.

"Such a course will not only protect our institutions and our customers, but will contribute to dampening down the upward forces of inflation, and so soften the blow when the downturn comes. The great swings of business are not solely a matter of cold economic forces, but a matter of how human beings behave; and bankers in their daily activity have an influence on millions of people.

"The one point I want to make tonight is that we are under test as to whether our banking education has been an ornament which we have enjoyed, or a useful tool which has enabled us to learn from the experience of the past, and which can make banking a better servant of the people.

"There are encouraging signs today that bankers do understand this problem better than ever before. We know more about the great forces of nature and of human behaviour. The banks today are, I believe, stronger and safer than they ever were before at such a critical time. I think we shall do our job better.

"Looking beyond the particular economic danger zone in which we now find ourselves, there is also solid ground for courage and hope. In the war and in the postwar adjustment, American business has demonstrated unheard of power and flexibility. We have opened new vistas of invention and production. We are slowly learning how to be a great world power. And we always need to remember that this country's spells of political insanity are not continuous, but reach their worst at four-year intervals."

Crops Flourish in Europe

This Year's Harvests to Equal Prewar Levels

In striking contrast to most of the weather news in this country which we have received the past two weeks, London advices report that a "mild winter has tempered European misery and given promise of bumper crops." Abundant rainfalls with high temperatures are expected to produce crops that will equal those harvested before the war. In contrast to the severe winter temperatures in our own land, Britain has enjoyed the highest temperatures since the war with the result that the fields are green. In Italy, flowers are said to be blooming in the northern provinces, winter wheat is six inches high and fruit trees are blossoming in orchards outside of Rome. Crocuses are blooming in Denmark and migratory birds are winging their way back to home there. Russian areas are having the warmest weather in 50 years. France too expects one of the best winter harvests since before the war and danger to the wheat crop is considered past. Germans this year have not experienced last winter's hardships. No deaths from exposure or malnutrition have been reported in Berlin this year. London advices state that Europeans have not suffered the intense privations of last winter, which will be remembered by them as the worst experienced in a century.

Vincent B. Hackett Joins Staff of Bacon & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Vincent B. Hackett has become associated with Bacon & Co., 256 Montgomery Street, members of the San Francisco and Los Angeles Stock Exchanges. He was in the past with Barbour, Smith & Co. and Franklin Wulff & Co.

An Honest Approach to Inflation

By JOSEPH STAGG LAWRENCE*

Vice-President, Empire Trust Co., New York City

Bank economist sees in sharp drop in commodity prices: (1) lower living costs; (2) reduced pressure for wage increases, and (3) test of sincerity of this government in checking inflation. Says price control, rationing, allocation and credit curbs are untenable propositions, and lays responsibility for price rises at doorstep of White House. Wants return to gold standard.

The sharp drop in commodity prices last week has at least two conspicuous virtues. First, it will lower the cost of living and, second, it will reduce the pressure for a third round of higher wages. The first will immediately give the worker added buying power with his present pay envelope, the second will avoid another increase in production costs and a probable compensating rise in the price of finished goods. To the extent that this adjustment takes place at this time, it will avoid the necessity of more drastic adjustments later.

Jos. Stagg Lawrence

The drop in commodity prices will also test the sincerity of this government's intentions to check inflation. On the second day of sharp commodity price declines last week, the President of the United States at a press conference demanded the full program of controls which he had previously presented to Congress as a necessary part of the program to aid Europe. This schedule of executive power constituted a demand in peacetime for authority which American governments in the past had found necessary only in periods of the gravest emergency. It included the power to control prices, ration and allocate goods, and regulate virtually all forms of private credit. The inference in this demand is clear, namely, that the absence of price control, of rationing, allocation and full-scale credit control had been responsbile for the great rise in the cost of living since the end of the war.

White House Responsibility

This position is not tenable. The rise in prices has been the result of causes which are unmistakable and which lead to the doorstep of the White House itself. In all fairness it is necessary to exclude from this the fact of war, a disastrous crop failure in Europe last summer, and an extremely disappointing harvest in American corn. However, aside from these fortuitous causes, the government itself must necessarily accept responsibility for the inflationary pressure which may have aggravated the impact of the foregoing unavoidable causes.

The demand for price authority last week came from the head of an administration which has been in power for almost 16 years. Among its first steps were measures deliberately and consciously taken for the purpose of pushing prices up. The abandonment of the gold standard, the rise in the price of gold, deliberate deficit financing and a calculated, persistent reduction in money rates were all designed for the purpose of promoting inflation. When the war came along, its great demands inevitably realized the inflationary potentials set up by our government in the 'thirties.

At the conclusion of the war, high officials in that same government indicated to labor that it could demand as much as 25% higher wages without causing any increase in prices. This hint organized labor immediately took, with the result that we have had two general rounds of substantial wage increases. They have had the inevitable effect of boosting prices.

Under the Steagall Amendment, the government undertook to support the prices of some 20 farm commodities whose increased production had been sought during the war. In implementing this program, the government stepped in from time to time and bought potatoes, citrus fruits, eggs, raisins, tobacco, turkeys, prunes, etc., for the purpose in each case of preventing prices from going down.

Beginning in the late Summer of 1947, the Department of Agriculture and the Commodity Credit Corporation proceeded to acquire the huge quantities of grain necessary for European aid. The magnitude and the timing of these purchases were so obvious that some 7,000-odd government employees bought on their own account, eager to take advantage of a speculative sure bet. It is fair to say that this inept buying accounted for possibly as much as $1 of the price for wheat. This grain is the keystone in the arch of commodity prices and its rise was necessarily reflected throughout the commodity price structure.

The collapse in commodity prices comes at the end of the government's program of preemptive buying. It also coincides with reports from various parts of the world indicating greater harvests during the coming year. The southern hemisphere in general has had bumper crops. Moisture conditions in Europe and on the North American continent have likewise been ideal. The wheat carry-over, it now develops, is greater than it was last year at this time. It is not surprising therefore, that prices have dropped, because they now reflect a changed relationship between supply and demand.

Program for New Controls Faces Test

It is at this point that the government's program for renewed controls faces a test, for it is quite obvious that $3.20 wheat was not the result of OPA termination and that the reinstatement of controls would not of itself bring the price down to pre-postwar inflationary levels.

If this country today is suffering from dangerously high prices the remedies should be directed at those causal factors which, in the judgment of objective and nonpolitical students, have contributed to high prices. Insofar as long-term monetary factors are responsible, the resolution by the State to eschew deficit financing as a tool of economic planning will be helpful. It would also be helpful to sever all connections between the Treasury and the money market. If the government is sincere in its efforts to fight inflation, it should prepare a program under which the Federal Reserve Banks over a period of years would dispose of all their holdings of U. S. securities and would be prevented thereafter from buying or holding such securities.

A sincere solicitude for the integrity of the currency should lead this government to explore at once the time and manner of a return to the gold standard. There is at the present time enough gold in this country to make the consideration of such a program feasible.

Finally, this government might do well to let economic forces develop their own price decisions, free from interference by the State. To whip the bankers, the grain exchanges, the alleged industrial monopolies and instalment credit buyers; to demand price control, rationing and allocation is simply following false trails and will lead most certainly to greater mischief and possibly ultimate stagnation.

*Remarks by Mr. Lawrence before the Westchester Clearing House Association, New York City, Feb. 10, 1948.

With Slayton & Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—John F. Broeckelmann has been added to the staff of Slayton & Co., Inc., 408 Olive Street.

Sloan & Wilcox Adds

(Special to THE FINANCIAL CHRONICLE)

PORTLAND ORE.—James McGuire has been added to the staff of Sloan & Wilcox, Cascade Building.

Railroad Securities

To quite a few railroad analysts one the most disappointing stocks from a market point of view during the past year has been Great Northern. Aside from the general apathy of speculators and investors towards virtually all railroad securities, Great Northern has apparently suffered from two specific external influences. Periodically there have been comments in the press relative to the gradual depletion of high grade iron ore reserves in the company's territory. These have been particularly persistent in recent months, being stressed repeatedly by proponents of the St. Lawrence Seaway and quarters interested in the development of Canada's rich iron ore.

There is no question but that the high grade ores in this country are gradually being used up. Nevertheless, merely on the basis of reserves already proven there is still enough left for at least 12 to 15 more years at the present rate of consumption. Moreover, in the areas served by Great Northern there are almost unlimited reserves of lower grade ores. Already beneficiation plants to partially reduce these lower grade ores before shipment to the Great Lakes are in operation, more or less in the experimental stage. It is the opinion of a vast majority of steel men, therefore, that so far ahead as any one can see, and even after the high grade ores are exhausted (if they ever are), our domestic steel industry will continue to draw at least a bulk of its iron requirements from the same ranges. Certainly there is no valid reason for pessimism toward Great Northern on this count.

The second factor affecting the public attitude toward Great Northern stock also centers around its iron ore tonnage. Recently iron ore has been accounting for just under 10% of the road's total freight revenues, and in many past years it has run to considerably higher proportions. In both of its most recent rate decisions the Interstate Commerce Commission has excluded this iron ore movement from any rate increase. While it is true that an increase in iron ore rates would have been of considerable benefit to Great Northern, its exclusion can not be considered as too serious a blow nor as any threat to the company's earnings. Even without iron ore Great Northern's net benefit from the two interim increases will work out higher proportionately than will the increases granted most of the eastern carriers.

Great Northern is traditionally an efficient property, and consistently its ratio of wage costs to gross revenues has been below the industry average. Last year its transportation ratio was about four points below the indicated Class I average and its total operating ratio was about 4.5 points lower than the industry. Even without the benefit of any higher rates on iron ore, earnings amounted to \$7.28. This was well above the present \$3 dividend requirement and compared with average earnings of \$6.32 a share in the preceding 10 years. This latter figure is without adjusting for the sharp reduction there has been in the company's fixed charges during the past decade.

The Great Northern management was one of the first in the industry to realize the need for reducing charges, and one of the earliest to take aggressive action toward that end. The debt has been reduced substantially, maturities have been well spaced and by virtue of favorable money market conditions the debt retirement was augmented by low coupon refunding operations. Fixed charges are now down to roundly \$7.7 million a year. In the middle 1930s the burden of obligatory requirements was above \$19.3 million. Allowing for a 38% Federal income tax, this reduction is equivalent to \$2.35 a share on the outsanding stock. Moreover, the jointly owned Chicago, Burlington & Quincy has materially improved its position in the same period and dividends from this source could be an important supporting element in Great Northern's own earnings should begin to slide off. Burlington has paid out less than a third of its earnings in dividends over the past 10 years.

U.S. Now Tops Swiss Foreign Trade

By FREDERICK BEK-ANDREAE

Manager, Credit Suisse, Berne

Swiss banker points out significance of U. S.-Swiss trade, which now exceeds, by large margin, Swiss trade with any other nation both in exports and imports. Reveals large excess of U. S. imports over exports into Switzerland, and expresses belief deficit can be offset from Swiss investments in U. S. and American tourist traffic.

BERNE, SWITZERLAND—With a precision which is inique in Europe and probably in the whole world, the Swiss Ministry of Finance published on Jan. 15 the statistics of the Swiss foreign trade for the month of December and for the year, 1947. It is a real pleasure to announce that the oldest republic in the world has now as its most important partner in her foreign trade the great sister Republic in the new world. This applies not only to the imports from the United States to Switzerland, but also to the export of Swiss merchandise to the States. This phenomenon has not been observed—so far as we remember — since statistics have been published, and for this reason it may be of interest, even for the American readers and students of economic affairs, to know some details.

Fred. Bek-Andreae

Better than words, a few figures may illustrate what this means. Merchandise imports to Switzerland from the United States reached in 1947 roughly 1,031 million swiss francs (\$100 =430 Frs.). The United States of America is not only leading the list of importers to Switzerland, but outstrips the next competitor, France, by double the amount. Belgium and Luxembourg ranks third with 427 million Swiss francs.

The total of Swiss import trade in 1947 amounted to Frs. 4,820 million. Therefore the United States imports comprise 21%. But these statistics are even more astonishing if we consider the fact that the whole population of Switzerland is only about 4½ millions. Thus, in other terms, Switzerland is buying per head from U. S. A. more than 200 francs (or more than \$50) in goods. We are inclined to believe that no country in the world, at least not in Europe, is such a good customer of the United States, and we may modestly add to this that every ton shipped from the United States to our country is paid for in cash against documents at the moment the steamer leaves the port of embarkment, or otherwise on arrival in Europe.

Switzerland is, therefore, not only a good customer of the United States as regards the amount involved, but also for her credit standing, which reduces the losses in this trade to a minimum.

Switzerland has always been dependent on U. S. A. for the import of cereals, fats, cotton, copper, lead, or in other words for raw materials of every kind, beginning with food to the materials necessary for her industry, because Switzerland is by nature a very poor country and can only get along by very hard work not only in agriculture, but also in the industry. The Swiss soil can feed in the best years not more than 40% of the population and as for Swiss industry, it is lacking in sufficient raw materials, with one exception, electricity. But even electricity is not now sufficient and we have to import heavy cargos of coal from the United States, as well as all kinds of oils for factories and the heating in homes.

The export of goods from Switzerland to the United States, by means of which we have to pay part of our import, shows a total in 1947 of Frs. 394 million. The deficit of exports to United States is therefore 637 millions.

In Swiss export trade, U. S. A. the leading nation, is followed by Belgium with Frs. 305 million and by France with Frs. 298 million. But the deficit of exports with France is only 160 millions and with Belgium even less, 122 millions of francs. In the long run it will be difficult for Switzerland to pay out of her exports to other countries of the Dollar-Area (South America, Central America and some other countries which are not in the Sterling-Area) and with the proceeds of her capital invested in the United States, notwithstanding the fact that they are very important, deficit in 1947 is excessive. The remedy lies with America. Switzerland expects an ever growing number of American tourists. The hotel industry in Switzerland is as everybody knows, a very important industry here, and also well organized. Foreigners, who come to Switzerland, realize easily that in no other country in Europe could they feel better. And as regards prices, even though they are higher than before the war, they are still, when the dollar taken for Frs. 4.24, is cheaper than even in the United States.

Let us hope, that the traditional secular friendship existing between the United States and Switzerland will develop further to the benefit not only of the two countries, but of all humanity which, as regards Europe, leaves this little country in the midst of the old continent, a "terrain d'entente" and so many monuments of centuries ago untouched which are destroyed in other countries.

NSTA Notes

SECURITIES TRADERS ASSOCIATION OF DETROIT AND MICHIGAN, INC.

On Jan. 30, 1948, there was a luncheon meeting at the Penobscot Club of the Securities Traders Association of Detroit and Michigan, Inc. In which all the past Presidents of this organization were in attendance. The following men were present:

Frank Kemp, R. C. O'Donnell & Co., 1935-1937; E. M. Everham, Baker, Simonds & Co., 1937-1938; Claude G. Porter, Baker Simonds & Co., 1938-1939; Bert F. Ludington, Baker, Simonds & Co., 1939-1940; Frank P. Meyer, First of Michigan, Corp., 1940-1941; John K. Roney, Wm. R. Roney & Co., 1941-1942; H. Russell Hastings, 1942-1943, Ray P. Bernardi, Cray McFawn & Co., 1943-1944; Don W. Miller, McDonald Moore & Co., 1944-1945; Paul I. Moreland, Moreland & Co., 1945-1946; Harold R. Chapel, McDonald Moore & Co., 1946-1947, and Clarence A. Horn, First of Michigan Corp., 1947-1948.

Harold R. Chapel

At this meeting, a new organization composed of all these past Presidents, was organized. Harold R. Chapel, as the most recent ex-President of the Securities Traders Association of Detroit and Michigan, Inc., was elected Honorary President of the new and continuing organization.

These past Presidents, individually and collectively, want to be called upon at any time by the President and Members of the Securities Traders for any help they may be able to give them.

MEMPHIS SECURITY DEALERS' CLUB

At the last meeting of the Memphis Security Dealers' Club, the following officers were elected:

President—Early F. Mitchell (Vice-President, in charge of the Bond Department, First National Bank.

Early F. Mitchell

Frank D. Frederic

Harding Carney

Vice-President—(reelected) Frank D. Frederic (Manager, Memphis Office of Equitable Securities Co.).

Secretary—R. Fred Trexler (Manager, Memphis Office of J. C. Bradford & Co.).

Treasurer—Harding Carney (Associated with Bullington-Sachs & Co.).

The retiring officers were:

President—W. Groom Leftwich (Leftwich & Ross).

Secretary—Early F. Mitchell.

Treasurer—Edw. F. Thompson (Asst. Vice-President, Union Planters National Bank & Trust Co.).

The Club's annual Christmas Party was held at the University Club on Dec. 19, and was by far the most successful party ever held by the organization. This party is rather unique in that no wives are invited. The feminine guests are those who are employees of the various security firms of the City. No other feminine guests are eligible to attend, so it is really a closed trade party.

SECURITY TRADERS ASSOCIATION OF NEW YORK, INC.

The 12th annual dinner of the Security Traders Association of New York, Inc. will be held on April 23 at the Waldorf Astoria Hotel.

Arnold J. Wechsler

Leslie Barbier

Wellington Hunter

Chairman of the committee is Arnold Wechsler, Ogden, Wechsler & Co. Chairman of the reservation committee is Leslie Barbier, G. A. Saxton & Co., Inc. Room reservations are in charge of Wellington "Duke" Hunter, Aetna Securities Corporation.

INVESTMENT TRADERS ASSOCIATION OF PHILADELPHIA

The Investment Traders Association of Philadelphia will hold its 24th annual mid-winter dinner at the Benjamin Franklin Hotel, Friday, Feb. 27. This jet-propelled, guided missile affair is under the command of co-Chairmen John B. Swann, Jr., Lilley & Co., and William Raffel, Raffel & Co. Bomb-proof shelters for out-of-town guests will be provided upon application to Newton H. Parkes, Jr., E. H. Rollins & Sons. Battle stations will be assigned by John F. Weller, Buckley Brothers. Home Guard mobilization is in charge of Al Fenstermacher, M. M. Freeman & Co.

INVESTMENT DEALERS ASSOCIATION OF HOUSTON

All investment dealers in the United States are cordially invited and urged to attend the Investment Dealers Association of Houston Annual Field Day and Dinner, to be held Monday, Feb. 23, 1948 (a legal and New York Stock Exchange holiday) at the Houston Country Club.

It is felt that an unusually good program has been laid out—all fun—and a large visitor attendance is anticipated. Reservations should be forwarded to Gordon Crockett, c/o B. V. Christie & Co., 836 First National Bank Building, Houston. Guest fee is $5.00, with an additional $2.50 fee for golf and $1.00 for tennis.

Werle Reelected Chairman of the Board of the New York Curb Exchange

Edward C. Werle, a partner in the firm of Johson & Wood, was elected to his second consecutive term as chairman of the

Edward C. Werle John J. Mann John J. Nolan William E. Dugan

board of governors of the New York Curb Exchange at the annual election, it was announced by Francis Adams Truslow, president of the exchange.

The entire slate proposed by the nominating committee was elected to office. Eugene P. Barry of Shields & Co.; John J. Mann; Fred C. Moffatt, President of the Curb Exchange Securities Clearing Corporation; C. V. Quayle and Howard C. Sykes were elected to three year terms as Class A governors of the Curb Exchange. Mr. Barry and Mr. Mann are new board members. Mr. Quayle was named a governor during 1947 to fill the unexpired term of Thomas W. Bartsch, resigned. Mr. Moffatt and Mr. Sykes were reelected.

Caspar C. deGersdorff of Harris, Upham & Co., William E Dugan of Laidlaw & Co., Bayard C. Hoppin of Hoppin Bros. & Co. and John J. Nolan of G. H. Walker & Co. were elected to serve for three years as Class B members of the board.

Thomas Morris and E. J. Muller were elected to three year terms as trustees of the Curb Exchange gratuity fund.

Andrew Baird, a partner in the firm of Josephthal & Co. and a member of the New York Curb Exchange since 1938 was elected Vice-Chairman of the board of governors of that exchange for the ensuing year at the 38th annual organization meeting of the board held February 9, Francis Adams Truslow, President, announced. Mr. Baird succeeds Frederick J. Roth.

Mr. Baird has been a governor of the Curb Exchange for the past five years, serving on most of the standing committees of the exchange during that time. He will continue as Chairman of the floor transactions committee in which capacity he served last year and will be a member during the ensuing year of the executive and finance committees.

The exchange board of governors also approved the reappointment by Mr. Truslow of Edward F. Barrett, President of Long Island Lighting Company; Dean John T. Madden of New York University; and Benjamin H. Namm, Chairman of Namm Department Store, as public governors of the exchange for the ensuing year.

Standing committees appointed by Mr. Truslow to direct the administration of the exchange for the ensuing year were approved and announced following the meeting. They reflect the amendment adopted last November streamlining exchange administration and reducing the number of committees from 15 to 10.

Chairmen of standing committees were appointed as follows: executive committee, Edward C. Werle, who is Chairman of the exchange board; committee on admissions, Charles J. Kershaw, Reynolds & Co.; committee on arbitration, Caspar C. de Gersdorff, Harris, Upham & Co.; committee on business conduct, Edwin Posner, Andrews, Posner & Rothschild; committee on finance, James R. Dyer, Dates & Dyer; committee on floor transactions, Mr. Baird; committee on outside supervision, Charles Moran, Jr.; committee on public relations, Fred C. Moffatt; realty committee, David U. Page; and committee on securities, Howard C. Sykes.

Officers of the Curb Exchange reappointed were Charles E. McGowan, secretary; Christopher Hengeveld, Jr., Treasurer; and Joseph R. Mayer, Assistant Treasurer. Mr. McGowan was also reappointed director of the department of transactions and quotations and Mr. Hengeveld director of the department of administration. Henry H. Badenberger, Martin J. Keena, H. Vernon Lee, Jr., and Wilmont H. Goodrich were renamed directors of the departments of outside supervision, securities, public relations and the building department, respectively.

Beginning his Wall Street career in 1919 as a page boy on the floor of the New York Stock Exchange, Mr. Werle became an order clerk for the stock exchange firm of Wade, Templeton & Co., worked for two years with Morin S. Hare & Co., and in 1923 joined the employ of Johnson & Wood. In 1928, Mr. Werle was appointed salaried market employee for Aymar Johnson of Johnson & Wood and

(Continued on page 27)

Free Enterprise and National Employment Act

By EDWIN G. NOURSE*

Chairman, President's Council of Economic Advisers

Dr. Nourse, in explaining National Employment Act, asserts it does not propose a trick remedy or panacea. Outlines its relationship with Joint Committee of Congress on the Economic Report, and contends neither agency constrains freedom of individual or of groups in our traditional way of life. Stresses role of Council as preventing risks of "under prosperity," and points out inter-related responsibilities of government, management and labor in checking inflation and preventing business depression. Concludes private institutions should act in conjunction with government agencies.

There is a certain amount of misunderstanding of what is perhaps a rather complicated and certainly a novel setup within the frame of our government and the system of conducting the business affairs of this nation. And so I want to preface my remarks by some brief comments as to this Employment Act of 1946 which is almost exactly two years old. It was signed on the 20th of February, 1946, although what one of the commentators referred to as "the manhunt" which ended in the appointment of the Council, took place some five months after that.

Edwin G. Nourse

The Council was sworn in on the 9th of August, 1946. I hope you are familiar to some extent with the Employment Act, a very brief statute covering barely four pages. It is in my judgment potentially an epoch-making piece of legislation and I should say that it is essentially conservative in its character in the best sense of that word. The act in essence aims to systematize the processes by which the United States undertakes to conserve its manpower, its natural resources, and its managerial ability by keeping these resources at a continuous high level of efficient utilization, instead of permitting again or longer the gigantic wastes which have been characteristic of our past industrial history with its periodic depressions.

The act is noteworthy in that it does not propose any trick remedy or suggest anything in the nature of a panacea for the complex causes or the widely varying conditions which mark the acute illnesses or the prolonged debility such as that of the '30's which our economic system has experienced. The characteristic feature of the act is that it seeks to mobilize and to systematize the efforts of all participants in the economic process in behalf of intelligent, preventive measures and of the sound living habits which make for the continuance of good economic health. The spirit of the act is well epitomized in two phrases from its declaration of policy. First, that it shall seek the "creating and maintaining in a manner calculated to foster and promote free, competitive enterprise and the general welfare, conditions under which there will be afforded useful employment opportunities including self-employment, for those able, willing, and seeking to work"—that was put in to avoid the complaint of guarantee of jobs or of constraint of labor—"opportunities for useful employment for those willing, able and seeking to work and to promote maximum employment, production and purchasing power."

This is a purpose which it seems to me no loyal and intelligent American should fail to subscribe to.

Second, the act "declares that it is the continuing policy and responsibility of the Federal Government to use all practicable means to coordinate and utilize all its plans, functions and resources" for these purposes. Now I believe that no intelligent American should expect less than this from his government and need have no fear of the consequences of such a role of government.

The Two Agencies

So much for the general purpose. Turning now to implementation, Congress sought to implement these high purposes through two agencies: (1) the Council of Economic Advisers in the Executive Office of the President, and (2) in the Congress, a Joint Committee on the Economic Report of the President.

In their respective spheres, both these agencies undertake to coordinate and integrate government policy and action by bringing the best of professional economic thinking and of proven and progressive business experience to bear on the nation's economic problem.

In both instances, this is a continuous process which, however, comes to a climax each year when the new session of Congress convenes and the President reports to them on the economic state of the nation and presents proposals for its preservation and betterment, and when the Congress proceeds to the actual process of legislation under the guidance of a report by this joint committee which is to serve as an integrating agency embodying an economic program for the ensuing year. This procedure ties together the formerly random, often inconsistent and conflicting, work of the large membership functioning through the complex array of committees which exist in Congress.

Neither of these agencies, the Council nor the Joint Committee in any way constrains the freedom of the individual or group action which is traditional to our way of life. But they do initiate means for systematizing our ways of dealing with the nation's business—now a two billion dollar business—and for supplying of coordination which has been sadly lacking in the past.

I perhaps should at this point explain one thing which seems to have caused a considerable amount of confusion, namely, the distinction between the voice of the Council and the voice of the President, a report of the Council, and the report of the President; the Economic Report of the President, transmitted to the Congress, the most recent one on Jan. 14, 1948. This is a book of 136 pages, including 50 pages of tables, graphs, charts and supporting material, this latter material just as it was furnished to him by the Council. As his letter of transmittal to the Congress very clearly states, that material is taken over at that stage and converted into an economic report of the President within the traditional frame of our government which is a cabinet government. He says, "I am presenting herewith my economic report to the Congress as required under the Employment Act of 1946. In preparing this report, I have had the advice and assistance of the Council of Economic Advisers, members of the cabinet, and heads of independent agencies." Obviously he had had the counsel of many people, but his Economic Report is very definitely that policy which he as Chief Executive of the nation and as head of a political party — looking at the matter realistically takes as *his* economic policy and *his* program for the ensuing year.

In discussing the formation of the Council in its early days, I was often inclined to refer to "predecessor agencies." Some of them were war-time agencies which had great administrative powers as well as analytical functions. Some had only advisory characteristics like ourselves. Such was the old and ill-starred National Resources Planning Board which was very definitely repudiated by the Congress. Among those predecessors of ours I wish to refer to the six anonymous assistants to the President. I said that I thought we would probably be well-advised in adopting that word "anonymous," or the phrase Mr. Roosevelt used, "people with a passion for anonymity," because obviously there must be a distinction between the professional analyst and the recommending agencies.

The Council is made up of economists with professional staff, with numerous contracts with other professional staff who serve the policymaking and political heads of the more or less ex parte departments of government. We must be a distinctively professional service agency set up as an arm of the Chief Executive, a continuing agency to serve every president, as he comes to that office. There must be a distinction between that confidential advisory service and the economic report, policy, and program which the President in his position must adopt and make his own and present to the Congress — as it happens now, before a Congress of the other political party.

I mention this because I think there has been some failure to understand the distinction between these two documents, the report of the Council which by the statute we must submit to the President in December of each year, and the report of the President to the Congress which is his document transmitted to the Congress at the opening of its session each year. The Council in its report does not make recommendations. It cannot espouse a policy or make specific conclusions growing out of its analytical work. We have had to interpret for ourselves the role which we are supposed to play in this matter and I take full responsibility for sponsoring from the beginning the idea that there was an educational role which we could well serve by exploring the general meaning of the economic philosophy of the Employment Act in general terms without recommendations, without involving any possible conflict between anything that we say or any constraint on our part to keep ourselves in line with the recommendations that the President is going to make a month later, under a variety of counsel and of pres-

(Continued on page 35)

*An address by Dr. Nourse at the Fifth Annual Economic Conference sponsored by the Chicago Chapter of the Chartered Life Underwriters, Chicago, Ill., Jan. 27, 1948.

Joins Hansen Co. Staff

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Robert G. Grace, Jr. has joined the staff of Hansen & Co., Inc., Ambassador Building.

Mutual Funds

By HENRY HUNT

Shareholders Increase 127% in Seven Years

Since Jan. 1, 1941, shareholders of mutual funds have increased 127%, from 296,000 to 673,000. During the same period, shareholders of closed-end investment trusts have **decreased 32%**, from 466,000 to 318,000. The apparent anomaly of this situation is due on the one hand to intelligent sales efforts on the part of mutual fund sponsors and on the other hand to the calling of some preferred stock issues by closed-end trusts. Certain close-end trusts, such as Atlas Corporation, have also followed a policy of buying in their own common shares at substantial discounts below asset values and cancelling these shares.

It is interesting to note that during this seven year period new capital for mutual funds, i.e., g r o s s s sales, less liquidations, amounted to $805,000,000 whereas only $54,000,000 new capital, including bank loans but excluding redemption of shares, found its way into closed-end trusts during the same period.

The following table lists new capital added to mutual funds during each of the past seven years.

Year	New Capital—Net
1941	$ 8,000,000
1942	48,000,000
1943	65,000,000
1944	98,000,000
1945	182,000,000
1946	226,000,000
1947	178,000,000
Total	$805,000,000

During 1947, mutual funds distributed a total of $78,600,000 in dividends, equal to a little more than 5½% on year-end net assets. Of these dividends, approximately 28% was derived from security profits, the balance from net investment income.

Despite the decline in stockholders, closed-end trusts showed a gain in assets during the period under review of 26%, from $614,000,000 to $771,000,000. However, mutual funds showed the phenomenal gain in assets of 215%, from $448,000,000 to $1,409,000,000.

While the growth in mutual funds over the next seven years is apt to be less on a percentage basis than during the past seven years (an average growth of $200,000,000 a year would increase assets only 100%), there is still plenty of room for expansion. In this connection it is well to bear in mind that their present assets of approximately $1.4 billion are equal to only ⅔ of 1% of the market value of all securities listed on the N. Y. Stock Exchange, not to mention the billions of dollars in unlisted bonds and stocks.

Abe Burrows Says

"The best things in life are free—but you can go to jail that way too!"

When the Flood Subsides

The following is an excerpt by **Edward C. Johnson II**, President of **Fidelity Fund** from its Annual Report:

"At a time like the present especially, when business activity is roaring along at boom levels, one should guard against being trapped into enterprises showing high apparent earnings which may largely be floated by the boom flood. Every investor's question to himself might be: 'When the flood subsides into normal flow, where do I sit?' On the other hand, the decline in the purchasing power of the dollar has emphasized that today a static investment policy may be a losing policy.

"A program which will meet these and other current and prospective problems is something which every investor should undertake or hire someone to undertake on his behalf. We at Fidelity Fund conceive it our duty to our shareholders to endeavor to maintain a portfolio of securities which will avoid extremes. We believe that modern investment management calls for much more than simply buying a list of good securities and then doing nothing until some one or more of these securities go wrong. We believe that a gradual and deliberate shifting from securities believed overvalued to securities believed undervalued should take place within the frame work of sound investment policy. Present and prospective events would seem to dictate a flexible and constantly alert approach. Our shareholders may be very sure that their investment funds intrusted to us are not resting on their oars."

Immortal Words

What did Daniel Boone say when he saw the Indians coming over the mountain?

Answer—"Here come the Indians."

George Putnam's Policy

The Annual Report of **The George Putnam Fund of Boston** comments as follows:

"Caution is always a part of our policy but we are not pessimistic. We all feel that this boom must end sometime and, if history is any guide, we can expect a readjustment of some severity. At the moment there are no indications of any important change in the general business picture and managements with whom we talk are generally optimistic. By and large their 1948 earnings estimates compare very favorably with last year's record-breaking results.

"We don't believe that there is any likelihood of a serious depression such as this country went through in the early 30's. With a strong world-wide demand for goods of all sorts, the worst that we can see is a temporary period of readjustment. Such a period can be painful, however, unless one is properly prepared.

"Under present conditions we are not trying to look too far ahead. The Fund has a strong protective backlog position of 23%, largely in short-term Government obligations and cash. Recently, in view of the uncertainty in the bond market, we converted the Fund's long-term Government bonds into short-term certificates. Common stock holdings are in strong companies that should come through any readjustment period without serious difficulty.

"Over the longer picture we are genuinely optimistic because we believe that no other country offers the investor such a large measure of security and opportunity."

Notes

National Securities & Research Corporation in a recent bulletin points out that the cost of buying and selling one share lots of the underlying issues in its **National Stock Series** exceeds 13% of the cost, including commissions, taxes and odd lot fees.

Lord Abbett has prepared a new folder titled **"The Investment Fund—What It Offers to Large and Small Investors"** which may be used without a prospectus by dealers.

Wellington Fund's year end dividend of 40c represented its 72nd consecutive quarterly dividend.

Gannon With Dean Witter

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—J. Pierce Gannon, Jr. has become affiliated with Dean Witter & Co., 632 South Spring Street. He was previously with Fewel & Co.

With J. Barth & Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Joseph Andrews has been added to the staff of J. Barth & Co., 482 California Street, members of the New York and San Francisco Stock Exchanges.

William T. Cobb, V.-P. Of Distributors Group

William T. Cobb has been elected a vice-president of Distributors Group, Inc., 63 Wall Street, New York City, in charge of sales promotion of Group Securities. He had been with the organization since Oct. 1946, as advertising manager. Prior to joining Distributors Group, he was Vice-President of the advertising agency of Albert Frank-Gunther Law, Inc., and previously was an editorial writer on the "Wall Street Journal."

William T. Cobb

Business Man's Bookshelf

A-B-C of Inflation in the United States—Roger Amory—National Rockland Bank of Boston, 30 Congress Street, Boston, Mass.—Paper—Copies on request.

International Financial Statistics — January, 1948 — published monthly—$5.00 per year in United States, rates for foreign subscriptions on request — International Monetary Fund, 1818 H Street, N. W., Washington 6, D. C.

Organization of British Subsidiaries by American Business Corporations—Roy A. Foulke—Dun & Bradstreet, Inc., 290 Broadway, New York 8, N. Y.—Paper—Copies available on request without charge.

Price Problems—An Accounting Report—Franzy Eakin—Economic Accounting, Inc., Decatur, Ill. — paper—$1.00.

Silver Market, 32nd Annual Review (1947)—Handy & Harman, 82 Fulton Street, New York 7, N. Y.—Paper.

Technological Stagnation in Great Britain — Machinery and Allied Products Institute, 120 South La Salle Street, Chicago 3, Ill.—paper—25c.

Let's End This Nonsense!

"In the long run it is believed to be highly desirable that agriculture receive an equitable share of the national income and that agricultural programs be directed to that end, rather than to emphasize only parity prices for agriculture, which may or may not approach parity on income depending upon available volume of products and cost and income relationships.

* * *

"Industrial employment should be maintained permanently on an expanding basis to absorb new workers and to prevent the mass movement of people from cities to farms where they cannot be productively employed. Continued national progress requires that reasonably full and stable employment be provided for the total labor force.

"A sound national economy likewise requires a greater stabilization in the values of money to reduce the risks to investments and the hazards to labor employed in agriculture and industry."—Subcommittee of the Senate Committee on Agriculture.

This is an election year, and, we suppose, almost anything is to be expected, but . . . .

Is the millenium really to be reached when all of us collectively guarantee to each of us individually all that the heart desires?

The time has come to put this sort of nonsense aside for good and all.

Foresees Tighter Bank Credit but Ample Investment Funds in 1948

Bankers Trust Co., in annual review of the money market, points out that when Treasury uses surplus funds for retirement of marketable debt it may tighten bank credit, but make funds available for investment market.

The view that bank credit will be more difficult to obtain during 1948 is expressed by the Bond Department of Bankers Trust Co., but at the same time the bank sees little evidence to support the opinion that there will be a great shortage of investment funds. In its annual review entitled "United States Securities and the Money Market," The Bankers Trust Co. of New York says that the Treasury may have $8 or $9 billion available for the purchase or retirement of marketable debt this year. To the extent that the Treasury uses these funds for the purchase of Government securities, they are made available to the investment market. This should enable the monetary authorities to maintain the 2½% yield on long-term Government obligations without adding to inflationary pressures.

Interest rates in 1947, according to Bankers Trust Company, moved upward chiefly because of the efforts of the monetary authorities to tighten credit conditions. In the Review, the bank refers to the various measures adopted by the Treasury and the Federal Reserve System to minimize the expansion of bank credit, but emphasizes that the recent increase in bank loans has been largely a result of inflation rather than a primary cause. Furthermore, most of the increase in bank loans last year was offset by the retirement of Government securities held in the banking system, and continued substantial retirements are in prospect for 1948 out of the large volume of funds accruing to the Treasury.

The real causes of the present inflation lie almost entirely outside current bank lending operations. One of the basic causes of the postwar increase in prices is the large increase in the money supply in former years. "Since the early thirties the Federal Government has been following an inflationary course which is now bearing bitter fruit. These policies began with the devaluation of the dollar and deficit financing in the thirties. The major increase in the money supply, however, resulted from the inflationary methods of financing World War II." In addition, many other factors have accentuated inflationary conditions, such as reduced food production in many parts of the world, large domestic and foreign requirements, and record peacetime Government expenditures.

The high and rising level of prices and business activity in 1947, says the review, confronted the banks with large demands for credit. "Some business enterprises are required to carry larger dollar volumes of inventories and receivables and others find their cash resources strained by the unexpectedly high cost of plant expansion. In contrast with the conditions following World War I, however, there is little evidence of borrowing from banks to increase speculative holdings of inventories. Real estate and consumer loans of the commercial banks increased rather steadily throughout 1947, but the volume of bank credit used to carry securities declined to the lowest level in several years."

The study cautions against the unwise use of credit controls. It is stated that "under present strongly inflationary conditions, measures of credit control would be really effective only if used with sufficient force to reduce production and employment and create a pronounced deflationary movement. A disorganized bond market and rigid restraints on essential credits might seriously interfere with the normal flow of funds into productive enterprise and disrupt the whole economy. The consequences of such a course cannot be contemplated lightly, especially in view of present world conditions and our international responsibilities."

J. S. Strauss & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John A. Chartz has been added to the staff of J. S. Strauss & Co., 155 Montgomery Street.

NASD Committee Appointments Made

L. Raymond Billett, Chairman of the Board of Governors of the National Association of Securities Dealers, Inc., announces appointment of the following committees:


L. Raymond Billett T. Jerrold Bryce


John O. Stubbs Herbert F. Boynton

Executive Committee: L. Raymond Billett, Kebbon, McCormick & Co., Chicago, Chairman; Herbert F. Boynton, H. F. Boynton & Co., Inc., New York; W. Rex Cromwell, Dallas Rupe & Son, Dallas; Robert C. Kirchofer, Kirchofer & Arnold, Inc., Raleigh; G. M. Phillips, Caldwell Phillips Co., St. Paul; Joseph L. Ryons, Pacific Company of California, Los Angeles; John O. Stubbs, Whiting, Weeks & Stubbs, Boston; Wallace H. Fulton, of Washington (ex officio).

Finance Committee: T. Jerrold Bryce, Clark, Dodge & Co., New York, Chairman; W. Rex Cromwell, Dallas Rupe & Son, Dallas; Waldo Hemphill, Waldo Hemphill & Co., Seattle; Wilbur G. Hoye, Chas. W. Scranton & Co., New Haven; Walter E. Kistner, A. C. Allyn & Co., Inc., Chicago. Mr. Billett is also a member of this Committee, and Mr. Fulton is a member ex officio.

Business Conduct Committee: John O. Stubbs, Whiting, Weeks & Stubbs, Boston, Chairman; Clement A. Evans, Clement A. Evans & Co., Inc., Atlanta; S. Davidson Herron, the First Boston Corp., Pittsburgh; Francis Kernan, White, Weld & Co., New York; John D. McCutcheon, John D. McCutcheon & Co., Inc., St. Louis; Max J. Stringer, Watling, Lerchen & Co., Detroit; Eaton Taylor, Dean Witter & Co., San Francisco.

Legislative Advisory Committee: Herbert F. Boynton, H. F. Boynton & Co., Inc., New York, Chairman; Philip L. Carret, Carret, Gammons & Co., Inc., New York; Russell I. Cunningham, Cunningham & Co., Cleveland; Harlan Herrick, the Lathrop-Hawk-Herrick Co., Wichita; John J. Sullivan, Bosworth, Sullivan & Co., Denver.

With Hemphill, Noyes & Co.

PHILADELPHIA, PA.—Hemphill, Noyes & Co., members of the New York Stock Exchange, announce that Sheldon Potter III is now associated with the firm as registered representative in their office at 123 South Broad Street.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

Although a cautious attitude holds sway in the government securities markets, investors as well as traders and dealers have become bold enough to at least entertain the thought that intermediate and long Treasuries might be taken on in limited amounts, if the commodity price trend should continue downward. . . . Better still some investors are now venturing into a few of the middle maturities of the eligible taxables with the occasional buyer appearing for the longer-term obligations. . . . This does not indicate the start of a movement back into the more distant maturities by a long shot, but it does show that some institutions that can use income are putting a minor part of their funds into the higher yielding obligations. . . .

The fact that the larger commercial banks are continuing to purchase the longer maturities of the eligible partially-exempts at advancing prices, seems to signify a lessening of the fear of further price adjustments. . . . If these buyers felt that quotations would go sharply lower, they would most likely not be purchasers of the partially-exempts because of their vulnerable position, due to the rather sizable premium involved. . . . The market for these bonds is very thin so that a not too large buy or sell order could move them quite sharply in either direction. . . . For the present at least the demand side is the best, and this along with the small floating supply is making for improved prices in these securities. . . .

SWITCHING

Some switching is going on in the market with the trend still in the direction of shortening maturities and at the same time cutting down premiums. . . . This is keeping the 1½s due 1950 in demand and tending to move quotations for this issue ahead slightly. . . . However, as it approaches the 100½ area, it is believed that it will run into resistance (on the up side) unless the whole market level should advance. . . . Some of the smaller banks that are a bit heavy in mortgages are looking around for outside buyers of these obligations in order to lighten their positions. . . . Part of the funds that are obtained from these sales are being put into the longest eligible issue. . . . The balance is kept in cash or invested in shorts. . . . These institutions are getting conscious of the increase in their risk assets. . . .

DEFLATIONARY

The drop in commodity prices is encouraging, but it will take more time to indicate a trend. . . . It could be that the deflationary forces are going to be stronger than the inflationary ones from here on. . . . Great changes are taking place in the money markets and there is no doubt that credit is being restricted which is deflationary. . . .

This is well illustrated by the fact that despite purchases by the Central Banks of $4,370,099,000 of bonds since Nov. 5, 1947, when support was first thrown into the bond market, government security holdings of the Federal Reserve Banks by Feb. 4, 1948 had declined by $1,596,286,000. . . . Bills and certificates decreased by $6,670,585,000 while notes and bonds were up by $5,074,299,000. . . .

Gold during this period increased by $598,000,000 while currency in circulation decreased by $511,000,000. . . . Despite the reserve building qualities of these two forces excess reserves between Nov. 5, 1947 and Feb. 4, 1948 have declined by $170,000,000. . . . Increased revenue requirements in New York City and Chicago the end of this month will further limit the credit base. . . .

POTENTIAL INFLUENCES

Credit restrictive measures, such as debt retirement, especially those securities held by the Reserve Banks, higher interest rates, increased reserve requirements and voluntary action by the commercial banks in making lending more difficult could have very decided influences upon the money markets. . . . However, the success of this credit limit program depends in no small measure upon the attitude of the member banks in creating reserve balances that could be used to make loans which would add to the inflation pressure. . . .

Since the Central Banks do not appear to be in a position to limit the reserves that the commercial banks can build up, while keeping Treasuries at pegged levels, there must be co-operation from the member banks in order to make the policy effective. . . . Otherwise the anchor on prices might have to be lifted or new powers obtained from the Congress. . . .

FISCAL POLICY

The other important factor in the credit restricting program of the authorities is the fiscal policy of the government. . . . The powers that be can carry on debt redemption, which will cut down reserves and deposits of member banks only so long as there is a surplus of revenues over expenditures. . . . With no Treasury surplus the authorities would lose their credit limiting powers over the money markets. . . . This makes it rather imperative that tax reductions are not too steep and that expenditures be cut in order to still insure a sizable government surplus that could be used to retire debt and press on reserve balances and decrease deposits. . . .

END OF LIQUIDATION?

While it is not possible to indicate yet what will take place, the feeling seems to be gaining followers that the monetary authorities will be able to carry through their program successfully, which means continued restriction of credit that will bear down on reserve balances and cut down deposits, while at the same time maintaining present support levels for government security prices. . . . The trend of commodity prices and loans will give clues as to what is developing in the fight against inflationary forces as well as the course of general economic conditions. . . .

If credit restricting measures work (and they have in the past), sales of Treasury obligations by insurance companies and savings banks will not last too long because with fewer outlets for funds, this liquidation will dry up and the process be reversed.

Walter E. Sullivan With C. G. Novotny

C. G. Novotny, 120 Broadway, New York City, announces that Walter E. Sullivan, formerly

Walter E. Sullivan

with the New York Stock Exchange firm of Elder, Wheeler & Co., has become associated with him as manager of the trading department and will continue to specialize in Soft Drink Bottling Stocks.

Phillip West Asst. V-P of New York Stock Exch.

Emil Schram, President of the New York Stock Exchange, announced the appointment of Phillip L. West as Assistant Vice President. Mr. West has been Director of the Department of Stock List since Feb., 1946, prior to which he was Acting Director for five years during the absence of Colonel John Haskell who was with the U. S. Army abroad.

Born in Jersey City in 1906, Mr. West was graduated in 1929 from New York University, and has been with the New York Stock Exchange for 23 years.

Lange and Crabb Now With W. E. Burnet Co. Staff

Herman R. Lange, formerly with Rutter & Co., and William W. Crabb, previously with Dreyfus & Co., are now with W. E. Burnet & Co., 11 Wall Street, New York City, members of the New York Stock Exchange.

Herbert A. Cone Dead

Herbert A. Cone member of the New York Stock Exchange, died at his home at the age of 54.

Securities Salesman's Corner

By JOHN DUTTON

In your customer holding files you will probably find some securities that have declined in price since the time they were offered. Today, very few investment dealers have customers that do not hold securities which have declined in market value since they were originally recommended. The events of the past 18 months, as far as the market is concerned, have now taken their toll of high grade bonds as well as common stocks. This situation is general—everyone has paper losses.

Here is an opportunity for you to do more business. You can turn an unfavorable situation into one that is favorable by finding a new approach. Why not check up on the most likely opportunities for a price recovery? Then go over these situations once more in a thorough manner. Visit the plant, meet the management, find out what is going on, then go to see your customers and suggest new purchases at prevailing low levels. They are familiar with the security in question, it is something they will no longer find strange to them. Quite likely they would appreciate some up-to-the-minute information—and some encouragement. After all, everyone likes to live in hope. It is a peculiar thing that the investing public always likes to read the Market Letters that are written by the optimists. The "bulls" are always more popular than the "bears."

Take the case of the customer who purchased 100 shares of "Truman's Rainbow Preferred" from you at $20 a share. Today it is available at $5. There is plenty of book value, plus earnings that appear to be fairly secure at the rate of about $1.50 a share per annum, and a management that is still alert and on its toes. However, a dead and sloppy market indicates that all your good friends and customers could obtain for their shares is about 25% of the price which they paid for them. In other words, for $2,000 your customer once was able to obtain 100 shares of stock in good old "Rainbow." Today for the same $2,000 he can buy 400 shares. If he buys 400 more his average will be only $8 instead of $20. Don't you think that "Rainbow," with a book value of several times this average cost of $8, should be attractive to him, especially if your latest field report, and the information you can now give him indicates that here is his chance to get his money out and possibly a profit too?

No one is responsible for market declines—no one can stop them—but a security dealer is derelict in his duty toward his clients if he does not bring such situations to their attention. When a stock declines in market value, primarily because an entire market has been shot to pieces, rather than because of intrinsic weakness, your customers should know about it. Many a salesman will find that the clients he has avoided because of their losses would rather have him call upon them and suggest that they buy more of the same. It is when a salesman, or a firm loses hope, that the customer loses faith—both in the security in question, and the salesman.

There are all kinds of reasons why people buy securities. If you are in this business for any length of time you will have your share of "lemons." This is unavoidable, it is part of the risk in business. Some people will understand that no one can be right all the time. They take mistakes for granted. They only expect you to make them as infrequently as possible. There are others who will continue to do business with you, after you have sold them a security that has been unprofitable, because **they want you to think that they "can take it."** This may seem far fetched, but the world is composed of all kinds of people. There are those who need tax losses and for this reason they do not consider them burdensome.

Remember, you probably think that your customer's losses are more serious than they do themselves. No one ever disliked the fellow who came up and said, "It looks better now, we've waited quite a while, we've made a check up, things are looking up with old 'Paradise,' here's your chance not only to get even but possibly make a profit, we wanted you to know what we've found out, etc., etc." Remember, it is sometimes easier to go back and bring an old account back to life than to dig up a new one.

Platinum as a Hedge Against Inflation

From time immemorial during periods of economic uncertainty men have hoarded gold and sliver. Today that is difficult or impossible. National legislation in a large part of the world has outlawed the private holding of gold, while the prohibitive 50% tax on profits derived from trading in silver have virtually eliminated that metal as an investment medium.

In a study released over the week-end, Bache & Co., 36 Wall Street, New York City, state that platinum heretofore overshadowed by its more famous rivals, silver and gold, is now beginning to assume its rightful position as one of the important investment metals of the world.

During recent months, according to Bache & Co., platinum has attracted wide recognition as a refuge for capital. The nightmare of inflation in almost all countries has made prudent investors search for tangible goods, which would protect them against losses from currency depreciation. The growing interest in platinum, it is pointed out in trade circles, is best reflected by its disappearance into investment channels, and in its increasing demand resulting in an advance of $3 per ounce during the past week.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

B. C. Gardner, M. C., Executive Vice-President of the **Bank of Montreal, Montreal, Canada,** has been elected President and Chief Executive Officer of the Bank to succeed the late George W. Spinnew, C.M.G., whose death on Feb. 1 is referred to in detail at the end of these items. Mr. Gardner, a native of Bristol, England, began his banking career in Canada with the former Bank of British North America which merged with the Bank of Montreal in 1918. He held important positions in branches in various parts of Canada from British Columbia to the Maritimes and was, for a period, Manager for the Bank in St. John's, Newfoundland, prior to his transfer to the head office in Montreal, as Superintendent of foreign branches. In 1932, he came to New York as second agent and later took charge of this important office. In 1935, Mr. Gardner returned to Montreal as an Assistant General Manager and became General Manager in 1942 and Executive Vice-President last December. From August, 1915 to 1918, he served with the Canadian Expeditionary Force, was twice wounded and was awarded the Military Cross. Mr. Gardner is a past President of the Canadian Bankers' Association, a member of the executive committee of the Canadian Chamber of Commerce, a life Governor of the Montreal General Hospital, and a member of the board of governors of Ridley College, St. Catharines, Ontario.

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The **New York Agency of Swiss Bank Corporation** announces that at the general meeting of the corporation's stockholders to be held in Basle, Switzerland, on Feb. 27, it will be proposed to pay a dividend of 6% for 1947 against 5% for 1946. It will also be proposed to donate 500,000 Swiss Francs to the Bank's Pension Fund and to create a special reserve of 1,000,000 Swiss Francs for proposed new bank buildings An amount of 5,007,042.40 Swiss Francs will be carried forward against 4,387,663.53 for the previous year. A cable to the Agency also reported that the Board of Directors at a meeting in Basle approved accounts for 1947. These accounts it is stated showed net profits of 16,223,851.81 Swiss Francs, including carryover, as compared with 13,387,663.53 Swiss Francs for 1946. Total assets as of Dec. 31, 1947, are reported as of 2,306,046,947 Swiss Francs against 2,139,391,383 Swiss Francs for 1946.

* * *

One of the first banking and trust institutions to be established in the midtown area, and the oldest branch of the **Guaranty Trust Company in New York City,** —the Fifth Avenue Office of the bank — observes its 50th anniversary on Feb. 7. Established in 1898 at Fifth Avenue and 43rd Street, the year greater New York was consolidated under one government, and since 1920 in its present location at 44th Street, the branch's growth has paralleled the development of midtown New York from a largely residential section to its present position of a great central city within a city. When the office was opened most of the business districts of the city were below 34th Street and the neighborhood of the bank was mainly one of homes. As business moved northward and corporations in increasing numbers established headquarters in the midtown area, the books of the branch carried more and more names of firms and corporations, as well as of individuals. The other branches of the bank in the city are the Madison Avenue Office at 60th Street, established in 1918, and the Rockefeller Center Office at 40 Rockefeller Plaza, opened in 1946. The main office is at 140 Broadway.

* * *

Francis Weekes, who retired as Vice-President of the **Brooklyn Trust Company, of Brooklyn, N. Y.,** died on Feb. 5. He was 77 years of age. Stating that he had been in the banking business for 57 years, the Brooklyn "Eagle" added in part:

"He entered the banking business in the late 1880s as a $5-a-week employee of the Exchange National Bank. On Nov. 15, 1890 he joined the old Nassau Trust Company. He advanced to Assistant Secretary and when the company opened a branch at Fulton St. and Red Hook Lane he was placed in charge of it. Several years later he was elected Secretary of the company and was active in its management during the panic of 1907, when the Nassau remained open while several other banks in the city closed their doors.

"After the Nassau Trust Company merged with the Mechanics Bank in 1914, Mr. Weekes continued in charge of the bank's branch office. When that bank merged with the Brooklyn Trust Company in 1929, Mr. Weekes was elected a Vice-President."

* * *

Through a stock dividend of $65,000, the **Second National Bank & Trust Co. of Hemstead, Long Island, N. Y.** increased its capital, effective Jan. 19, from $325,000 to $390,000.

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A stock dividend of $20,000 has resulted in increasing the capital of the **Lincoln National Bank of Buffalo, N. Y.** from $200,000 to $220,000. The effective date of the increase was Jan. 28.

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The **Mechanics National Bank of Burlington, N. J.** increased its capital from $100,000 to $200,000 effective Jan. 27, through the sale of $100,000 of new stock.

* * *

According to the Pittsburgh "Post Gazette" of Jan. 26, three new Vice-Presidents have been named by the **Mellon National Bank & Trust Company of Pittsburgh;** they are James T. Brown, William E. Howard and Stewart McClintic who were promoted to the new posts from Assistant Vice-President. Walter T. Schmitt, formerly Assistant Secretary, was named Assistant Trust Officer, John L. Propst was made an Assistant Trust Officer and Theodore O. Harris an Assistant Cashier.

* * *

Stating that six promotions have been announced by the **Peoples First National Bank & Trust Company of Pittsburgh,** the "Post Gazette" of that city said on Feb. 2 that Shepard H. Patterson, Johnston M. Palframan and James D. Harlan were named Assistant Vice-Presidents; J. Lawrence Turner and J. Judson Brooks were elected Trust Officers, and Leo P. Larkin was elected Assistant Trust Officer.

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Foster W. Walker, Vice-President of the **National Bank of McKeesport, at McKeesport, Pa.,** occurred on Jan. 24. He was 53 years of age.

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The common capital stock of the **First National Bank of East Liverpool, Ohio,** was increased on Jan. 13 from $300,000 to $600,000

(Continued on page 31)

CED Favors European Aid Program

Paul G. Hoffman announces Committee for Economic Development favors adequate appropriations to make program a success, and an administration by a new single-purpose agency directly responsible to the President. Wants Western Germany made integral part of program.

Economic cooperation by the United States with Western Europe, including both relief and help in reconstruction, is endorsed in a statement on national policy issued on Feb. 11 by the Research and Policy Committee of the Committee for Economic Development. The statement declares that funds should be provided in amounts sufficient to make the program a success, and that that appropriations should be authorized to carry out at least a four year program.

Paul G. Hoffman

The statement, entitled "An American Program of European Cooperation," was drafted by a special CED subcommittee, of which Wayne C. Taylor of Washington, D. C. is Chairman, and was announced by Paul G. Hoffman, CED Chairman, and Raymond Rubicam, Chairman of the Research and Policy Committee. The Committee recommends that the program be administered by a new single-purpose agency directed by a single Administrator. This Administrator should be appointed by and be directly responsible to the President.

Congress should determine the basic policies governing the program, and should delegate precise powers to the President, as Chief Executive, for execution of these policies, the statement says, and it recommends that Congress should specifically authorize the President to issue directives to other governmental agencies as needed for the execution of the policies as defined. In this connection it is urged that no unnecessary restrictions be placed on the agency responsible for carrying out the purposes of the act.

The statement emphasizes that a minimum condition of aid should be that the European countries carry out the commitments they made at the Paris Conference, and that these undertakings should be implemented in the specific agreements to be made with the separate countries.

"The key to the maintenance of free societies and free economies in Western Europe is production," the statement declares. "If production can be increased by one-third quickly, Western Europe will be on the way to prosperity—and prosperity is a powerful antidote for communism. The primary responsibility for bringing about the required sharp increase in production must of necessity rest with the people of Western Europe. However, all evidence indicates that Western Europe can not accomplish this increased production without American aid."

The report asserts that, in any program of foreign aid, priority must be given to the maintenance of a strong, productive America. A program of European aid will, of course, contribute to inflationary pressures at home. The statement goes on to say that "We must face the problem of inflation whether or not there is an aid program. We should be able to deal with it and still carry on activities vital to the national welfare."

The Committee declares that we cannot isolate our free economy and have it work. "Regimentation of international trade inevitably creates pressures for the regimentation of domestic commerce. Breakdown of a free society abroad would make the maintenance of freedom here more difficult. As the strongest advocate of freedom in the world, we have responsibilities to ourselves and to the world."

It is recommended that there be a close working relationship between the new agency and the Department of State. The report emphasizes that the actions of the new independent agency must be consistent with the foreign policy of the United States. It is pointed out that both the new agency and the State Department would be subject to directives from the President, who is ultimately responsible for foreign policy.

The Committee recommends that the National Advisory Council created by Congress in 1945, should be established as the interdepartmental body to advise and assist the President and the Administrator in the formulation of programs, in deciding where aid should be provided through gifts and where through loans, and with respect to allocation of scarce commodities. In addition the Administrator must have ample power to surround himself with business and professional men of broad experience, and to establish competent advisory boards.

To facilitate the program abroad it is recommended that a special representative with ambassadorial rank be appointed by the President on joint recommendation of the Administrator and the Secretary of State, subject to confirmation by the Senate. As Ambassador, he would represent the President in Western Europe on problems of economic cooperation involving two or more participating countries and should be equally responsible to the Secretary of State and the Administrator. "He may well become our first Ambassador to a unified Europe," the statement declares.

Western Germany should be made an integral part of the development of Western Europe. This should be accomplished in ways which will not lead to resurgence of German military power and will not prevent the future unification of Germany.

The Committee further recommends that insofar as possible, loans should be truly loans, and gifts should be gifts, the division varying from country to country depending on needs and resources. It is pointed out that recent tariff reductions negotiated at Geneva will make repayments easier.

The aid program should not be used as a method of financing acquisition by the American government of property rights in Europe or its colonies. Recovery will be speeded, the statement asserts, by reducing the trade barriers between various European countries, by increasing freedom of movement of people, by joint development of controlled resources and in other ways.

In addition to Mr. Taylor, the subcommittee which drafted the policy statement included Henry P. Bristol, president, Bristol-Myers Co., New York; Mr. Hoffman; Jay C. Hormel, chairman of the board, Geo. A. Hormel & Co. Austin, Minn.; Thomas B. McCabe, president, Scott Paper Co., Chester, Pa.; Philip D. Reed, chairman of the board, General Electric Co., New York; Nelson A. Rockefeller, New York; Mr. Rubicam; Beardsley Ruml, Chairman of the Board, R. H. Macy & Co., Inc., New York; Harry Scherman, president, Book-of-the-Month Club, New York; J. Cameron Thomson, president, Northwest Bancorporation, Minneapolis.

Members of the CED Research and Policy Committee are Mr. Rubicam, Chairman; Chester C. Davis, president, Federal Reserve Bank of St. Louis, St. Louis, vice chairman; John D. Biggers, president, Libbey-Owens-Ford Glass Co., Toledo; James F. Brownlee, Fairfield, Conn.; Gardner Cowles, president and publisher, Des Moines Register & Tribune, Des Moines; Donald David, dean, Graduate School of Business Administration, Harvard University, Boston; Marion B. Folsom, treasurer, Eastman Kodak Co., Rochester, N. Y.; George L. Harrison, president, New York Life Insurance Co., New York.

Also, Robert Heller, president, Robert Heller & Associates, Inc., Cleveland; Mr. Hoffman; Mr. Hormel; Eric A. Johnston, President, Motion Picture Association of America, Inc., Washington, D. C.; Ernest Kanzler, chairman of the board, Universal C. I. T. Credit Corp., Detroit; Fred Lazarus, Jr. president, Federated Department Stores, Inc., Cincinnati; Mr. McCabe; Fowler McCormick, chairman of the board, International Harvester Co., Chicago; Mr. Reed; Mr. Ruml, Mr. Scherman, Mr. Taylor, Mr. Thomson.

McFarlane Director of Fund and World Bank

The International Monetary Fund and the International Bank for Reconstruction and Development on Feb. 5, announced the election of Stuart Gordon McFarlane, of Australia, as an Executive Director of both institutions.

At their Second Annual Meeting at London in September 1947, the Governors of the Fund and the Bank passed resolutions providing for the election of an additional Executive Director.

The Governors for Australia, Syria and Lebanon participated in this election and Mr. McFarlane will, as a result, cast the votes of these governments in the Executive Boards of the Fund and the Bank. He will exercise a voting power of 2,860 votes at meetings of the Boards of Directors. This total is a combination of the votes allotted to these three countries as follows: Australia 2,250; Syria, 315; Lebanon, 295.

Mr. McFarlane, who has served in many capacities in the government of Australia throughout his career, has been Secretary to the Commonwealth Treasury since 1938, and a member of the Advisory Council of the Commonwealth Bank since 1945. Earlier in his career, he was Secretary of the Australian Loan Council, Secretary of the National Debt Commission, Director of the Commonwealth Oil Refiners and Director of the Commonwealth Bank Board.

William A. B. Iliff Now Bank's Loan Director

William A. B. Iliff, of Great Britain, assumed his duties Feb. 9 as Loan Director of the International Bank for Reconstruction and Development.

As Loan Director, Mr. Iliff is respsonsible for the development application of Bank policies pertaining to loans made or guaranteed by the Bank.

Mr. Iliff has recently returned from the Middle East where he had acted for several years as Representative of the United Kingdom Treasury. He had formerly held appointments as Financial Counsellor at the British Embassy, Tehran, Iran, and as Financial Advisor to the Governor of Burma.

Wants Private Enterprise Participation in ERP

George F. Bauer of New York Board of Trade files brief with Senate Foreign Relations Committee proposing projects under Marshall Plan, in which private investors and business firms participate. Urges a gold basis for currency.

"Projects, not lump sums of money, need to be listed in detail under the Marshall Plan, and private investors and business firms given a chance, through removal of licensing complications and restoration of gold coin standard, to offer with confidence in the values unit in which the transactions are performed, the equipment, goods or services found to be required in each undertaking."

George F. Bauer

This suggestion was made by George F. Bauer, Vice-Chairman of the International Section of New York Board of Trade, in a brief to Senate Foreign Relations Committee.

"Private enterprise without increased burden on United States taxpayers, should be able to work out ways to provide any machines or materials that a detailed analysis of each project reveals as necessary.

"Such procedure would also show whether the undertaking is sound, regardless of what funds, private or United States taxpayers' are finally used.

"Numerous American firms are willing to help reconstruction of European establishments even as far as advancing raw materials on pledge of a share of more valuable goods resulting after addition of enhanced qualities by European workmanship.

"Hampering restrictions by our own Government make that form of cooperation between private business groups most difficult. Even in the American Zone, under the U. S. Military and Economic Control in Germany, licensing systems are so complicated, uncertain and costly in their compliance that they discourage private enterprise from providing housing, industrial output and distribution organizations of an efficient type.

"Charity economy in Germany is the alternative with its costs burdened on the American taxpayer.

"Specifically," Mr. Bauer continued, "three vital steps are immediately needed in order that the vast resources of private enterprise can be called upon to help achieve the objectives of the Marshall Plan.

"First, the Plan needs to be clearly stated in projects, equipment, products and services required under it.

"Second, cancellation is vital of paragraph B of Public Law 395, signed by the President on Dec. 30, 1947, which authorized the Department of Commerce to blanket European and United States trade with an export license system that suffocates all normally private efforts.

"Third, our own currency needs to be put on a gold coin basis. Such action is proposed in Bill H. R. 5031, introduced by Congressman Howard Buffet of Nebraska. It provides for a dollar of 15 and 21/100 grains of gold on basis of ratio of $35 per ounce supposedly existing today.

"Enactment of the bill leaves no doubt as to likely value of dollar at time a business transaction is started or completed.

"Other countries would also be encouraged to put their currencies in suitable relationships to the gold coin dollar, thereby providing an instrument of prime importance to help private enterprise in making more goods available to people everywhere," Mr. Bauer concluded.

Public Bequests of Lamont Total $10,000,000

The will of Thomas W. Lamont, who died at Boca Grande, Fla., on Feb. 2, contains bequests for various cultural, educational, religious and welfare purposes aggregating $10 million. The principal bequests were:

Harvard College, $5,000,000; Phillips Exeter Academy, $2,000,000; Union College, Schenectady, New York, $200,000; The Metropolitan Museum of Art, New York City, $1,000,000; The American Museum of Natural History, New York, $250,000; The New York Public Library—Astor, Lenox and Tilden Foundations, $250,000; Union Theological Seminary, New York, $50,000; New York Conference of the Methodist Episcopal Church, $50,000.

The New York Academy of Medicine, New York City, $200,000; Council on Foreign Relations, Inc., New York City, $100,000; Community Service Society of New York, New York City, and the Children's Aid Society, New York City, each $100.000; New York University, New York City, $50,000; American School of Classical Studies, at Athens, Greece, $25,000; The Harvard Club of New York City and The University Club in the City of New York, each $5,000.

A trust fund of $50,000 designed for the benefit of the people of North Haven, Maine.

A trust fund of $100,000, for the purpose of honoring the memory of Mr. Lamont's eldest grandson and namesake Thomas William Lamont II who lost his life in the service of his country in World War II.

Australian Gold Mining Operators Seek Subsidy

Australia has been reviewing the possibility of digging more gold from mines. The Australian gold mining industry has suggested that the government stabilize the price per ounce by means of a subsidy. Present price of gold in Australia is $34.44 an ounce. A general gold policy has yet to be defined by the Federal Government, but the Victorian State Government has already decided to subsidize the industry in that State, free of interest, so that Victorian companies may achieve maximum production. Last year the Federal Government abolished the gold tax of $2.76 an ounce.

Australian gold mines have paid almost $95,000,000 to shareholders in 16 years. Western Australia is still the leading gold producing State, with Victoria second. Despite rising costs and shortages of manpower and equipment, mining experts anticipate increased production during 1948.

Kessler With Brand, Grumet

Ben Kessler is now associated with Brand, Grumet & Co., members of the New York Stock Exchange, 55 Broadway, New York City, it is announced.

Mr. Kessler was previously with Townsend, Graff & Co. and Lewisohn & Co.

Canadian Securities

By WILLIAM J. McKAY

Oil increasingly constitutes the life blood of modern civilization and steel continues as its essential framework. The current production of both commodities is at an unprecedented high level in this country but the demand increasingly outstrips the supply to an almost fantastic degree. This is a grave problem in normal times but when consideration is given to the subject of war reserves, the situation takes on an almost alarming aspect.

Undue attention has been given to the study of past statistics. Insufficient importance has been attached to the factor of population growth and the rising living-standards throughout the world. For this reason previous production peaks are no criterion of present needs and certainly not of future requirements. The basic concern therefore of the iron and steel industries is to find the means whereby the enormous potential demands of the future can be met in face of the dwindling domestic supply.

There is now little doubt that increasing reliance will have to be placed on foreign sources of supply. For the most part however, the location of the contemplated resources abroad introduces new political and economic complications. For example the securing of an assured supply of oil from the Middle East not only will entail huge initial outlays for development and transport, but in the final analysis the eventual protection of these interests will also involve still greater indirect expenditure. As an alternative it has recently been suggested that $9 billions of public funds be devoted as an emergency measure to the production of oil from coal and shale.

Before recourse is made to heroic measures of this kind it would be well to consider other less costly and more practical solutions. In fact it is not necessary to look very far afield for the appropriate answer to this problem. According to the consensus of geological opinion, almost the entire area of the Dominion of Canada apart from the Laurentian Shield and the Rockies, has great possibilities for the discovery of oil in commercial quantities. Although the surface of this area has so far been merely scratched recent results, notably in the Leduc field in the Province of Alberta, are highly promising. Another interesting possibility is the extraction of oil from the Athabasca "Tar-sands," where according to reliable estimates, there is a potential production equal to the total of the known oil-reserves of the entire world.

Also in the case of steel, why look to the iron-ore in South America and Africa while the richest deposits in the world lie a few hundred miles north of the border in Quebec and Labrador? Furthermore the full exploitation of the Dominion's undeveloped iron and oil resources would involve U. S. investment in Canada on such a scale that Canada's U. S. dollar problem would be automatically solved. In return there is every reason to believe that the apprehensions on this side of the border concerning imminent acute shortages of these vital commodities would be simultaneously removed.

During the week the internal and external sections of the bond market continued to sag. Free funds after earlier strength, eased in sympathy with the weak tendency of sterling. Stocks also declined following the break in the New York stock and commodity markets. The gold issues showed isolated resistance to the general downward trend and this section is likely to attract increasing investment interest as a hedge against the fears of chain-reaction currency devaluations.

Phil. Stock Exchange Election To Be Contest

PHILADELPHIA, PA. — William K. Barclay, Jr., Stein Bros. & Boyce, has been nominated for president of the Philadelphia Stock Exchange to succeed Frank E. Baker of Baker, Weeks & Harden.

Wm. K. Barclay, Jr.

The seven vacancies on the board of governors is being contested this year by thirteen candidates: Mr. Baker; Geo. W. Elkins, Jr., Elkins, Morris & Co.; Herbert T. Greenwood, H. T. Greenwood & Co.; Paul A. Haffner, Boenning & Co.; Arleigh P. Hess, Hess & Co.; H. Gates Lloyd, Drexel & Co.; Harry MacDonald, Bioren & Co.; George E. Nehrbas, Parris & Co.; Ralph E. Pendergast, Paul & Co., Inc.; Samuel K. Phillips, Samuel K. Phillips & Co.; Charles Sheridan, Sheridan, Bogan Co.; Edward B. Smith, Jr., Smith, Barney & Co.; and William De Haven, Townsend, De Haven & Townsend, Crouter & Bodine.

Survey on Probable Trend of Bond Market

Detailed 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.

Questions and Answers on Combating "Inflation"

(Continued from page 2)

tem has been an important one. Since all our paper money except silver certificates are irredeemable—that is, they are "redeemed" only in other promises to pay which are likewise irredeemable except where over-valued silver and minor coin are employed—the Treasury and Federal Reserve banks have been able to issue many more of these promises to pay than would have been possible had these issuing agencies been compelled to restrict the issuance of their promises to those that they could redeem upon demand. In short, our monetary system has invited and contributed to the depreciation in the purchasing power of our dollar in terms of goods and services.

It should be emphasized that the best monetary system devised by man cannot of itself prevent rising or falling prices since the causes of those fluctuations are found in all the forces that affect supply and demand. The point is that a defective monetary system can be a potent causal factor in affecting prices and, therefore, when such a system exists, it should be corrected and made the passive agent that it is supposed to be.

Our monetary system is defective because practically all domestic money is irredeemable in gold. As a consequence of this unfortunate characteristic, it has been an important contributing factor in the depreciation of the purchasing power of our dollar.

(4) **What does this depreciation in the value of the dollar mean to the people of the United States?** It means different things to different people and institutions. Its effects depend upon whether one is dealing with the cost of living of people in general or of a certain group of people, with the values of people's property, with the purchasing power of people's savings accounts, insurance policies, and investments in government securities, with the purchasing power of the wages and salaries of people in general or of groups of people, and so on.

If an individual is obtaining dollars more rapidly than the purchasing power of his dollar declines, he is gaining in the face of raising prices. This tends to be the case often, perhaps in general, with farmers during the early stages of currency depreciation—their incomes tend to rise faster than their costs and, for a time, their profits may give them a real increase in purchasing power. If the depreciation in the purchasing power of money continues sharply upward, the time will arrive when the decrease in the purchasing power of the dollar will overtake the increase in the supply of dollar profits.

Because the early stages of sharply rising prices tend to benefit farmers, they and the officers of farm organizations are generally pleased with that state of affairs. The fact that such a rise in prices is a prelude to a later drop does not seem to alter the position generally taken by the farmers as a group and by many if not most of the officers of farm organizations.

If people hold government securities and insurance policies purchased in 1940 and have savings accounts established then, the purchasing power of the dollars represented by these securities, insurance policies, and savings accounts has declined approximately 50 per cent. Individuals held $65.7 billion of United States government securities in October, 1947. On this item they would have lost the equivalent of over $32 billion in purchasing power since 1940 had they bought these securities in that year. It is obvious that at the most only a small proportion might have done this, since individuals held only $9.7 billion government securities in 1940. The large volume of purchases began in 1943-1944.

Insurance companies, other corporations and associations, mutual savings banks, and state and local governments held $64.7 billion of United States government securities in October, 1947. If these institutions attempted to buy goods and services of the same general type as those bought by individuals, then the loss in value here, as compared with 1940, would be $32.3 billion. But, as in the case of individuals, these institutions held a much smaller volume in 1940 ($11.5 billion); their heavy buying began chiefly in 1943-1944. Furthermore, since such institutions do not use their funds as do individuals, the effects of rising prices on them is a matter for separate determination.

The value of insurance policies held in 1947, that were purchased in 1940 or earlier, is probably a very large item. The value of life insurance policies alone, outstanding in the United States on December 31, 1945, was over $174.5 billion — an increase of $56.7 billion over the amount outstanding in 1940. The purchasing power of this $56.7 billion has been cut in half; and those life insurance policies purchased earlier and at any time since 1929 have depreciated still more.

Time deposits in commercial banks, mutual savings banks, and the postal savings system totaled $56 billion in November, 1947. This would represent a loss of $28 billion in purchasing power if that amount had been established in 1940 and held until 1947. This could be true, at the most, of only half that amount since time deposits in 1940 were almost precisely half the dollar volume of October, 1947.

Therefore, all that we can know is that the purchasing power of the dollar has been declining drastically; we do not and cannot know quantitatively with any accuracy how holders of government securities, insurance policies, and of savings or other time deposits are affected since such knowledge would require that we have the data on each person and institution involved.

Commercial and Federal Reserve banks held approximately $92 billion of government securities in October, 1947. The principal interest of bankers is in the market value of these securities rather than in the purchasing power of this market value since the business of the banker is one of maintaining assets at least equal in market value of the banks' liabilities. The decline in purchasing power of money is of more concern to the banks' depositors than to the banks themselves.

It is for these reasons that the banking fraternity as a group is rarely aroused when a nation becomes involved in a depreciating currency resulting from rising prices. Since the bankers' business interests are primarily in the market value of their assets while the public's interest is primarily in the purchasing power of their deposits, securities, insurance, and other savings, banking systems throughout the world have usually gone along with an inflationary tide and have in general done practically nothing to help a government save the people from the depreciation in the value of their purchasing power. Where central banks are tools of government treasuries, this complacency is most pronounced.

Because wages and salaries cannot generally be adjusted as rapidly as prices rise, the purchasing power of those who depend largely or solely upon such income tends to decline. This is a large segment of the people of the United States.

Many individuals and businesses occupy a mixed position; some own property which appreciates in value while the value of their bonds, insurance, and savings accounts depreciates. The effect of the declining purchasing power of the dollar is, therefore, different for people occupying different positions, having different sources of income, and owning property in differing forms, in our economic system.

In short, the decline in the purchasing power of the dollar is one thing; its effects are something else. The latter differ with respect to different people and different institutions.

In general, and in the course of time, few people can escape the evil consequences of a depreciating currency because of the economic maladjustments generated during the period of rising prices and the stresses and strains attending the subsequent liquidation and business recession.

(5) **What caused this "inflation" in the United States?** Since prices are the result of the forces of supply and demand, except in the instances of government price fixing, the answers lie in ascertaining what caused the relative scarcity of goods and services offered for sale and the relatively large demand for them.

In brief, on the supply side, the long-drawn-out business depression of the 1930's kept production, with some exceptions, at relatively low levels. Then the period of the war reduced production of goods for civilian use to an extremely low point. Various government policies during the 1930's and the period of the war also acted as depressants on productive activity. Monopolies, both business and labor, have also been factors.

On the demand side, the chief factors have been the government's policies of money and credit expansion in which were employed a variety of devices; the low interest rate policies of the government which invited heavy borrowing and spending; the abandonment of the gold-coin monetary standard, thus permitting the issuance of irredeemable promises to pay and depriving the people of direct control over their government's management of the public purse; the war, which caused and invited unprecedented spending and the growth of an unprecedented volume (for the United States) of money and deposits resting largely on government debt; the widespread notion that debt and spending, rather than production, saving, and hard work, provided the roads to sound economic prosperity; the loans and gifts extended to foreign countries.

Price fixing by the government, like monopolies, has tended to affect both supply and demand adversely. Price fixing, except in those cases in which rising prices would not have encouraged greater production, has tended to aggravate the distortions by depressing production and by encouraging a greater demand.

(6) **What are the cures for this depreciation in the purchasing power of our currency?** Since the causes are several, so are the cures. In principle, those forces that increase production relative to demand and decrease demand relative to the available supply of goods and services should tend to bring the decline in purchasing power of our currency to an end.

Price fixing is not helpful, except perhaps where rising prices would not induce greater production, because is discourages production and invites greater demand. Rationing is ordinarily an adjunct to price fixing; it is an effort on the part of some authority to apportion unusually scarce goods according to some notion of fairness; it deals with results or symptoms; it does not deal in any important way with causes.

Lower taxes on producers

should encourage greater production.

Lower tariffs and the removal of obstructions, domestic and foreign, to trade should stimulate production and enable people to buy more goods and services with their money.

Monopolies—both business and labor—should be broken up. Feather-bedding and all obstructions to production, except where matters of health, safety, etc., are involved, should be ended. In short, practically all measures that tend to stimulate production and to put more goods and services at the disposal of people should be beneficial.

On the demand side: government spending should be curbed sharply. Most of the Federal debt should be converted into consols of long maturity bearing an interest rate sufficiently high to induce non-bank investing institutions and individuals to invest in them and to hold them. The reduction of the debt should take place as accidental surpluses make this possible. The chief emphasis in this respect should be on tax reduction to encourage production and because individuals and non-governmental institutions, who must balance costs against income, can be expected to use their funds more productively than does a government.

Price maintenance and subsidies (except those in the interest of military, naval, and air protection) should be ended.

The use of credit, except in connection with self-liquidating productive activities, should be restricted sharply since non-productive buyers' credit adds to the purchasing power against the available goods and services.

The country should be returned to a gold-coin standard so that the people, once more, may have an honest currency and direct control over the government's use and abuse of the public purse. Such a standard should force some contraction in the government's and banks' promises to pay now outstanding. Return to a gold-coin standard *probably* would be one of the most potent correctives to currency depreciation since one of the important factors in our sharply rising prices has been the issuance of a great volume of irredeemable promises to pay by the Treasury and Federal Reserve banks. A gold-coin standard forces redemption of promises and, therefore, restricts the banks and government to the issuance of promises that can be redeemed.

There is no valid defense for the issuance of promises to pay which the United States Treasury and Federal Reserve banks do not redeem and do not intend to redeem. Any issuance of promises to pay without intent to redeem is immoral. Much of our trouble with "inflation" today has its origin in such immorality. All our paper money in use outside the Federal Reserve banks, except silver certificates, carries a promise to pay which is "fulfilled" by the substitution of another promise of the same kind. When a government and banks issue promises that are not fulfilled, the standard of integrity is besmirched by a lack of good faith. The promises of our government and banks today are not good, in so far as our circulating paper money is concerned (silver certificates excepted), and the value of these promises has declined with relative rapidity since 1940 in terms of what they will buy.

Interest rates should be permitted to rise to their natural levels. The government should borrow its funds in the competitive money markets at competitive rates. These higher rates would put sharp restrictions on government borrowing and allow savers a better return for the use of their funds.

Government buying of goods to aid Europe should, in so far as is possible, be diverted from the United States to other countries, as should the purchases by those governments to whom we extend loans. This is imperative in the case of such depleted natural resources as oil.

(7) **If a basic cure for currency depreciation is a return to a gold-coin monetary standard, what are the obstacles to the adoption of this corrective?** Briefly they would appear to be the following:

(a) The general public, in large part, does not understand the difference between a good and an inferior money. Most people seem to confuse the convenience of paper money with the far-reaching and fundamental monetary functions performed by gold—its services as a reserve against promises to pay, its clearing functions (domestic and foreign), its superior ability to store up values indefinitely.

As a consequence, members of Congress and the Administration have been relatively free from demands from the people in general for a return to a gold-coin standard. Without such pressure upon them, many government officials neglect or avoid this basic matter.

(b) Since an inconvertible paper money — a so-called "managed" paper currency—is an integral part of a governmentally-managed economy, all who think they desire such an economy and government should be expected to oppose, if they are consistent, a return by the United States to a gold-coin monetary standard. This standard means that the money of the nation is basically the people's money, not so exclusively the money of the government, and that the control over the public purse is in high degree in the hands of the people. Therefore, those who think they desire a high degree of governmental dictatorship, with the government and Reserve banks relatively free to issue promises to pay without being compelled to fulfill them, are, if consistent, opposed to a return to a gold standard.

(c) Because the suspension of gold payments is widely associated with our business recession of 1929-1933, a great many people regard the gold standard as in some manner a, or the, cause of that business recession. Because man's mismanagement of credit and of a multitude of our other things impaired economic systems and destroyed or impaired a large number of institutions including governments and gold standards, the belief is widespread that gold was in some way the cause or at least an important contributing factor in that disaster. This has been the case in the face of the fact that, while practically all other things were losing value, gold, almost alone, was appreciating in value.

In short, gold has been, and is, blamed for man's mismanagement of it. Because he cannot do as he pleases with it, he condemns it. Because he cannot make things of less value, such as paper money, as valuable as gold without redeeming them directly or indirectly in gold, he blames gold for his unhappy experiences and attemps to fix things so that he will not be compelled to redeem his promises in gold. He even argues that since most nations, because of their abuse of gold and reckless issuances of promises to pay, have driven gold into hiding and have caused these nations to slip down to cheap paper currencies, the latter currencies are therefore to be preferred. The cheaper money becomes "the best," and the more valuable "the worst." Such is man's intelligence, thinking, and argument today as to gold versus a governmentally-managed irredeemable paper money.

(d) With rising prices, people attempt in every way possible to increase their incomes; and they fear a drop in prices lest it bring a loss in incomes. Many, for a time, realize real gains. Many others are hopeful. Perhaps most fail to understand the extent to which their real purchasing power is declining until prices have risen to great heights and it becomes necessary to utilize savings and to sell property in order to live. This last stage has not yet been reached in any important way in this country, although there appear to be indications that some of our people are beginning to feel the pressure of a depreciating real income. Many people, apparently, are still in the state of relatively high money incomes, relatively large cash savings, and fairly free spending. They are enjoying the feeling that they can buy much—until they try it.

(e) As prices rise people protest and urge that prices not be permitted to rise farther. When a new and higher level is reached, they continue to protest but they oppose the taking of steps that would cause prices to fall to a lower level that was regarded as too high when it was reached from still lower levels. In short, people wish to see a further rise stopped but they do not wish to see a fall. They hope that the rise can be arrested without a recession following.

There appears to be no sound basis for such a hope where positive action, such as that sometimes employed by governments and central banking systems, is taken to arrest the upward trend in prices. In principle, the only time rising prices could straighten out and cease rising without falling is when a country is recovering from a depression and when production catches up with demand and prices cease to rise and do not fall because a nice balance is attained and because no positive—that is, outside (governmental or bank)—action is taken to curb the responsiveness of prices to the balancing of supply and demand at prevailing prices.

The present demand, supply, and price situation in the United States does not contain these healthy characteristics. It is saturated with unhealthy factors. We are living in an unhealthy postwar boom and such a boom, with its abnormalities, is a prelude to a recession.

As a consequence, there would appear to be no good reason for supposing that any positive action can be taken against rising prices without a recession being a result if such action is effective.

Because people fear a recession, they oppose effective action. They prefer to deal with symptoms and thus create new maladjustments than to deal with basic causes. This sort of procedure is a very old story in man's behavior. Each generation seems to refuse to learn from the painful experiences suffered by preceding generations when such a course has been pursued.

The people of the United States today seem determined not to profit from the lessons of the past—if, indeed, they understand these lessons. Instead, they, like many others of the past, are taking a course which, if continued, promises to teach the people of this country an old lesson in a very painful way.

(f) It seems clear that the people of this country do not yet understand that no inconvertible paper is likely to be so "managed" that severe depreciation will not ultimately set in, no matter how totalitarian a government may be, if the forces that can cause depreciation become sufficiently strong. The fact that Russia has recently provided a demonstration of this fact seems thus far not to be widely recognized in this country. In the face of this and many other lessons of the same kind, including the present depreciation of our money, the contentions are still advanced, as they have been during our period of suspension of gold payments, that our government has sufficient power to maintain the purchasing power of our irredeemable paper money or that it will not permit depreciation to go "too far." That paper is paper and gold is gold is a fact that the great majority of the people of this country are not yet ready to admit in respect to money.

The truth of the matter is that a "managed" inconvertible paper money can depreciate to any degree. It is a promise to pay that is not fulfilled. It is a bad sort of promise; and the people can decide to treat such promises with the contempt that a non-fulfilled promise invites.

Despite the fact that our system of indirect conversion of our irredeemable paper money maintains it on a parity with gold at the rate established in January, 1934, it is important to understand that we are not safe from a radical depreciation of our currency for the reason that the government and Federal Reserve banks have been able to pump, and can continue to pump, a much larger volume of promises to pay into circulation than would be possible under a system of direct redemption. The present degree of depreciation in the purchasing power of our money should make this clear to all intelligent people.

* * *

Since these seem to be the chief characteristics of the general public's understanding and attitude in respect to our depreciating currency, our monetary system, and the attacks on symptoms rather than causes, there is not likely to be pressure on Congress and the Administration, unless leadership is provided, to correct the far-reaching defects in our monetary system except as such pressure comes from those experienced and thoughtful citizens who, for one reason or another, have given careful consideration to the issue, and from those specialists in the field of money who are thoroughly grounded in the history and principles of monetary standards and systems.

The issue resolves itself into the question of whether government officials who understand the nature of this insidious monetary disease will be leaders and attempt to save our people from further pursuit of a course they do not comprehend, or whether these officials will simply ride out the course with these people, trusting to luck and waiting until a possible crash engulfs us.

A proposal to return this country to a gold standard should raise the question, quickly, of returning to sobriety before the intoxication of a depreciating currency runs its course ending in the blue "morning after" with its economic sickness and headache. People enjoy the intoxication and, not understanding its nature, causes, and probable after-effects, are not likely to welcome a withdrawal of the intoxicating stimulant. Similarly, those who are temporarily experiencing real gains from the current rise in prices and are not able or willing to take a long view of the situation may be expected, in general, to oppose a return to a gold-coin standard.[1]

(8) **Would a return to a gold-coin monetary standard free Congress of the drives of pressure groups?** It would tend to have this effect. There is much condemnation of Congressmen these days because their chief activities seem to consist of little more than voting away the taxpayers' money in response to the demands of pressure groups which clearly have gained in number, size, and callousness.

While condemnation of Congressmen for yielding to this pressure has been common, relatively little serious attention has been given to the reasons why the best-intentioned members of Congress have been unable, in large degree, to resist the demands of these pressure groups.

Apparently the most basic reason for the general inability of Congressmen to resist these pressures is to be found in the fact that the Treasury and Reserve banks can meet the great expenditures demanded because these institutions are relatively free to issue irredeemable promises to pay and because the people in general have no effective means of opposing such a levy upon their wealth in order to satisfy these ruthless and relentless pressure groups.

Were the United States on a gold-coin standard, individuals could put direct pressure upon the Treasury and Reserve banks to redeem their promises to pay when the issuance, in the opinion of these individuals, was regarded as excessive. Bank reserves would decline; the prices of government securities would fall.

When, under such conditions, pressure groups attempted to persuade Congress to spend more money, these Congressmen could and would point to falling bank and Treasury reserves and to sagging prices of government securities. Congressmen, for the most part, would refuse to run the risks of further spending under these conditions, and pressure groups could well understand why their requests could not be granted. In short, control over the public purse would once more be, in large degree, in the hands of the people rather than at the mercy of these pressure groups.

It is probably not too much to say that the existence and success of these pressure groups today are perhaps the most dangerous elements operating against the return to fiscal sanity in this country. But lying behind this situation is the loss of control by the people over their government's use and abuse of the people's purse as a consequence of being deprived of the beneficent influences of a gold-coin monetary standard and system.

(9) **What is the answer?** It is to be found in the degree of leadership which Congress and the Administration will provide the people of this country in respect to this very fundamental and grave issue. The question is whether there is enough leadership in the Federal government to give the people of the United States a monetary standard and system in which the promises of the government and banks are honorable and honored.

It is not to the credit of this generation that circumstances make it necessary to argue for, and to fight to establish, a system of honorable promises in preference to one in which they are not honored. Yet, fundamentally, that is the nature of the issue. Nor is it to the credit of this generation that one must argue for a return to the people of this country of appropriate control over the public purse.

And, it is by the establishment of a monetary system involving honorable and honored promises that we should expect to find our best cure for what we generally call "inflation."

Should good leadership assert itself, it seems reasonable to suppose that many of those now inadequately informed and indifferent would give support to those advocating the wise and proper course. Without such leadership, it appears highly probable that we will continue on the present perilous course which can and may prove to be a most unfortunate one for the people of the United States.

It seems reasonably clear that leadership of statesmen is probably more important in this than in any other field at the present time. The value of the contribution of such leadership to the welfare of the people of this country promises to be immeasurable. The need for this leadership should be clear.

[1] Anyone concerned with the answers to the objections commonly offered these days to a return to a gold-coin monetary standard and system, may obtain them by writing the office of the Economists' National Committee on Monetary Policy, One Madison Avenue, New York 10, New York.

Time to Retire SEC

(Continued from page 3)

unusual proceeding. The entity to which such request is made may then furnish such statement or else refuse to do so. The prospective customer can then make his choice of either dealing with the firm or not. The whole affair then becomes a matter of personal volition.

All this is vastly different from the compulsion enforced by SEC regulations.

There is a ray of hope in the Commission's letter from which we quote above, indicating that it would give further consideration to the question "whether these financial statements should be treated as confidential."

Brokers and dealers, all of them, large and small, should immediately insist that these reports be so treated and make their insistence known both to the Commission and to the members of our Congress.

Here are involved the fundamental rights of the individual to be free in the pursuit of his work. Encroachments of this kind constitute the precedent which make for a controlled economy and may ultimately destroy the capitalistic system which has made this a great country.

The creation of the Securities and Exchange Commission has been characterized by the following contrasting efforts. On the one hand the Commission, through its rule making powers, has been constantly reaching out for more power and on the other, both the public and the securities industry have been constantly attempting to curtail the powers of the Commission.

Now and then the efforts at curtailment have been crowned with some success, as for example, when after a long campaign, the Administrative Procedure Act was passed. This stopped the Commission from acting in a multiform capacity, as investigator, prosecutor, judge and jury of its own activities.

The Commission's attempt at price control have also met various set-backs.

The line of battle is well defined and in behalf of the public and the securities industry, we claim that there exists no emergency which justifies the continuance of an administrative body to regulate the securities industry.

Special Tax Problems in Purchase And Sale of Securities

(Continued from page 2)

and emerge with a deductible capital loss nevertheless.

There is no question that these tax results flow from the regulations and decisions in their present state. I am of the opinion that they have grown away from the basic law to such an extent that they now have no relation to economic reality.

The results are peculiar, although we practitioners probably can follow through the fine technicalities out of which they arise.

The regulations and decisions permit a person to be long and short of the same stock or commodity at the same time. I think the Commissioner would find it difficult to explain this result to the intelligent layman unacquainted with the mass of merely formalistic and technical procedures, which make up so much of our tax rules. There is no reason for a person being both long and short of the same thing at the same time. He can have no economic interest in the stock or commodity and the rules can be criticized as being a wide open invitation to tax manipulation.

I will not be surprised if the Commissioner or Congress wakes up to the fact that short sales do not *have* to be treated this way and that the rules may be changed to give effect to the economic realities of the transactions.

Incidentally, dividends paid by the person who is short of stock is now held to be a deductible business expense and is not to enter into the computation on the gain or loss of the transaction. (*Comm. v. Wiesler*, 16 Fed. (2d) 997 (CCA 6th Circuit), and *Comm. v. Wilson*, 163 Fed. (2d) 680 (CCA 9th Circuit), 1947.)

Prior to these cases there was a distinction between dividends paid on short securities between a dealer and a trader but these decisions hold that an ordinary trader in securities is entitled to deduct the dividends as a business expense in the nature of interest paid.

In my experience I observed that the Treasury agents have been instructed not to follow these cases but unless these decisions are reversed they will constitute the law of the land.

Puts and Calls

One way in which to establish a long-term gain without taking a long-term risk, if you own a security which had a rise before it was held for six months, is to buy a put.

This is an agreement which gives the holder the option to deliver the stock to the issuer of the put at an agreed price, normally somewhat below the market at the time. You wait until you have held your stock for six months and if the stock has risen further you sell it out and have a larger long-term gain. You do not exercise the put which expires, and the amount paid for it becomes a short-term loss under Section 117 (g) (2) of the Code.

If the stock should go down after you buy the put you deliver your shares at the agreed price to the issuer of the put, in which event you protect your original capital gain at the price of the cost of the put. This gain will be long term and may result in a higher net after taxes than the larger amount of short-term gain which you would have had if you sold the stock without buying the put.

The issuer of the put, who receives payment for it, will not know until its expiration how to account for the price he received for it. If the put is not exercised the amount he received constitutes a short-term gain under Section 117 (g) (2), but if the put is exercised and he is obliged to buy the stock, the amount received by him reduces the basis of his stock.

Transactions in Securities on a When-Issued Basis

Securities which are to be issued in connection with the reorganization or recapitalization of a corporation are sometimes dealt in before they come into existence. These transactions are on a when-issued basis and according to the customs of the Street there is no binding commitment unless the securities are issued according to the plan in effect at the time the transaction was entered into, and settlement is not made until the issue and the delivery of the securities.

In the case of railroad reorganizations these contracts may be outstanding for many years. Persons may, and do, buy and sell these securities and accumulate a substantial profit or loss only to find that the plan is not adopted or is radically changed, so that the securities never come into existence. In that event the contract is unenforceable and all trades are canceled without gain or loss, except for the commissions, which must be paid in any event.

If the securities do come into existence the delivery date is the date for tax purposes for all transactions. *To illustrate:* Even though you buy a stock on a when-issued basis in 1944 and sell it on a when-issued basis in 1946, if delivery date occurs in 1947 the tax effect is that you bought and sold a security on the delivery date in 1947 and you have a short-term gain or loss. If you bought, but did not sell, the holding date begins on the settlement date in 1947 and not when you purchased the when-issued contract years before.

Investors or speculators who have made phantom profits during the pendency of the plan frequently desire to cash in on such profits before the securities come into existence. If there is a general belief that the plan will ultimately go through there is an occasional opportunity to do that, in which event they sell their when-issued contracts to buy, that is, they do not sell the securities (which are not yet in existence) but merely sell their right to buy the securities when they do come into existence at what is a favorable price. This is a sale of a capital asset, namely, a contract to buy, and the holding period of the contract is the date it was entered into.

The Commisioner has issued an elaborate ruling outlining the tax consequences which arise from various types of transactions in this field. This ruling is too elaborate to be discussed at this time. Those of you interested will find it in I.T. 3721, 1945 C.B. 164.

These rules create many opportunities for tax planning although it seems to me that manipulation would be the more correct term. These rules make it possible for a person to make a large profit and emerge without tax liability, just as in the case of commodity trading alluded to. Many fantastic stories are in circulation concerning the difference between the economic results and the tax results of trading in when-issued securities.

"The rules dealing with the tax results of short sales and transactions in when-issued securities," are equally unreal. By a series of fictions, they permit traders to have an economic gain but a taxable net loss. The net result of this is to place security traders alongside churches and charitable institutions as partially tax exempt. The rules should be changed either by statute or regulation so that the tax results will have a closer relation to the economic realities.

The rules of the Commissioner are only technically sound and it is unfortunate that he did not see through the realities of the situation and promulgate rules which would more nearly approximate a fair tax result in this field.

These problems are better understood when it is remembered that before a capital gain or loss arises there must be a "sale or exchange" and the situations I have discussed all turn on what is the date on which the sale occurs. In the case of short sales the sale takes place when the security is delivered and in the case of transactions in "when-issued" securities the sale takes place on the delivery date and not on the contract date.

Premium and Interest to Maturity Paid On Retirement of Bonds

Section 117 (f) of the Code provides that amounts received by the holder upon retirement of bonds, etc., shall be considered as amounts received in exchange therefor, which means that the entire amount is to be entered as part of the capital proceeds and is an element in the computation of the gain or loss. We know that the premium paid upon retirement is covered by this section, but a question arises, as to which there may be a doubt, as to the payment of interest at the time of redemption.

It frequently occurs that a corporation pays interest on bonds called for redemption beyond the date of payment to the date of redemption. It is a very common practice for a corporation on the redemption of bonds to deposit the funds with a bank a month or two before the redemption date and the bondholders are usually given the privilege of tendering their bonds for retirement with payment of interest in full to the date of redemption, so that he receives interest for a period beyond the date when the bond is surrendered. Now, then, does the interest for the period between the payment of the bond and the redemption date constitute what the statute refers to as "amounts received by the holder upon the retirement of bonds" so as to be a part of the capital proceeds, or is the amount paid as interest to be treated as interest income.

Even though the interest is not earned in a technical sense, I believe nevertheless that the amount is being paid as interest for the use of money and from my experience I have observed that it is recognized by the Treasury Department that such receipts are treated for tax purposes as interest income. If the security is a tax-free municipal bond then such interest will be exempt from federal taxation. Correspondingly, if it is a corporate bond the interest will be fully taxable, and will not add to the capital proceeds.

The recent decision in *Philadelphia Transportation Co.*, 9 T.C. ------(No. 133) held that interest on indebtedness may be deducted even though the indebtedness is not outstanding during the entire interest accrual period. In this case a corporation was created in the course of a reorganization and issued bonds requiring the payment of interest from a date beginning a year prior to the actual organization of the company. It was held that the payment of interest was deductible even though the interest period began before the fiscal year.

In the case of redemption and payment of interest for the period beyond the redemption date the payment is for interest on indebtedness and retains its character as such both for the corporation debtor and the bondholder.

Bonds Purchased With Defaulted Interest Coupons

When bonds are purchased the buyer ordinarily pays accrued interest at the coupon rate to the date of settlement. If, however, the corporation has defaulted in the payment of interest, which happens when a corporation is in reorganization, its bonds are sold "flat," that is, without any specific payment for the accrued interest. The purchase price is the cost of the bonds and the defaulted coupons together. Any payment received thereafter in payment of interest which accrued before the date of purchase is a return of capital and is not taxable income. If, however, the payments of such interest exceed the bondholder's basis the excess is not interest income but is gain, which I believe is taxable as ordinary income as it does not arise from a sale, exchange or retirement of bonds. Receipts in payment of interest which accrued after the date of purchase is ordinary income.

If a corporation which was in default on several years' interest should announce a payment of several years' interest at one time the price of the bond will automatically rise to reflect that fact. One way of converting ordinary income to capital gain is to sell the bond "flat" and the entire profit will then be capital gain.

Redemption of Preferred Stock—Payment of Dividend Arrears

If preferred stock is redeemed the total amount paid on redemption, even though it includes dividend arrears, is considered as the amount received in full payment for the stock, (I.R.C., Sec. 115 [c]) and enters into the computation of capital gain or loss, no part thereof being ordinary income. However, if a corporation, without redeeming the stock, pays a large amount of arrears at one time the total received is taxable dividend income even though the stock was acquired after the default in dividends. The rule for taxation of dividends which were in default when stock was purchased is different from that for taxation of interest in default when a bond was bought, because interest accrues automatically from day to day but dividends do not.

If a taxpayer in the high income tax brackets is threatened with a large payment of dividends arrears he may be better off to sell his stock and receive the value of the dividend in the price, and thus convert it into a capital gain. If the purchase involves a large sum of money, finding a buyer who wants to receive a large taxable dividend which will come off the quotation for the stock, is not easy. A corporate buyer or a dealer in securities are the ones to look for when presented with the problem of disposing of such a stock.

Dealers' Sales v. Sales of Capital Assets

With respect to security transactions, a distinction is drawn both in the regulations and the decisions between one who trades for his own account and one who buys for resale to customers. The questions in this connection are largely factual.

The definition of capital assets (I.R.C. Sec. 117 [a] [1]) excludes (a) stock in trade and inventory, and (b) property held primarily for sale to customers in the ordinary course of business.

Regs. 111, Sec. 29.22 (c) (5) states that "A dealer in securities is a merchant of securities . . . regularly engaged in the purchase of securities and their resale to customers; that is one who as a merchant buys and sells them to customers with a view to the gain and profits that may be derived therefrom. If such business is simply a branch of the activities carried on by such persons, the securities inventoried . . . may include only those held for the purpose of resale and not for investment. . . ."

It frequently happens that a dealer in securities wishes to make a long-term investment in securities of the same type which it sells to customers in the ordinary course of business. The Commissioner should have no objection to such an investment so long as the taxpayer does not manipulate its investment securities and its stock in trade so as to obtain the maximum tax advantage in each case where the security either declines or increases in value. In recognization of this problem the Treasury Department has issued a ruling (I.T. 3828, 1946—2 C.B. 68) which states, in effect, that a security dealer may acquire securities for investment if (1) the securities are acquired and are held under substantially different circumstances than securities which are regularly dealt in for sale to customers; (2) the securities are physically segregated from security inventory and are separately accounted for; (3) the separate classification as investment securities is determined and is clearly indicated at the time of original acquisition, and (4) the investment securities are of a type different from those retailed to customers in the ordinary course of business.

This last requirement introduces a new element in the determination of the problem and raises some vexing questions.

In the first place, there is no workable rule under which it can be determined whether or not an investment security is of a type different from the securities retailed to customers. In the second place, even if some workable definition of "type of security" could be found, the requirement is still too stringent. So long as the dealer does not arbitrarily transfer any given security from its investment account to its inventory or vice versa, so as to obtain an unfair tax advantage, there is no reason why he should not be allowed to make an investment in the very same securities which he sells to customers. The Commissioner is reasonable, of course, in requiring clear segregation of investment securities from the inventory, but so long as such segregation is made clear from the date of original acquisition and is maintained consistently until the security is disposed of, the Federal revenue is adequately protected.

I do not think this requirement is justified by any provision of law or the decisions and it is to be hoped the Commissioner will amend it to conform to the decisions. A review of the decisions will be of interest.

Vaughn v. Comm., 85 Fed. (2d) 497, (CCA. 2, 1936), cert. denied, 299 U. S. 606, dealt with specialists on the New York Stock Exchange. They were held to be dealers in the stocks in which they acted as specialists and to be investors or speculators, in any event not dealers, in other securities which they occasionally bought. This decision is in accord with the regulations on the proposition that a person may be a dealer as to some securities and not as to others. The new ruling casts doubt on the right of a dealer in common stocks being allowed investors' status of any common stocks, however clear may be the facts of the purchase for investment.

The case of *Richards v. Comm.*, 81 Fed. (2d) 369, (CCA 9th, 1936), although involving real estate, is significant in its holding that the circumstances of sale and not those of purchase determine whether the property is sold as a dealer or as an investor. In this case the taxpayer bought a farm, but later when the land became too valuable for farming subdivided it for resale as lots. The court held that the lots were held primarily for sale and the profits constituted an ordinary business profit and not a capital gain.

Fuld v. Comm., 139 Fed. (2d) 465, (CCA 2, 1943) was decided under the 1932 Act, which distinguished between investors and traders, the latter being allowed losses in full, whereas the former were limited to a deduction of 12½% on long term losses, as then defined. In this case the taxpayer bought securities while they were investors but changed their business operations and became traders on a certain date. The court held that sales after such date were regarded as sales by traders and the loss is allowable in full. These cases illustrate that it is sales to customers which characterizes a profit as being ordinary, or in the case of dealers, a dealer's profit.

In the case of *Stokes v. Rothensis*, 61 Fed. Supp. 444, (E.D. Pa. 1945) aff'd without opinion, 154 Fed. (2d) 1022 (CCA 3, 1946) a dealer in securities claimed that certain securities were withdrawn from his inventory prior to the end of the year and transferred to his personal account in accordance with his intention to shift the nature of his business from merchandising to investing.

The court stated that "A taxpayer may be a dealer or merchant as to one class of securities and at the same time he may be holding other securities as to which he is not a dealer" and that it is the duty of the court to determine whether any securities were purchased or held for investment or for resale to customers. On the weight of evidence the court concluded that the taxpayer was a dealer of securities with regard to all the securities in issue. The court's opinion indicates the importance of keeping accounts which would distinguish between securities bought for investment and those bought for resale.

While I am not in the Commissioner's confidence my guess is that it was the phraseology and thinking of the opinion in this case which led him to publish I.T. 3828.

The new rule would establish a limitation not justified by the regulations or the decisions that the securities which a dealer may treat as investments must be of a type different from those he ordinarily sells to his customers. In the *Stokes* case the court decided that a taxpayer may be "a dealer as to one class of securities, and at the same time may be holding other securities as to which he is not a dealer." This statement about two classes of securities seems to have been seized by the Commissioner for the purpose of the startling ruling which has been made. As it now reads a dealer in common stocks cannot be an investor in common stocks and a dealer in government bonds may not be an investor in government bonds, etc. I see nothing in the regulations or decisions for so drastic a ruling and I hope the Commissioner will modify it.

Stock Options to Officers and Employees

The tax problems arising out of employees' stock options have always been perplexing. On the one hand, we know that no gain or loss is realized at the time an asset is purchased, however low the purchase price may be and however attractive a bargain it may seem. On the other hand, stock options to employees are frequently given as additional compensation and may even have a value at the time they are given.

The tax problems raised by stock options given to employees is another field where the purely technical tax rules are destroying what might become a source of revenue. In addition the regulations prevent business from using a valuable tool for securing and rewarding key employees and officers.

The Commissioner has ruled that stock options to employees and officers are always compensatory and that the officer or employee must pay a tax on the difference between the option price and market value of the stock at the time he buys. In the great majority of cases, the employee must sell some of his stock in order to pay this tax. This stubborn refusal of the Commissioner to face this fact defeats the very purpose of giving employees stock options, which usually is to make them part owners of the business and thereby provide them with an incentive to greater efforts. If business is to be allowed to expand and reward employees, the rule must be changed.

Let us consider the development of this problem.

Options are frequently given, not as compensation or substitute for it, but to give the employee an additional incentive arising from a proprietary interest in the company. However, because a corporation cannot give anything away for nothing the surrounding resolutions and agreements often try to spell out something of value received by the employer and that makes it look as if compensation was intended. The decisions reflect this confusion. They are not at all consistent with each other and the facts in each case and the atmosphere surrounding the facts all influence the final decision.

The courts attempted to distinguish between options which were given as compensation and those which were said to be for general incentive purposes. Where the court found compensation present they held that the excess of the market price over the option price constituted taxable compensation at the time the stock was bought under the option. Where, however, the court was of the opinion that the surrounding circumstances indicated that the options were given to promote the incentive of the employee by giving him a proprietary interest and was not compensatory in fact, the purchase was treated as a bargain purchase without tax consequence until the stock was sold, at which time there was capital gain or loss. In distinguishing between the two classes—and the line of demarcation is indistinct—the relationship of the option price to the market price, whether or not the option was contingent upon continued employment, whether the option was assignable, all entered into the final decision in varying degrees.

The decision of the Supreme Court in the *Smith*[1] case and the regulations and rulings of the Commissioner following the decision throw this question into greater confusion than ever.

The Supreme Court decided that where an officer of a corporation receives from his employer as additional compensation options to buy stock he has ordinary income at the time he exercises the option, the income being measured by the difference between the actual value and the option price when the stock the purchased.

This decision did no more than confirm the validity of the regulations in effect at that time. These regulations only imposed tax on the employee if the granting of the option was intended as compensation for services. If the transaction was not intended as compensation for services, then, under the regulations, no tax would be imposed upon the employee at the time he acquired either the option or the stock.

In the *Smith* case it was conceded that the granting of the option was intended as additional compensation. Accordingly, the decision cannot fairly be construed to have laid down any rule applicable to situations where the option was not granted as compensation. Nevertheless, the Treasury Department gave additional significance to this decision and amended the regulations in T.D. 5507, so as to provide that *any* transfer of property to an employee for less than value would give rise to taxable income regardless of whether or not the transaction was intended as compensation. Most tax practitioners feel that these new regulations go beyond the scope of the decision in the *Smith* case and that they are of doubtful validity. It should be noted that the regulations on this point in the early 1930's attempted to impose tax on all such transactions regardless of the existence or non-existence of the compensatory intent, using language almost identical to that in the present regulations, but the courts flatly held such a regulation to be invalid. In my opinion there is nothing in the *Smith* case to indicate that the present regulations are any less vulnerable than the similiar regulations in the 1930's were and that despite them, it will still be necessary to prove that the option was given for compensation in order for the tax to adhere, although of course the burden of proof is on the taxpayers.

However, the Commissioner's rulings, since the regulations were amended, indicate a strict adherence to the views contained in the new regulations, and the determination on his part that every option shall be treated as being compensatory in nature, and it is fair to say that every plan, however much it may be motivated by investment, and not compensation purposes, will be attacked by the Commissioner as being a method of compensation.

As we all know, the question of holding, attracting and rewarding top management is a very urgent one throughout all industry and the Treasury interpretation of the Smith decision has been a bar to the common plan of stimulating incentive to management and key employees by means of options and stock purchase plans.

Important Congressional leaders have been sympathetic to the pleas of industry and some have urged the Treasury to amend the regulations to ease this situation. The Treasury has, however, insisted that its regulations are sound and that the remedy is legislative and not administrative.

There have been a number of conferences and proposals made to the Congressional committees, some of which have received a sympathetic ear.

The Committee on Federal Taxation of the New York State Society of Certified Accountants, of which Mr. Lasser is Chairman, made the following recommendations:

"No income shall result from the receipt or exercise of any stock option granted to an employee as compensation for personal services. Where the option price and market value of the stock at time of issuance of the option are substantially the same, the gain on sale or exchange shall be treated as a capital gain. Where the option price is substantially less than the lower of the market values of the stock at the time of the issuance or the exercise of the option, the portion of the gain on sale or exchange equal to the spread between said option price and said lower of market values, shall be treated as income from compensation and the remainder as a capital gain. A loss on the sale, exchange or worthlessness of the stock or option shall be treated as a capital loss."

Another acceptable proposal is that contained in the report of the Special Tax Study Committee, of which Mr. Roswell Magill is Chairman, in which they recommend that:

"Congress should adopt explicit statutory amendments to provide that:

"(1) An employee realizes no income from the purchase of stock or warrants from his employer or others, provided the purchase is effected or the option is granted at a price not substantially less than the fair market value of the stock.

"(2) If such stock is sold by the employee two years or more after the option is granted, the gain from the sale shall be treated as a long-term capital gain.

"(3) An employer is not entitled to a deduction for compensation paid, on account of his employee's purchase of stock under a stock-purchase or stock-option plan.

"(4) The tax basis of the stock purchased by an employee is its actual cost to him."

This is a practicable plan that would meet the requirements of business and would not hurt the Treasury at all.

It must be borne in mind that the effect of the present rules is not to increase tax revenue but merely to prevent the adoption of such plans, thus destroying what might otherwise become a source of tax revenue (at capital gains rates) and at the same time denying industry a valuable tool for rewarding management and key employees.

Transfer of Securities for Private Annuity Contract

When you exchange securities with a solvent life insurance company for an annuity you can value the annuity both for the purpose of determining gain or loss on the exchange and the cost of the annuity, but if you make such a deal with an individual, not in the insurance business, you have no way of valuing the contract.

That such an annuity contract has no fair market value within the meaning of the law has been passed on many times.

There is therefore no gain or loss on the exchange of securities for a private annuity.

J. Darise Lloyd, 33 B.T.A. 903 (1936); *Frank C. Deering*, 40 B.T.A. 985 (1939); Bella Hommell, 7 T.C. 992 (1946), all of which are based on *Burnet v. Logan*, 283 U. S. 404.

In the *Estate of Bertha F. Kann*, B. T. Memo. Docket No. 8977, July 31, 1947, such a contract was held to have no fair market value. The taxpayer reported as annuity income, taxable at surtax rates, a sum equal to 3% of insurance company's rates for the annuity, as ordinary income, and that was not questioned by the Commissioner.

In *Raymond*, 40 B.T.A. 244 (1939) where securities were transferred to a charitable corporation in exchange for annuities, it was held that so much of the amount transferred as insurance companies would have charged for the annuities, was consideration for the annuities and 3% thereof represented ordinary income. The value of the securities in excess of such amount was held to be a gift.

In *Hill v. Maloney*, (U.S. D.C.—N.J. 1944) 58 Fed. Supp. 164, the Court used these principles in an interesting way and held that when the annuity payments exceeded the cost the taxpayer then had a capital gain. In addition, the same receipts are annuity receipts taxable as such on the basis of the agreed value of the stock sold, that is to say: 3% of such value was a taxable annuity under Sec. 22 (b)(2) of the Internal Revenue Code. The result was the same as if the taxpayer had sold the stock and purchased the annuity.

[1] Comm. v. Smith, 324 U. S. 177 (1945).

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(Special to The Financial Chronicle)

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1948—An Appraisal and Forecast

(Continued from page 6)

ing more vulnerable to adverse influences than was the case a year ago; and, sad to say, neither government nor private interests show any inclination to do more than pay lip-service to fundamentals. Labor wants higher wages, but controlled prices and profits; and does not appear to be interested in increasing productivity. Business endeavors to pass on wage increases in the form of higher prices. (High corporate profits are a necessary element to an expanding economy under a capitalistic system; but it appears sounder to enjoy somewhat lower peak profits and have the average level of profits better sustained for longer periods.) Government is striving for votes, and will continue to shape policies with that end in view, as indicated by Administration statements, the obvious fallacies of which are too numerous to mention here. Thus, history is repeating itself. The inflationary boom and concomitant dislocations go forward in the usual way. No one can tell when we shall hit the drop off point and the usual slide will start; but developments indicate this will happen, though probably not before another year.

The following summarizes some of the significant elements that have been developing:

(1) **The bond price structure** has undergone sharp decline. This reflects credit conditions, and historically has been a harbinger of trouble in other segments of our economy. The large increase in demand for credits by corporations in the wake of deteriorating financial position; large financial requirements of corporations; and the poor market for new equity issues, coupled with the cautious attitude of suppliers of funds and government policy on the Treasury bond market, promise at best a bond price plateau around present levels. Banks are expected to further tighten up rates on usual type of commercial loans and to continue further restrictions on term loans.

(2) Also, in terms of the **broad credit picture**, further retirement of government bonds, held by banks, constricts the credit base. Even recognizing the odds strongly opposing Federal Reserve Bank proposals for special bank reserves to curb lending, both government policy and caution by bankers should combine to limit further credit expansion, and more likely will induce moderate contraction. Any conclusions relative to the trend of interest rates must be predicated on one's estimate of government policy. From an economic viewpoint, the expectation would be moderately higher rates and lower bond prices. Actually, if "Fed" and Treasury Department pronouncements to maintain the present pattern on long Treasuries be taken at face value, there should be a floor around present levels. However, the yield spread between Treasury bonds and prime corporates is likely to continue to widen further.

(3) **Commodity Prices:** A year ago sharp disagreement was expressed by the writer with the views of forecasters of lower prices. Since then the sharp price rise of 1947 has increased the dislocations and dangers in our economic picture. Farm prices particularly have risen sharply, squeezing real purchasing power of lower income groups and reducing their ability to purchase other types of goods. It has tended (together with higher labor costs) to squeeze many businesses. It is believed prices will hit their peak the second or third quarter of 1948, and thereafter will start an irregularly declining trend. Over the long term this is bullish, but the short-term effects on business and public psychology, and on corporate profits and policies, securities markets, etc., will not be pleasant.

(4) **Foreign Situation:** Recurring scares are anticipated in 1948. Certainly no basic progress has been made relative to resolution of the problems vis-a-vis Russia. The proposed Western Power Alliance, and increase in budgeted expenditures for military aircraft, etc., are straws in the wind.

(5) **Political (Domestic) Situation:** The forthcoming election will preclude any really constructive approach to economic problems. All actions will be taken with a view to getting votes. In this regard, capitalistic confidence (with particular respect to individual investors of means who in large part finance corporate expansion) will be shaken by President Truman's obvious policy of taking a "left wing" approach. His proposals on individual tax reduction (increase exemptions), to increase corporate taxes, to broaden social security, etc., clearly represent an attempt to lose as few "left wingers" as possible to Wallace.

(6) **Labor:** Any study of the programs of the major labor groups shows their determination to press for a third round of wage increases, and to limit corporate profits, etc. As illustrative, the recent CIO executive board meeting resulted in the following platforms, among other things: (a) For price and credit controls; (b) An excess profits tax on corporations; (c) Tax reductions in the lower brackets; (d) Further wage increases.

(7) **Status of Boom:** The elements mentioned below have been major causative factors in producing the current boom, aided by a rising price level:

(a) **Consumer Demand** — has been extremely high because of need and desire for goods, especially for consumers' durables not available during the war. The ability and willingness to buy has been favorable, as wages throughout the war period increased far more than commodity prices (which were controlled) and cost of living; and the increases percolated down to the lower income groups.

The favorable trend of real wages has been reversed. Commodity prices have gone up more than wages. Over all, it is estimated that real wages have declined about 8% the past year. In fact, earnings adjusted for changes in cost of living have been declining since late 1944. Some studies show real income down to 1941 levels; other studies indicate a decline to 1942 levels.[1] It is granted that real wages still are above pre-war figures, but they must be far above these levels to support a boom of current proportions, and to maintain substantially full employment.

The greater availability of goods in 1947, the stimulus of the big second round of wage increases, the soldiers' bonus, the high accumulated savings, all made for peak consumer expenditures the past year. It is estimated that spending by consumers was at a rate of $3½ billion above the increase in individual incomes.[2]

Savings were high in 1947—around $12 billions, against the pre-war average of $5 billions. The 1947 figure, however, is lower as a percentage of national income than was the case in pre-war years. We do not consider total savings as significant as do most commentators. Attention is directed to the qualitative aspects. Certainly most family groups with incomes of $3,000 or less "dis-saved." Also, while total savings went up, consumer debt at the same time increased greatly. Consumer credit has reached a total of $12 billion, an all time high. The great increase in food costs has diminished ability to make other types of consumer goods expenditures. The effects have been most markedly noticed in the luxury fields—theatre admissions, liquor sales, fur, jewelry, etc.; and has been spreading to ladies' apparel and other soft goods lines. Even in other basic lines, many of the necessitous expenditures have been made. Buyers now are becoming more price conscious and selective.

In our opinion, while consumer purchasing power remains high, over all ability to buy has been decreasing in the face of pyramiding cost of living; and many non-unionized workers are being severely squeezed. We recognize that cyclical changes usually are induced by changes in the smaller dollar-wise but more volatile index of capital goods expenditures—but that element (discussed below) can be affected by recognition of the weakening consumer picture.

(b) **Business expenditures:** Some current estimates forecast $16-18 billion capital expenditures in 1948. If this materializes, it would be a furtherance of the second main prop which has supported the current boom. There is basis for believing the accepted estimate is on the high side. Business expenditures can change rapidly, depending on psychology. In 1947, actual expenditures were in excess of estimated expenditures (based on executive estimates filed quarterly with the SEC); but it appears probable the reverse will occur in 1948 because:

(1) Some of the most urgent expenditures have been made. In larger degree, we are entering the period of optional outlays, where final decisions are dependant on business psychology and estimates of future profits, including duration of boom.

(2) Construction and equipment costs have greatly increased.

(3) Difficulties in financing. On the one hand, construction costs are high, as indicated above; on the other, equity capital commands a low price in the market, which likely means dilution of earning power. (For more details see discussion below relative to new financing.) Less favorable financial position of corporations renders large scale public financing necessary.

(4) Business faces a third round of wage increases . . . but labor, government, and consumers are showing greater resistance to high prices.

It is recognized that oil and utility industry expenditures will continue high; and that businessmen's estimates filed with the SEC project first quarter 1948 expenditures at $4.1 billion, about $1 billion above first quarter of 1947 and only $330 million below the fourth quarter of 1947. Thus the current situation is strong, but a downward trend (though perhaps moderate) likely will be initiated by the third quarter of 1948.

(c) The third crop of the boom has been **inventory accumulation**. We pointed out at the start of 1947 that for several reasons, continued inventory building was to be anticipated during the year. This resulted in production to meet consumption plus inventory increases. This will be a much less stimulating factor in 1948. The high absolute levels, plus business caution, plus greater vulnerability to commodity price decline, should make for conservative inventory policies. Inventories have been built up to where there is once again a normal stock to sales ratio. They are not excessive in relation to current demand, but might well be large in relation to a moderately lower level of demand. It is known that businessmen are setting up reserves against possible inventory depreciation; and that bankers are performing a real public service in counseling their accounts to pursue cautious inventory policies.

(d) **Exports** have been declining steadily the second half of 1947. This likely will continue, even assuming adoption of the Marshall Plan—and that plan can pass Congress only in curtailed form.

(e) The fifth major contributing factor has been **credit expansion**, resulting from wartime government debt financing. The converse of this (though in limited degree) will obtain in 1948, as pointed out above.

(8) **Financial position of business:** For more detail, reference is made to the illuminating study, "Financial Trends of Large Manufacturing Corps. 1936-46," Survey of Current Business (U. S. Dept. of Commerce) Nov., 1947. Dollar value of gross assets increased sharply between 1939 and 1946. Much of the increase went into plant and other capital assets; and much into inventories. Both were necessary to meet the expanded volume of business; and, of course, inventory requirements were made greater by increases in the price level. In the face of the sharp rises in net capital assets and inventories, other assets declined markedly, about 22% for a representative sample of corporations, excluding the 200 largest concerns.

Current assets of the entire 1,000 major concerns sampled, more than doubled at the 1946 year end; but current liabilities almost tripled since 1939. Current ratio dropped to 3.1 times vs. 4.5 times in 1939. Excluding the 200 largest corporations, ratio was 2.7 in 1946 vs. 4.1 in 1939. This should be measured against the big increase in dollar volume of business. Also, current ratio includes inventories in current assets. The "quick asset" ratio (ratio of cash and receivables, etc., to current liabilities) showed even greater decline. It is likely the quick asset position deteriorated further during 1947.

This situation, coupled with large volume of business, higher break-even point, and a more rigid cost structure, increases the vulnerability of industry to volume decline; lessens proportion of earnings that prudently can be paid out in the form of dividends; and increases reliance on the capital markets for new financing. We consider this one of the most important cautionary aspects of the present situation, especially if taken in conjunction with number 9 below.

(9) **Capital requirements of corporations:** At the recent conference of the American Management Association, it was estimated that corporations in 1948 would require $22-23 billion for plan equipment and working capital. Even granting the estimate that $14-15 billion can be provided from retained earnings and depreciation charges (and this figure appears high after allowing for dividend payments), it would mean $8-9 billion to be raised from outside sources. This is slightly below the 1947 figure. Corporations had considerable difficulty in connection with 1947 financing. Present indications are that large scale public financing will encounter even greater difficulties in 1948.

The cost of equity financing is high. The market's absorptive capacity has not been good, new equity capital being raised (even for prime corporations) at price concessions. In the face of the less favorable basis on which new equities can be marketed, there is the abnormally high cost of the improvements these funds are to provide.

The preferred stock market has been weak, both for outstanding issues and, even more, for new issues. No change is in prospect. (Increasing financing through convertible preferreds is to be anticipated.)

Debt financing continues. The costs will be higher; and the financial wisdom of adding to debt at the top of a boom, especially for cyclical type companies, is open to question. The building up of a large debt structure to finance high cost expansion is history (unpleasantly) repeating itself—especially as business is so vulnerable to even moderate contraction in volume.

(10) **Corporation profits:** Current conditions render it appropriate to recall the old admonition: "It's not the gross you do, it's the net profit remaining that counts." Corporate profits have made pleasant reading, but they are illusory. The 1947 net profit figures were around $17 billion, compared with around $12 billion in 1946; $4¼ billion in 1936-39; and about 8¼ billion in 1929. But, in 1947, as in 1946, profits included a very large percentage of inventory profits. They also are after inadequate depreciation. Depreciation charges are based on cost. The replacement cost is far larger, and this, coupled with greater working capital requirements, reduces funds available for distribution to stockholders.

It is predicted that higher labor and other costs will not be fully offset by increased efficiency and higher selling prices; and that profits will be lower, even if volume is sustained. A 10% decline in sales (which is not likely in 1948 over all) would mean a material decline in profits. In any event, it seems clear that corporation profits will be a lesser percentage of national income than was the case in 1947.

11. Dividends: The U. S. Dept. of Commerce reports that 1947 dividend payments of publicly held corporations attained an all time high of $5,174 million, about 18% above 1946. In 1948 dividend payments likely will be lower, in the wake of lower earnings and higher capital assets and working capital requirements. Observers who point out the lower than average ratio of dividends to earnings in 1947 must recognize the valid reasons rooted in sound financial policy; and that the situation will be worse (from the stockholders' viewpoint) in 1948 than was the case last year. On this point, reference is made to the "Chronicle" of Jan. 15, 1948. A well prepared study reveals that in the oil industry, for example, 1946 dividends represented 90% of adjusted earnings; "adjusted earnings" being after a 50% increase in depreciation charges to provide increased replacement costs.[3]

The Stock Market

Stocks are one of the least inflated sectors of our economy. In itself this does not provide basis for believing equities will enjoy an important upswing. The market has been realistic in its approach in reflection of the following:

(a) There is no major correlation between stock price and commodity price movements, as demonstrated by economic history.

(b) It is granted that price-earning ratios are low. However, this is to be expected in periods of peak economic activity. The point is that common stocks sell on future expectations. With the productive machine already strained to the utmost, and with virtual certainty that for economic and political reasons, earnings and dividends will not in-

1 Cleveland Trust Company "Business Bulletin," Jan. 15, 1948.

2 U. S. News, Jan. 23, 1948, page 11.

3 Commercial & Financial Chronicle, Jan. 15, 1948, "Current Replacement Costs and Corporate Earnings" (by) W. H. Garbade.

crease, the market would indeed be imprudent to capitalize earnings at ratios which might obtain under more normal economic conditions. The question is not **whether** earnings and dividends will decline, but rather **when** and **how much** will they decline. It is submitted that higher market prices better could be anticipated if earnings were at lower levels, but the projected trend pointed upwards.

In addition to the basic factors of earnings and dividends, the decline in prices of senior securities and the implications of tighter credit, plus the unsettled foreign situation, coupled with the Administration's play for the left wing vote, are scarcely conducive to retoration of capitalistic confidence.

The technical action of the market is not too dissimilar to 1946. Around June 1, 1946 the rails finally confirmed the industrials on the upside. There was no follow through. The market worked its way irregularly lower, than in late August-early September cracked to a level where it apparently had well discounted the uncertainties. In Feb., 1947 and then again in mid-1947, the industrials registered new highs; but the rails were unable to confirm. Finally, in early Jan., 1948, the rails attained new highs; but the industrials did not even attempt to follow suit; and the rails themselves (like mid-1946) displayed no follow through. Recently, the industrials declined to around 172, or below the so-called 175 "support level."

This does not necessarily imply that another sharp break is in the offing. It would appear that the 160-163 level (from which the last leg of the 1942-46 bull market started) would at least put many issues at levels where they could be considered sound long-term values. Conversely, no sustained or major upward trend for the market as a whole is envisioned over the months just ahead. From a short-term viewpoint, there might well be basis for a technical rally which might be stimulated by growing expectation of tax reductions. There are sufficient cross currents at work to render it advisable to pursue cautious investment policies. Certainly the time does not seem propitious for large scale speculative commitments. Certain industry groups appear relatively attractive for long-term investment. Also, commitments in carefully selected "work-out" situations should prove advantageous, just as in 1947. Emphasis on selectivity properly should be the dominant consideration in shaping 1948 investment policies, rather than reliance on signifcant change in the general price level of equities.

The State of Trade and Industry

(Continued from page 5)

we go along. Looking back to the years 1946 and 1947, it notes revision of programs consistently was upward as the time came to convert expansion plans into budgeted cash.

Contemplating the supposition that industrial expansion does taper off in 1949, it points out that such a turn does not necessarily mean the beginning of a depression, since the postwar program was designed to build what had to be put off during the war and the depression that preceded it. Upward revisions in the size of the task had to be made from time to time and, the magazine observes, nobody had dared believe the market would turn out as big as it is.

Some day capacity will catch up with demand, states the editorial. The point is to know when that happens, not to overbuild. If we time it right, the paper concludes, we then shift from catching up with demand into normal growth and replacement. These needs should keep capital expansion at a healthy level—even though they may not preserve the boom.

STEEL OUTPUT SCHEDULED AT 92.7% CAPACITY FOR WEEK

The drastic slump in the commodity markets has had no effect whatsoever on the iron and steel market, nor is it expected to have any adverse reaction. At the very time commodity prices were tumbling, steel demand was increasing, output had contracted due to cold weather and material shortages, and substantial purchases of steel scrap were made at the going price, according to "The Iron Age," national metalworking weekly.

This week the steel scarcity problem is almost as bad as it was a year ago. Steel customers are again faced with a drop in their steel quotas for the second quarter—even before any concrete plans have been made for the special allocation of steel to so-called essential groups. This tightness in supplies would be increased by further drastic cuts if the nation should face a coal mine shutdown on April 1, the above trade authority notes.

Because of dwindling coal reserves, brought about by extreme cold-weather conditions, the steel industry is in no condition to weather even a shortlived coal mine shutdown.

Within two to three weeks following such a disastrous strike several of the more important steel companies would be forced to cut back steel operations as much as 50%.

Major factors which are expected to keep the basic steel industry in a sellers' market for some time to come, "The Iron Age" states, are:

(1) Over-all steel demand continues high, with no weak spots apparent. (2) Steel inventories are small compared with production and consumption. (3) Hundreds of new postwar steel customers have no direct source of supply and will continue to lean heavily on gray markets and conversion setups. (4) Freight car requirements, oil industry and farm implement demands are extremely heavy. (5) The full effects of the Marshall Plan will not be felt for several months plus the general export demand which is held in check only by the inability of American mills to take care of the domestic market.

All of these bullish influences on the steel market are presently being held in check by cold weather, scrap shortages, insufficient pig iron and the growing spectre of an iron ore shortage.

Scrap was easier to obtain this week at prices which steel mills seem willing to pay, states the magazine. The long-term position on scrap is unchanged and the demand for steel is such as to support a high operating rate for some time to come.

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 92.7% of capacity for the week beginning Feb. 9, 1948. This compares with 94.0% one week ago, a decrease of 1.3 points, or 1.4%. A month ago the indicated rate was 98.7%, while an operating rate of 93.7% was shown a year ago.

This week's operating rate is equivalent to 1,670,900 tons of steel ingots and castings as against 1,694,300 tons last week, 1,723,200 tons a month ago and 1,639,700 tons one year ago.

ELECTRIC PRODUCTION SHOWS A FURTHER SLIGHT DECLINE

The amount of electrical energy distributed by the electric light and power industry for the week ended Feb. 7, 1948 was 5,412,361,000 kwh., according to the Edison Electric Institute. This was 16,841,000 kwh. below the previous week and 24,069,000 kwh. less than produced in the week ended Jan. 24, 1948 which was a record for all time. It was, however, 611,182,000 kwh., or 12.7%, in excess of the 4,801,179,000 kwh. turned out in the week ended Feb. 8, 1947. The Feb. 7, 1948 week was the fifth consecutive week that production of electricity exceeded the 5,000,000,000 kwh. mark, and the 13th such week in the history of the industry.

FREIGHT LOADINGS AFFECTED BY BAD WEATHER

Loadings for the weeke ended Jan. 31, 1948, totaled 727,038 cars, according to the Association of American Railroads. This was a decrease of 44,954 cars, or 5.8% below the preceding week, due to adverse weather conditions which interfered with industrial and railroad operations. It also represented a decrease of 108,013 cars, or 12.9% below the corresponding week in 1947, but an increase of 3,737 cars, or 0.5% above the same week in 1946.

AUTO OUTPUT CURTAILED BY INDUSTRIAL GAS SHORTAGES

Estimated output of cars and trucks in the United States and Canada the past week amounted to 82,802 units, "Ward's Automotive Report" states. This compared with a revised total of 101,044 in the preceding week, 89,958 units in the corresponding week of last year, and 127,675 units in the same week of 1941.

Last week's total comprised 58,093 cars and 22,291 trucks built in the United States. Canadian truck output totaled 1,185 units and passenger car production declined to 1,233 units.

BUSINESS FAILURES INCREASE SLIGHTLY

Rising slightly in the week ending Feb. 5, commercial and industrial failures reached a total of 97, Dun & Bradstreet, Inc., reports. The number of failures increased from 91 in the preceding week but did not rebound to the high level of two weeks ago. Except for the Jan. 29 week, failures were higher than in any week since May of 1947.

Most of the week's failures, 84 out of 97, involved liabilities of $5,000 or more with manufacturing accounting for nearly all the week's increase.

Three-fourths of the week's failures were concentrated in the Pacific States with 25, the Middle Atlantic States with 24, and the East North Central States with 22.

WHOLESALE FOOD PRICE INDEX DIPS FOR THIRD STRAIGHT WEEK

The wholesale food price index, compiled by Dun & Bradstreet, Inc., dropped for the third straight week as 16 of the 31 food items went lower last week as against only four that moved higher. Cushioned somewhat by a sharp advance in butter and eggs, the decline for the week amounted to only 3 cents, bringing the Feb. 3 figure to $7.14. Compared with the all-time high of $7.28 touched on Jan. 13, the decrease was 1.9%, but contrast with the corresponding 1947 figure of $6.29 showed a rise of 13.5%.

WHOLESALE COMMODITY PRICE LEVEL LOWER FOR WEEK

Following a slight rise in the early part of the week, the Dun & Bradstreet daily wholesale commodity price index resumed the lower trend shown in the preceding period. The index closed at 299.77 on Feb. 3, comparing with 301.01 a week earlier, and with 239.37 for the similar date a year ago.

Grain markets were irregular and prices fluctuated rather widely during the past week.

Wheat displayed firmness in the fore part of the week but turned downward in closing sessions under liquidation prompted by reports of further beneficial snows in the southwestern winter wheat areas. Weakness in the bread cereal also reflected reports that the government wheat buying program was nearing an end and a continued lag in demand for flour. General liquidation in corn lowered prices sharply particularly in the closing days of the week largely due to reluctance of consumers to pay current high asking prices. Shipping demand for corn was relatively slow.

High feed prices are said to have caused considerable liquidation of livestock and poultry in various parts of the country.

Domestic flour business remained slow with bakers still holding off despite some mill offerings for immediate shipment at material concessions under current market prices. Lard prices showed a steady downward trend with prices off more than 2 cents a pound for the week.

Cotton prices fluctuated unevenly in a narrowing range during the past week. Values in leading spot markets finished slightly higher than a week ago. Inquiries from trade sources were less numerous than in the previous week and market activity declined.

There was a demand for cotton of good grade but offerings were mostly of lower qualities. The slightly firmer price tone visible during the week was attributed to price-fixing against sales of cotton to the Army for export to Korea and sales of the staple to France and Germany.

A further influence was the expectation and later realization of a substantial rise in parity.

According to a report issued last Friday by the Department of Agriculture, the mid-January parity price was 31.12 cents per pound, an advance of 74 points and considerably greater than had been looked for. Relative inactivity featured cotton textile markets with prices holding fairly steady.

Domestic wool business in the Boston market during the month of January was said to have been on a rather broad scale. With the finer types of wool in scant supply, demand spread to a variety of other less attractive wools. Price trends in foreign wool markets continued upward. United States buyers were again active in Australian wool auctions. Imports of apparel wools received at Boston, New York and Philadelphia in the week ended Jan. 23 amounted to 10,-165,100 clean pounds, compared with 8,255,000 a week previous.

RETAIL AND WHOLESALE TRADE DECLINE DUE TO INCLEMENT WEATHER

The moderate decline in retail volume which occurred during the past week was generally attributed to the continuing severe, cold weather. The dollar volume of consumer purchasing was slightly above that of the corresponding week a year ago, but unit volume remained somewhat below the 1947 level, Dun & Bradstreet, Inc., reports in its current survey of trade. Clearance sales continued to be featured with price reductions on some articles substantial.

The demand for food was steady and at a high level with consumer interest centered on staple items. Meat substitutes continued to be sought and cheaper meat cuts, fish and poultry sold well.

Winter clothing continued to attract favorable attention with heavy coats, rubbers and storm boots remaining in large demand.

Interest in early promotions of spring apparel was generally slight, but resort wear sold well. Promotional and clearance sales of men's wear stimulated volume moderately as suits, shirts, and pajamas continued to sell well. Considerable activity was also evident in children's and infants' apparel departments.

Clearance sales of furniture were generally in full swing last week accompanied by some substantial price reductions.

Nationally advertised electrical appliances continued to be sought with a moderate rise in the demand for hardware. Automobile equipment remained in large demand, but tire chains and anti-freeze were somewhat difficult to buy in some areas.

Activity in the wholesale centers slackened somewhat during the week as dollar volume of wholesale trade dipped fractionally below that of the preceding week.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Jan. 31, 1948, increased by 7% from the like period of last year. This compared with an increase of 3% in the preceding week. For the four weeks ended Jan. 31, 1948, sales increased by 6% and for the year to date increased by 6%.

Notwithstanding the slump in commodity markets, bad weather was the major drawback to retail trade here in New York the past week.

The effect of the decline in commodities was looked upon in wholesale markets here as a trend toward sharper price competition in many lines.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Jan. 31, 1948, increased 11% above the same period last year. This compared with an increase of 3% (revised) in the preceding week. For the four weeks ended Jan. 31, 1948, sales increased 7% and for the year to date rose by 5%.

As We See It

(Continued from first page)

he has no way of knowing. Nor is he likely to be much helped in choosing between two parties who sound as if they were poles apart on current issues, but which really like the Colonel's lady and Julia O'Grady are sisters under the skin.

Need for Clarification

Is there really no way in which the public can oblige the two major political parties and their candidates to emerge from behind the meaningless slogans and protestations and let it be known definitely what they believe should be the course of the United States both at home and in the international field during the years immediately ahead — definitely enough at least so that the intelligent voter can choose among them with some feeling of satisfaction and some sense of participating intelligently and effectively in the direction of the affairs of his country? If not, more and more of the good citizens of this country will inevitably grow more and more to feel the futility of elections in this democracy of ours — and probably sooner or later lose no little of their enthusiasm for the form of government under which they live.

The Democratic party, or what passes for such, has been in power in the White House for about a decade and a half. Throughout all that time until last year it was likewise in clear control of both branches of Congress. The present regime has at times given the impression that it was not wholly in sympathy with what has been done during that period by the party to which it belongs, but it has become clearer and clearer as time has passed that the differences between the Roosevelt and Truman regimes are quite superficial, having to do more with personnel than with policies. The platform repeatedly urged upon Congress and the public by the President during the past few months leaves it quite manifest that this is still the New Deal in the saddle at the White House. Of course, the politicians in the Democratic party have been slippery as only politicians can be, but for all that the voter can scarcely doubt what the party's position is at least in broad outline.

Where Is the Leader?

Now, there are many citizens—a great many citizens—who do not believe these to be the best policies. They would like to force radical change in many of them, and total abandonment of others. But how can they accomplish it? Where will they turn for a party or a candidate who will take definite, unmistakable issue with all this, and unequivocally state the courses of action which he or it would substitute for the present one? Hardly the Republican party. It has been in the majority in both houses of Congress for more than a year. Its record there is hardly one about which to boast. It has made noise enough at times about what the President said or requested. It has at times refused to give him what he wanted. It has at other times sent to his desk legislation which defied him — mostly, one suspects, when those who voted for it, or at least some of them, felt sure that a veto was more or less a foregone conclusion. But nowhere, not even in the much discussed Taft-Hartley Act, has Congress made even an attempt to go to the roots of current evils stemming from New Deal tactics, and to present or propose really fundamental and constructive solutions. It has for the most part preferred to denounce, and then to wince and relent and refrain when it came to taking action.

When the citizen studies what the various would-be Republican candidates are saying or doing at the present time, he can scarcely fail quickly to develop much the same sense of futility. Some of them, like Senator Taft, are in Congress where they have for years past had continuing opportunity to lay out and battle for a constructive national program. The Senator himself is exceptionally outspoken and often has pungent and quite sound criticism of the Administration to offer. He is one of the few members of either branch of Congress who has had the hardihood to sponsor legislation labor unionism does not want, in fact, very actively dislikes. But even so, it is evident enough that at many points the Senator is not ready to go the full length necessary to set things aright in this country. Indeed, it is far from clear at many points precisely what the Senator would do were he in the White House and his party in control of Congress. We have long been an admirer of the Senator's. We agree with him about many things. If he would only give us good ground for becoming an out-and-out supporter!

Of the Same Cloth

In the other branch, there is Mr. Martin, who of late has been giving evidence of an understanding of many of our fundamental problems. Here, too, however, there is great need of further clarification of position if we and millions of other voters throughout the land are to form some reasonably clear and certain idea what this member of the lower house would do were he to enter the White House with a Congress controlled by his party. Mr. Martin has long been a member of the House of Representatives. He will have to build his claim for consideration not so much on his record there as in spite of it. We should be the first to congratulate and support him were he to succeed in developing a solid claim.

But, meanwhile, we can only regret that nowhere in the Republican party — at least not among those who appear to be in the forefront of the race for Presidential nomination — is there a great deal to encourage belief that it will take sharp, constructive issue with the President and his New Deal programs.

Plentiful Opportunity

And, certainly there is no want of opportunity. The budget proposed by the President offers a golden opportunity — one of the many, of course, but a very important one. A movement for trimming the enormous outlays demanded by the President has gotten under way just as it did last year — and the prospect of anything of great consequence this year is apparently about what it was last year. In the first place, the extent of the proposed trimming is hardly less than trifling. Fully five times such an amount ought to be squeezed out. But it is again far from certain that even the amounts now being mentioned will actually be removed. The trouble is, of course, these swollen outlays can not be greatly reduced without pain to some group or clique who control votes — and this is an election year.

The silly season in national politics was never more depressing than this year.

The Realities of Foreign Aid

(Continued from first page)

ernment prohibitions, permits, licenses and orders are retained, any amount of dollars we pour into Europe will be more than offset and nullified by stifled production and chronic crises. Our experience with Great Britain will only be repeated on a much vaster scale. Europe will be in a much worse situation after our help is poured in than it was before it began.

Whether or not we decide to impose any conditions with our help, therefore, this basic economic situation must in some way be brought home by Congress to the American people and to the people of Europe. *What is most important to the revival of Europe is not American loans, but a complete change in the internal economic policies of Europe.* Unless the political conditions of revival exist in Europe itself, Europe will not revive. There is only one way to restore production, and that is to restore the freedom to produce and the incentives to produce.

This is the central point that Congress must emphasize in its foreign aid program. It is more important than any other. If it is thought impracticable to write this central point into the legislation itself, or in a preamble to it, the point ought certainly to be emphasized and underlined, for the sake of the record, in the reports of the Congressional Committees to the two Houses.

Once we recognize this central point, we must recognize also the completely arbitrary and unscientific nature of the calculations of Europe's needs for American aid, either in their own figures or those of the State Department. It is frequently said that if Congress cuts down the $6,800,000,000 that the State Department asks for the first 15 months, or the $17,000,000,000 that it originally proposed for four years, we should be giving only enough for "relief" and not enough for "recovery." Secretary Marshall has told Congress that it should "either undertake to meet the requirements of the problem or don't undertake it at all." The implication of this is that any sum under the amount requested by the State Department will not meet the requirements of the problem. But there is no real basis for this view. Whether or not Europe recovers economically in the next few years has little to do with the exact amount of money and goods we send her; it depends primarily upon the policies followed within Europe itself. If those policies continue to be those of the last two years, then even if we pour in the whole $29,000,000,000 that Europe originally asked for it would not bring European revival, it would only weaken and imperil our own economy. Unless Congress recognizes this point in advance, and makes it clear in its legislation or in its reports, it will be blamed for any failure of the program. Congress will be told that the program failed because it gave too little, or because it did not accept the organizational set-up proposed by the Administration. Yet the real reason for the failure will be the economic policies of Europe itself.

No Scientific Foundation for Estimates

The State Department repeatedly contends that the dollar amounts it proposes to pour into Europe under the Marshall Plan have been closely and scientifically calculated. The truth is, as I have already pointed out, that there is no scientific foundation whatever for these estimates. They are completely arbitrary. To recognize their *a priori* and arbitrary character, we have only to recall a little of the history of how they were compiled.

I might begin by reminding you of a fact whose significance seems to have gone virtually unnoticed. On June 12 of last year, just one week after Secretary Marshall's first hint of his plan at Harvard, Benjamin V. Cohen, then counselor to the State Department, and surely a responsible spokesman, made a speech at Long Beach, Calif., in which he declared that Europe needed from us $5 or $6 billion a year for the next three or four years. This meant a top figure of $24 billion and a minimum of $15 billion. Now all succeeding estimates since then have kept the Marshall Plan figures precisely within that range. The 16 European countries asked for $22 billion; our own Administration reduced the figure to $17 billion. The proposed life of the plan is still four years, as it was in Mr. Cohen's speech. All this may show remarkable precience on the part of Mr. Cohen. But I suggest that there is a simpler explanation: the nations of Europe were *publicly* tipped off last June by an official of the State Department concerning how much they could ask for.

In putting together the total of their alleged needs, the European governments used what we may call the balance-of-payments approach. That is to say they added up all the imports they thought they needed from us and the rest of the world, set against them the exports they thought they could sell; and asked us for the difference. I need hardly point out that this whole procedure was utterly arbitrary and unscientific. No nation, not completely totalitarian, can know exactly how much it is going to have to import or be able to export even a year ahead. As a statistician would say, there are too many dependent, independent and indeterminable variables. There is no such thing as a predestined trade deficit independent of loans from outside, of internal inflation, of price fixing, of tariff policies, of trade controls, of domestic production, of price levels and of foreign exchange rates.

Loans and Gifts Determine Trade Deficits

To take simply the first of these factors — loans from outside — it should be obvious that the economic causation is precisely the reverse of what the 16 nations' report tacitly assumes it to be. *It is only gifts, credits, or loans from outside that permit a trade deficit to continue.* Otherwise the only trade deficit that is possible is one that is paid for by the sale of foreign securities or foreign currencies previously held, or by the direct shipment of gold. In the long run imports and exports must balance, simply because people insist upon getting paid for what they sell. If we extend no further gifts or credit, the outside world cannot continue to have a trade deficit. *It is the loans and gifts themselves that will chiefly determine the future European net trade deficit with us.*

In short, even if we accept all the economic and political assumptions of the Marshall Plan, we must recognize that the $6,800,000,000 figure is completely arbitrary. It is sheer guesswork. There is no foundation whatever for presenting it as a figure which represents the difference between chaos and recovery, or the difference between communism and free enterprise, or communism and democracy, or war and peace, or any of the other frightful alternatives that have been put forward as the consequences of not giving precisely this sum.

II

One of the most important controls in Europe, particularly as it affects the United States, is the pegging of exchange rates at levels far above the real values of European currencies. It is made a crime in Europe for anyone to buy or sell these currencies at less than their official value. The effect of this is systematically to stimulate imports to Europe and to discourage or prevent exports from Europe, by making them prohibitively high in terms of dollars. European exchange control has brought about the present chronic deficit in European trade.

Here is something that the United States does have some power to control. It would be folly to extend foreign aid even a month longer unless we first of all insist on the repeal in the Bretton Woods Agreements of the provision (Article IV, Sections 3 and 4) which makes it obligatory for all member governments in the International Fund to prevent free markets in their currencies. The Fund agreement fortunately permits any nation to withdraw from the Fund at any time without advance notice. In insisting on minimum reforms, the United States could quietly point out to other governments the existence of this withdrawal clause. It would be a major error from our standpoint or from the world standpoint to retain the Bretton Woods exchange control provision any longer. If the Administration fails to act of itself, Congress should insist on this minimum reform in its aid program.

When I and others analyzed the effects of this European exchange control many months ago, it was receiving practically no attention whatever from supporters of the Marshall Plan. Suggestions that this exchange control should be terminated were dismissed as irrelevant and even heartless. But now, at last, the subject is beginning to attract the attention it deserves. The harmful consequences of overvalued European currencies have recently been pointed out, for example, both by the Harrison Committee and by Bernard Baruch. In their own interest, several European countries have been moving toward reform. Italy, about two months ago, announced that it would allow its currency unit to seek its approximate free market level. France is now adopting a two-franc system, with an official franc valued at 214 to the dollar compared with the present rate of 119, and a relatively free franc whose value would be determined in a relatively free market.

Shachtism Must Be Abolished

We may question the wisdom of the particular shape that these Italian and French reforms have taken. But they are significant as a recognition of the impossibility of retaining rigid control of European currencies at overvalued levels. The United States has been paying heavily, and under the Marshall Plan it would continue to pay heavily, for the maintenance of this vicious exchange control system which until now virtually all Europe has been imitating from the Schachtian system in Nazi Germany. The abolition of this system is one of the minimum reforms that America should insist upon immediately in return for its aid program.

III

For good or evil, the industrial heart of Europe before the war was Germany. The German economic collapse is one of the chief reasons for the present economic stagnation in Europe. But this collapse has been largely imposed, not only by the policies of Russia, and of France and Great Britain but by our own policies in Germany. In addition to the misconceived level-of-industry plan, we have imposed on Germany a continuation of the Schachtian controls over wages and prices under conditions which paralyze German production. This paralysis of German production has not only been costly to us directly, by forcing us to support our former enemies, and to pour in hundreds of millions of dollars to make up for the imposed deficiency in output, but it is responsible for causing a large part of the demands for aid from us in other European countries.

By our own insistence Germany is today, second only to Russia, the outstanding collectivist country in the world. Here, where we have control, is the place to show Europe, by an example in its very heart, what a return to private enterprise can do for recovery. Only the restoration of a free economy in Germany, subject to American oversight and reasonable income reparations, can solve this problem. Congress must insist that the Germans work and be permitted to work, not merely to support themselves, but to help make restitution to the neighboring countries of Europe which they looted and to which they brought so much destruction. A reform of our policy in Germany would alone save billions of the proposed expenditures under the Marshall Plan. It would do more; it would increase world production and not merely redistribute world shortages.

IV

It would be a great mistake at this time to initiate any explicit or even implied "four-year program" for Europe. The situation is too unpredictable to work that far ahead. If European governments make the economic reforms they should, the present proposed 15-month aid program may be all that we reasonably need to undertake. In any case, we should not commit ourselves to European aid, either directly or by implication, for more than these 15 months. In order to exercise whatever control is reasonably possible, and to act in accordance with the situation as it develops, we should leave ourselves free to see how it looks a year from now before committing ourselves further. If it is argued that European nations must know what our contribution is going to be for four years ahead so that they can "make their plans," the answer is that we must know what use they make of our first year's help before we can know whether it is worth while offering more.

The proposal for limiting commitments both legally and morally to no more than the first 15 months has already been made by the Harriman Committee, by former President Hoover, and by many others. I think it advisable for Congress to go even further. It should explicitly state that this legislation is not to be taken to imply further aid at the end of 15 months, but that the United States will wait to see what Europe has done for itself in the meantime, and what its needs are at the end of that period. Congress is already being told that it must go through with the European aid program because that program has already been promised to Europe by the Secretary of State. There is certainly no good reason why this Congress should impose any obligation, explicit or implied, on the next Congress or the one after that.

V

In the demands of the 16 European governments upon us, we should separate their requests for food from their other requests. We should try to meet the food needs of Europe as far as we reasonably can. And we should meet these needs so far as possible by gifts, and not by loans. I am sure that no American would hesitate to make sacrifices to keep the hungry and distressed going as long as we have the food to share with them.

I feel bound to point out, however, that in recent discussions of the Marshall Plan both our surplus of food and Europe's need have been over-stated. Before the war, the United States produced less than 9% of the world's food supply; it produces even today only about 12%. Before the war we were on net balance a food *importing* country: in the years from 1936 to 1940 we exported an average of $294 million of foodstuffs a year; we imported an average of $665 million.

On the European side, to cite but a single example, Secretary Marshall, in testifying before the Senate Foreign Relations Committee, made the astonishing statement that the war had "destroyed livestock herds" in Europe. "Destroyed" is a big word. Yet Volume II of the report of the 16 nations published by the Department of State, shows among other things that cattle on the hoof in those nations is in excess of 64,000,000 as compared with an average of less than 62,700,000 in the four years before the war. Furthermore, though the European governments put the blame solely on the war and on bad weather, the truth is that a great part of the present European food shortage is the result of their own bad policies. They have not allowed the price system to work; they have destroyed the incentive of farmers to sell crops to legal markets or to produce them at all; they have made it profitable for farmers to feed wheat wastefully to livestock; and so on.

But the European food shortage exists, and we should do our best to alleviate it.

Hunger Alleviation A Food Matter

I suggest that the best agency to do this might be the International Red Cross. If this is not thought suitable, then we should set up a new American Relief Administration. This administration should distribute food in Europe directly, making use of private European personnel as well as Americans. It should study the manner in which Herbert Hoover distributed American food in Belgium in the First World War.

Some European governments may insist that most or all of the food we contribute must pass through their rationing system, to be sold by them to their own people while the governments retain the montary proceeds. In this case all that we would be doing would be to reduce the tax bill of Europeans, or to make available to their governments money for expenditures for other and perhaps undesirable activities. To the extent that European governments insist that they should sell the food our government sends them, we should insist in our turn that the foreign currencies received from the part of our food contribution which the governments sell must be deposited locally to the account of the United States Government. These funds can then be used by us partly to make Export-Import Bank loan to European private industries and partly to buy European goods to import into the United States.

VI

With the food problem thus taken care of, there is no reason why the rest of the problem of European rehabilitation cannot be dealt with on a strictly business basis. We are constantly told that the way to put Europe economically back on its feet is to lend its manufacturers raw materials on credit that they can turn into finished goods to sell to us and the rest of the world. If such loans would really do all this, then it would be sound for private investors to risk their own funds in them. It cannot be argued that private funds do not exist in sufficient quantities. Our own government has no funds that it does not ultimately take from private funds. Congress should therefore do what it can in removing any remaining legal impediments to the restoration of private credits to Europe. It should see that any red tape or unreasonable requirements on the part of SEC, for example, are removed.

Use Export-Import Facilities

It will necessarily take time, even under the best conditions, for private lending in substantial volume to get under way. Therefore—and I put these compromise suggestions forward not without considerable misgivings—Congress may wish to consider bridging the gap in the following manner. It might enlarge and extend for 15 months the loan authorizations of the Export-Import Bank. It should do this only as a means of ultimately preparing the way, however, for private credits. Therefore it should make the requirements for obtaining such loans essentially what they would be for obtaining private credits. The Export-Import Bank should *not* be authorized to make loans to foreign governments, but only to European private industries or business firms and only on the strictest business terms. If the Bank were authorized to make any so-called "business" loans either directly to socialistic governments or to their nationalized industries, it would merely underwrite and subsidize the deficits of those industries. In this way we would be directly supporting socialization and so retarding European recovery. Congress should write the basic conditions for foreign loans into the new Export-Import authorization. It should provide that the past record of the borrowing firm, and its existing facilities, must be such as to give reasonable prospect that the loan will be repaid. The American loan must be an obligation prior to other outstanding obligations except to the extent that the borrower is prevented by previous contract from making it so.

Even if the loans are made only to private industries and firms, however, the government of the borrowers should be called upon to establish certain minimum conditions if their nationals are to be eligible to receive these loans. The governments must agree in advance, for example, not to socialize, nationalize or expropriate the borrowing industry or firm during the life of the loans. They much agree not to prevent the conversion into dollars of any repayments on the loans. They must agree not to impose any fresh wage or price regulations which will imperil or wipe out the ability of the borrowers to repay the loans. They must agree to permit free exchange rates, so as to make possible free conversion of local currencies into dollars.

One further possibility that might be considered. On and after January 1 of next year, for example, the Export-Import Bank might not be authorized to make any additional loans in the following six months unless there were at least a 10% participation on the part of a European lending institution. In this way the American risk would be shared by European creditors who would know more than we possibly could about the individual credit-worthiness of applicants for loans.

I do not pretend to know what volume of loans would be made under these conditions. What we *can* be sure of, however, is that loans made *without* such conditions would not only be money thrown away by us, but would fail to bring the recovery we are seeking.

It will be noticed that the proposal I make here puts gifts and loans into entirely separate categories. The gifts would be made by one organization, the loans by another. This is important. Any single organization will find it impossible to mix charity and business. The two things call not only for different techniques but quite different mental approaches. It will be fatal either to the aims of charity or to the aims of business to try to mix them in a single organization.

VII

May I remind you, as a final point, that the International Bank for Reconstruction and Development was set up specifically to take care of everything that the Marshall plan proposes apart from its purely charitable aspects. To the extent that we now make use of both of them, therefore, the International Bank and the Export-Import Bank should be directed to clear proposed loans with each other so that they do not find themselves duplicating, overlapping or competing.

I should like to end by underlining once more the point I made at the beginning—that the decisive factor in European recovery in the next year or four years will not be the amount of American governmental aid, but the economic and political policies followed by the governments of Europe themselves.

Werle Reelected Chairman of the Board of the New York Curb Exchange

(Continued from page 15)

in that capacity represented the firm on the New York Curb Exchange floor until, in 1940, he acquired his membership on the Curb and became a partner in the firm.

A governor of the Curb Exchange for the past four years, Mr. Werle has been continuously active in exchange affairs. He is at present Chairman of the Executive Committee and has served in the past on many of the standing committees of the exchange.

Mr. Barry, governor of the Association of Stock Exchange Firms from 1940 to 1946, began his financial career as a salesman with Shields & Co. in 1927. He became sales manager in 1930 and a partner in the firm in 1933, obtaining his Curb membership in May, 1947. He is a director of McQuay-Norris, Inc., Colonial Airlines, Inc., and Maryland Drydock Co., Inc.

Mr. Mann entered Wall Street as a page on the New York Curb Exchange during the summer of 1925. Returning to Fordham University, he received his A.B. degree in 1928 and was employed as a clerk in the office of Emil Mossbacher, Curb specialist. In September, 1928 he became one of the first specialist's clerks on the floor of the Curb Exchange. Five years later, in September, 1933, he became a regular member of the Exchange, functioning as a specialist.

Mr. Dugan and Mr. Nolan will serve as Class B governors for the first time.

Mr. Dugan began his financial career on September 3, 1929, after graduating from the Wharton School of Finance of the University of Pennsylvania. He started as a page with Laidlaw & Co., specialized in investment research and became head of the investment research department of that firm in 1940. Mr. Dugan was made a partner in that firm on Jan. 1, 1947.

Having entered Wall Street in 1921 as a general clerk in the Equitable Trust Company's foreign department, Mr. Nolan was associated with Hayden, Stone & Co. from 1923 to 1927. Serving in every department with that firm, he rose to Assistant Manager of its bond department from which position he resigned in 1937. In April, 1937 he organized and became Manager of the bond and syndicate department for G. H. Walker & Co., becoming a partner of that firm in January 1939.

The Devaluation of the Franc

(Continued from first page)

tions their currencies were to be linked together as though monetary policies, invariably suited to individual national needs, could be welded into one single superpolicy for all. Minor readjustments, to correct "Fundamental Disequilibrium," were provided for, but eyes were shut and minds were closed to the stark and obvious fact that the entire world was in a state of fundamental disequilibrium which time and toil alone could redress.

Difficulties of Reconversion

The Fund was conceived before hostilities ceased; reconversion from war to peace had not yet begun; no currency was stable owing to the growth of national debts everywhere, to the overexpansion of currency and credit in all centers and to the distortions within all price structures due to scarcities and other warborn complications. Yet the Fund's authors blithely proposed upon this disorganized base to superimpose a system whose limited elasticity was suited to more normal conditions.

The creation of the Fund was the triumph of the planners, hitherto content to operate locally. But now determined to act on a global scale—always in the name and for the sake of "stability." Little wonder then that the Fund broke down on its very first test. Self preservation made hay of its regulations because, in human affairs, the need to survive invariably takes precedence over all other considerations. And so, having wasted precious years in quest of imaginary stability, France and Italy discarded the straight jacket, foreswore "Fixity" and are now giving the natural forces a chance to operate. As a result confidence in the Lira has been restored because its rate faithfully reflects the position of the country's economy, because it sells for what it is worth, and because Italians know that its rate will be readjusted monthly to accord with the conditions then obtaining. The franc has been liberated in good part, not as completely as the Lira, but by a long step in the right direction.

Both countries, principally France, have been the recipients of much gratuitous advice from without. They should, it is alleged, adopt "a pricing and accounting system based on a **stable yardstick.**" But the nature of that yardstick is never defined, and this for reasons obvious to anyone willing to think the problem through: **There is no stable yardstick in the world today.** Those who believe that there is, are thinking in items of weights and measures, not in terms of prices and values. They mistake fixity for stability; for whereas weights and measures are physical, prices and values are largely psychological and imponderable.

Owing chiefly to the expansion of currency and credit the dollar has lost 50% and more of its purchasing power, so has the Pound Sterling. Should the franc and the Lira be linked to either? May one reasonably term stable a yardstick which could and did shrink 18 inches and more? Should they be linked to gold? The yellow metal sells at $35 an ounce under compulsion in the United States; it fetches $70 an ounce and more in the free markets of the Orient. May one reasonably term stable a yardstick which measures 36 inches in one place and 72 inches in others? Are there enough yardsticks (gold reserves) to go around? Either these are pertinent questions or we should, like the planners, brush them aside as inconsequential.

Britain's Objections

Let us now turn to England's objection to France's monetary departure: Whereas Britain's political policy has been most enlightened, the same cannot be said of her economic and monetary policies. Conscious of changes past and present, and with an eye to the future, Britain has granted independence to Burma, Dominion status to India, Pakistan and Ceylon; she has liberalized her colonial policy, notably in the West Indies. But her monetary policy has been inspired by a stubborn determination to maintain intact the Sterling area. This issue seems to be paramount in England and explains the imposition of austerity on the British people as a normal condition of life. Any alteration in the value of the Pound would necessitate readjustments in its relations to the Rupee, the South African, Australian and New Zealand Pounds which might conceivably lead to their divorcement from Sterling. Be it remembered that England's monetary reserves are also those of the entire Sterling area. And so the British are fearful of anything which might weaken the Pound.

With unbelievable fortitude, and at the cost of untold sacrifices by her people, Britain has achieved a practical balance of her accounts within the Empire. As she fought the battle of Britain in war so has she waged the battle for Britain in peace to the respect and admiration of all mankind but, unfortunately, without equal results. For Britain's current debt is outside the Empire not within it, and its chief item consists of obligations incurred through war necessity. These monies are chiefly due to people who owe their very existence to Britain and her allies and who, therefore, have no claims valid on moral grounds.

Britain's Major Blunder

Instead of treating these debts as lend-lease contributions to the common war effort, England committed the major blunder of accepting them as her own. These credits, now "blocked" and partly serviced as occasion affords, place Britain in a forced export position. They constitute a constant drain on her economy slowly bleeding her white and inexorably undermining the Pound. Were England to change her attitude towards these "Blocked" Sterling credits she would at once strengthen her international position, balance her accounts without the Empire as well as within, rescue the Pound from jeopardy and keep the sterling area intact. Procrastination on this point can only lead Britain towards uncertainty because the position of forced exporter is untenable in a world economy which can only function in the approximate balancing of international accounts. If credits and debits attain undue proportions they create a problem of transfer which leads straight to repudiation. For payments may only be effected in goods and services and no nation, least of all the United States, will agree to throw her labor out of work to buy from others goods and services she, herself, can produce or render. The raising of our tariffs after the first World War led to the repudiation of the war debts, and it is precisely because we don't want history to repeat itself that we wisely put the European Recovery Program on a gift basis.

The French Situation

Unlike England, whose current indebtedness is external, France's foreign obligations are small; her economy normally well balanced, so that increased production can start the nation on the path to recovery. To achieve this she has heretofore relied on a fixed currency, subordinating economic to monetary considerations. It didn't work, hence her recent reversal of policy. The franc is now to sell for what it is worth within the country in terms of foreign currencies; exporters will receive francs at the official rate—Fr 214 =$1—for half the proceed of their exports, the balance in francs at the open market rate. Any improvement in France's foreign commerce is likely to narrow the disparity between the official and open market rates, which is probably why official devaluation went no further than it did. This is a cautious course of action pointing in the right direction.

Ever since the early 1930's the world has been plagued by "management," instances of which are visible on every hand. Practice has been discarded for theory. The free expression of supply and demand, when alone brings about balance in a price system, has been contemptuously branded as "Laissez-Faire." And this despite the fact that, if the correctives of price are not permitted to operate, we might as well revert to pre-historic barter. That "Stability" of exchange might be maintained resort was had to quotas, to rationing of exchange and to similar trade hampering devices, thus subordinating the economic to the monetary and making trade ancillary to money. From production to market commerce has been confronted with barriers of every kind and yet expected to thrive. This, in short, was the meaning of "Management" which, because it is repressive, cannot much longer endure.

By breaking away from "Managed Currency" and going onto free exchange France and Italy have rendered the world a greater service than is generally realized.

The Case for Common Stocks

(Continued from page 6)

illiterate its people, the longer a currency can continue to circulate at par after it has lost its true value.

Our Money Irredeemable

At present, for those of us living within the United States, our money is irredeemable and thus has no demonstrable inherent value. Present prospects seem to favor tax reduction this year, and the immediate effect of tax reduction, however beneficial it may prove to be in the long run, is to weaken the tax prop for the value of our money. Our chances of being able to buy more of the things we want, and thus enjoying an increase in the purchasing power of our money, are clouded by the Marshall Plan. The "habit value" of money tends to decline with the passage of time. Thus by none of those four approaches does investing in money seem particularly attractive.

It is not by oversight that I have omitted price control from the list of factors that give money its value. Price control imparts no lasting value to money. It is a public confession that money has lost its value. It leads inevitably to evasion, which means sales at prices reflecting what both buyer and seller think the money is worth, and ultimately to requisitioning, which means compelling people to part with things they value for money they don't want. Freedom loving people will not tolerate it long.

Perhaps more important than any of those theoretical approaches to the value of money is the practical fact that 15 years of deficit financing, uninhibited by the gold standard brake have taught our people to attempt to spend their way through every crisis. Old Doc inflation will be called much earlier in the next depression than he was in the last.

If money is not a good investment, then obviously contracts for the delivery of money at a future date are not good investments By the process of elimination we turn to "things."

Advantages of Stocks

As investments, common stocks have an advantage over inert things such as diamonds because common stocks, if properly selected, grow and produce income. Common staocks are better for most investors than farms because the stock buyer acquires management with the stock. As compared with commodities, the advantage of owning stocks is that time does not wither them, nor moths corrupt.

Common stocks are inferior to other things primarily because the assets stocks represent cannot be hidden from looters the way diamonds can.

To illustrate what I mean, suppose we feared an enemy invasion or a communist uprising within the country. We might expect if the invasion or uprising was successful that the new rulers would seize the railroads, factories and mines. Our common stocks evidencing ownership of an interest in those railroads, factories and mines might become worthless. Under such conditions we might prefer to sell common stocks for what they would bring in order to buy precious stones which could be concealed from our exploiters.

Sometimes it seems to me that the basic division among men in the world today is not a matter of ideology but is fundamentally a matter of whether they belong to the producers of the human race, or to the looters. Two simple mathematical symbols characterize the former. Those symbols are the plus sign and the multiplication sign. Arrayed on the other side of the basic human division are the people symbolized by the minus sign and division sign. The first group seek to increase the world's wealth. The second group are preoccupied with subtracting from the store of those who have produced, and dividing the loot among their camp followers.

Naturally in a period when the looters of humanity are in the ascendancy common stocks are worth less than when the producers are on top. That is so for the same reason that would make common stocks decline in value in the face of a probably successful enemy invasion.

The stock market reflects, of course, much more than the relative strength of the producers and the looters of mankind. Value after all is at least as much subjective as objective. Cost of reproduction means nothing to the bejewelled dowager adrift in a lifeboat with insufficient drinking water. After a day or two she gladly will trade her diamond necklace for an extra drink. But she must have the necklace to be in position to make even that trade. So it is in the stock market. People must not only want to buy stocks, but they must have the money with which to buy them, if they are to produce a bull market.

Market's Forecasting Value

Once upon a time, the fluctuations of the stock market were regarded by many as having a forecasting value for general business. It seems logical that that should have been so when the dominant figures in the market were bankers and business men of great skill, foresight and courage, and perhaps even more important, of sufficient power to produce at least some of the results they anticipated in the stock market. How good is the stock market barometer now?

A major bear market was indicated by the movement of stock prices in September, 1946, more than 16 months ago. Peak prices for stocks were reached in may of 1946, more than 20 months ago. Just how bad was business a year and a half after the stock market began to see clouds on the horizon?

Industrial Conditions

Here are a few items selected at random from the financial news ticker and the financial pages of the newspapers in recent weeks:

(1) December sales by retail stores increased both in physical and dollar volume over December, 1946, and showed slightly more than a seasonal increase over November, 1947.

(2) December, 1947, sales of vacuum cleaners were the highest on record as were sales for the year 1947.

(3) Paint sales in 1947 reached the billion dollar mark for the first time in our history.

(4) More window glass and polished plate glass was produced in 1947 than ever before.

(5) The U. S. construction industry in 1947 completed the biggest year in history from a dollar volume standpoint.

(6) Steel production in 1947 attained a new peacetime high, but was six billion tons below capacity because of scrap shortages.

(7) The number of non-farm workers rose to a record high of 51 million in December, 1947.

(8) The "Bell System" added 2,800,000 telephones in 1947 but ended the year with about 1,500,000 on the waiting list for telephone service.

(9) Physical volume of business in the week ended Jan. 10, 1948, reached a new postwar high.

The stock market to be sure, moves on what is expected to be, rather than on what has been. But the foregoing items were not "has beens" a year and a half ago.

Future Developments

What do those who think they can peer into the future tell us now?

Here again are a few random selections from the news of recent weeks:

(1) In 1948 the United States for the first time in more than a quarter century will import more oil than it exports. The petroleum shortage will last two more years.

(2) Many steel producers have declined to take business for delivery in the second quarter of 1948.

(3) Electric power requirements of the Pacific Northwest now exceed safe operating capacity of generating facilities of the region.

(4) American business expects to spend about $4,100,000,000 during the first quarter of 1948 for new plants and equipment, according to a joint SEC-Department of Commerce survey. That would be about a billion dollars above actual expenditures for the corresponding period in 1947.

(5) More farm machinery will be made in 1948 than in any previous year, according to Secretary of Agriculture Anderson.

(6) The next 12 months should bring record-breaking U. S. production and, given a fair crop year, possibly an abatement of inflation, according to Dr. Edwin G. Nourse, Chairman of the President's Council of Economic Advisors.

(7) General Electric looks for a further gain of at least 20% in sales in 1948 over 1947.

(8) But for the shortage of engineers and equipment, the overall road building program assured for 1948 would be almost double that of 1947.

(9) Total new construction in 1948 is forecast at $15.2 billion compared with $12.6 for 1947.

Never before in peacetime did such a prolonged period of active and profitable business as we have had in the last 20 months produce so little happiness among investors. Why?

Many Americans, despite their dislike of communism, lack enough faith in capitalism to risk their money on its ability to produce sustained prosperity. They are waiting for the "inevitable" slump.

Many other Americans, outside the politically articulate farm and union labor groups, lack not faith but cash to buy stocks after they pay record-high personal income taxes and living costs. They are waiting, because they must, for a tax cut and lower food prices. Meantime the stock market remains the only uninflated segment of our economy.

What has happened to change us, as one author puts it, from the most optimistic people in the world in 1896 into one of the most pessimistic half a century later? What are the chances that anything will change us back again?

Obviously the only way to convince a man—or a bear—that it is possible to have sustained prosperity under capitalism is to have it. That takes time.

Supply and Demand in the Market

More rapid progress may be made on that part of the problem which results from lack of cash rather than lack of faith. Contrary to some of the new look economists, there are basic economic laws just as immutable as the law of gravity. One of those laws is the law of supply and demand. In this country for many years the supply of common stocks being pressed on the market has been artificially increased while the demand for common stocks has been artificially decreased. The result has been a decline in the market evaluation of stock earnings to the lowest level in more than 20 years, and a decline in the ratio of bond yields to stock earnings yields to the lowest level in the same period, except for a few months in 1942.

The supply of stocks for sale in the market has been increased primarily by estate taxes and by foreign liquidation. The importance of estate and gift taxes to the stock market is indicated by the fact that their total for the current fiscal year is estimated at $842 million. Most large estates contain common stocks, and many of the mare composed largely of common stocks. It is common practice for executors to sell those common stocks and reinvest the proceeds in bonds. Foreigners have been selling our common stocks on balance since the outbreak of World War II, and such sales in the first 10 months of 1947 amounted to double the total for the whole year 1946, despite the lower prices in 1947, according to the New York Federal Reserve Bank.

A third source of supply of stocks in our market has been liquidation by large investors, influenced in many cases by tax considerations.

A fourth factor increasing the supply of stocks for sale has been the rise in the general price level and in the volume of business done, which in turn has necessitated an increase in equity capital for many companies.

Such increases in the supply of stocks, even if accompanied by an unchanged demand for stocks, might be expected to depress the price of stocks. Actually, however, the demand for stocks has been reduced by a number of important new factors at the same time that the supply of stocks for sale has been increased.

For one thing, a persistent upward tendency in personal income tax rates has left the people who used to supply the bulk of the equity capital of the country with little or nothing to invest from their current incomes.

The tax squeeze on the portion of the population in the upper income brackets has been aggravated by a major redistribution of the national income to their disadvantage. The Bureau of Labor Statistics reports that factory worker with three dependents has 30% more purchasing power now than in 1939, based on a comparison of what a dollar will purchase now with what it would buy in 1939 and considering higher tax rates. Farmers likewise have gained on balance against the rest of the economy in the years since 1940. According to the Bureau of Agricultural Economics the gain has been sustantial, whether expressed in real terms after adjusting for an increase in prices farmers pay, or as it appears in unadjusted dollar amounts. Together farmers and factory workers make up a substantial part of the income-producing population of the United States. One does not have to be an Einstein to see that if half the population gains as compared with the rest of the population, the other half must have lost ground. Such a reshuffling of the national income may be important to the stock market if as a whole farmers and factory workers buy fewer common stocks in proportion to their aggregate income than the rest of the population. I know of no statistics on the subject but our own experience strongly suggests that farmers and factory workers are not major sources of equity capital in this country.

A third factor which has sharply reduced the ability of the American stock-minded public to provide equity capital has been the drastic increase in margin requirements by the Federal Reserve Board. In the old days it used to be possible for anyone who had $1,000 of equity capital to reach over into the great pool of safety-first capital in this country and borrow an equal amount from that, putting up his own equity capital as security and transmuting the borrowed safety-first capital into additional equity capital. When it raised margin requirements to 100%, thus putting the stock market on a cash basis, the Federal Reserve Board wiped out a potential source of billions of dollars of equity capital. The subsequent reduction in margin requirements to 75% did not go far enough to appeal to many would-be stock borrowers. When a man owning 1,000 shares of General Motors can buy another 1,000 shares by using the first 1,000 shares as collateral he finds it simple and easy to analyze the problems involved. When he finds that his 1,000 shares of General Motors will enable him to buy only 333 additional shares he is not only confused by the fractions but in many cases is likely to take the attitude that the small amount of additional stock that he can buy is too little to be worth bothering about.

Conditions of Improved Market

Hopes for a better stock market thus are based on prospects for a sustained high level of business, plus some or all of the following possibilities:

(1) A reduction in foreign liquidation which seems to be a likely consequence of the probable enactment of the Marshall Plan.

(2) A stabilizing of the general price level, or decline in it, which might accompany or follow good crops throughout the world in 1948.

(3) A change in estate tax laws giving estates more time in which to settle the tax claims of the Federal government.

(4) A reduction in personal income taxes, and particularly the enactment of community property legislation applicable to residents of all states. Governor Dewey of New York state has estimated that such legislation would save citizens of New York state $170 million a year in Federal income taxes. Others have estimated the total savings for the nation at between $700 and $900 million. That saving would accrue primarily to the people who in the past have provided the bulk of the country's risk capital.

There are at least two other possible solutions to the risk capital shortage problem. One is to make common stocks eligible as investments for life insurance companies. The portion of the national income received by life insurance companies each year is so large that present limitations as to the character of investments permitted for those funds overemphasize debt in corporation capital structures.

Another possible solution is a greatly intensified effort on the part of all of us in the financial business to sell stocks to farmers and members of labor unions, which is to say to those portions of the population showing the greatest relative gains in income. This field should appeal especially to salesmen of investment trust shares. Such a program, like the idea of making common stocks legal for all life insurance companies, probably would take years before it made a real dent in the problem. Our hopes for early improvement in the stock market must run in other directions.

Too much of our investment thinking, and of our laws governing investing, has been based on the fallacious idea that we can choose whether to take a chance or play it safe. Actually our choice is limited to which kind of a chance to take.

We know that stock prices are lower in relation to earnings than they have been in more than 20 years, and lower in relation to assets than they have been at any time in 20 years except at the bottom of the bear markets in 1932 and 1942. We know that the relationship of stock earnings yields to bond yields is more favorable to stocks than it has been in more than 20 years except for a brief period in 1942. Still, stocks are not without risk. But how about bonds? How about the best bonds in the world, U. S. government bonds?

I shall not attempt, before this group of experts, to pose as an authority on U. S. Governments, but Mr. Allan Sproul, President of the Federal Reserve Bank of New York, is one, for sure. His Federal Reserve system owns more than $21 billion dollars worth of them. Let me quote him on the subject. Just a few days ago he said:

"Without our support, under present conditions, almost any sale of government bonds undertaken for whatever purpose (laudable or otherwise) would be likely to find an almost 'bottomless market' on the first day support was withdrawn."

The possibility of any such break in U. S. bond prices probably will be resisted with every resource at the government's command. If it came, it certainly would have repercussions on other markets. But I still like common stocks.

Mortgage Interest Rates for 1948

(Continued from page 9)

use the figures of all operating savings and loan associations as an indicator on Jan. 1, 1934, gross loans were $5 billion $559 million, and for several years thereafter the figure declined to a low in 1936 of $3 billion $760 million, after which it began to rise slowly, and reached the level of $4 billion, $374 million on Jan. 1, 1941, and during the war years this figure stayed relatively constant. At the war's end the figure was probably around about $5½ billions, and currently is estimated around $10 billion. Indirectly, the savings and loan associations felt the same inflationary increases in net share deposits as did the banks because of the deficit financing of the government, but until the G.I. loan made its appearance the savings and loan associations were hard pressed to find a sufficient volume of mortgages at satisfactory yields. As they plunged into this phase of mortgage activity, and as building increased, a high mortgage position was quickly achieved in a two year period, and now they no longer are hard pressed to find investments with a satisfactory return.

Need for More Credit

Since the OPA and wage controls were abolished a rapid rise in costs has been contributing to the inflationary spiral, and causing a condition in our economy which means business simply has to have more credit in order to do the same unit volume of business as on a pre-war basis. Many corporations which thought they had adequate working capital positions now found, because of an increase in sales and higher prices, that working capital positions were inadequate and credit had to be obtained either through the banking structure or the new capital market. The "term loan" which had been developed to a high degree during the war, often in connection with various types of government guaranteed financing, offered insurance companies and large banks an opportunity of directly lending to industry on a long range basis. This is currently a negligible factor. At the same time the GI financing program and the easy re-sale privileges offered by the RFC induced a very rapid increase in the granting of mortgage credits along these lines. The total volume of outstanding credit had remained relatively low for so long that grantors of credit apparently had not realized the rapid increase in demand, and when they suddenly woke up a few months ago and realized that the demand was changing very rapidly in relation to the supply, they became scared. After the decision last summer to abandon the war time pattern of short-term interest rates; institutions began to see where on a projected basis their commitments were adequate in order to give them satisfactory earning power. The pressure for earnings was off. Psychology changed from a sellers to a buyers market.

Increase in Treasury Borrowing Rate

When the Federal Reserve and the Treasury decided last June to allow the Treasury Bill rate to seek its own market levels, and subsequently, the certificate rate to increase, which in turn caused pressure on the longer term Treasury bonds, as yields progressively went higher, a complete change in psychology of markets also developed. Whenever markets show very little recovery then buyers back away and look for lower and lower prices, whether such expectations are based upon fact or not makes no difference. The psychological attitude cannot be overlooked. Now that investors can look back and see that substantial higher bond prices prevailed two years ago and they know the Treasury is pegging long-term bonds, the question obviously arises as to the consistency of government policy. The various fiscal measures taken by the government authorities tend to be deflationary with the exception of the purchase of government bonds by the Federal Reserve Bank, which in itself is decidedly inflationary, and increases the supply of credit. However, the government and the American Bankers Association are definitely on record as favoring the restriction of credit. It may be of interest to mention in passing that in the recent forecast by the President's Council of Economic Advisors, it was mentioned that credit was expanding so rapidly in the last half of 1947 as to cause grave concern as to its inflationary effect, and that consumer spending increased in 1947 over 1946 about $3½ million more than the increase in consumer income. The American Bankers Association said in part in its program for fighting inflation that mortgage loans for non-essential building which can be postponed until labor and supplies are available, should be discouraged. The Federal Reserve has made various proposals for the restriction of credit, and for control of the banking structure. All of these various proposals tend to keep the money market in a state of "jitters," and consequently, the suppliers of credit are becoming more selective, and want a large return before taking the risk.

Contradictory Forces

There are many contradictory forces at work. Basically, the government interest rate sets the pattern for all other rates. It should be recognized that the long-term 2½% bonds due 1972-1967 and the 2¼s due 1962/1959 are pegged at approximately par levels, and the certificate rate on a one year basis is at 1⅛% for the time being. The corporate bond market adjusted itself some months ago to this anticipated development, and double A corporate bonds are now fluctuating around the 3% level. High grade preferred stocks yield around 3.75 to 4%. Good common stocks yield 5% or more. Should government bonds be unpegged, then further increases in yield are quite likely. Much depends upon the amount of money to be taken for the European recovery plan, how much tax reduction will take place, and whether or not we are headed for a depression in the near future. My own guess is that pegging will not hold for a long time because the demand for credit and the inflationary problems are so great that eventually the fiscal authorities will have to yield.

Institutions are sophisticated money lenders and should be aware of these changing trends. When they can buy a high grade corporate bond to yield around 3%, and when the mortgage yields after servicing charges and book costs, are such that there is virtually no differential, then there is no inducement to take on lower yielding mortgage loans. In fact, the 4% loan will not be made in volume until we come into the next period of extremely low interest rates and low credit demand, unless some government agency is activated to buy them. Many institutions have reached the point where the mortgage portfolio is ample for requirements, and the new comparative yields are such that inducement will have to be given to them to buy.

A reasonable conclusion based on the figures presented would be that while there is still ample credit available for high grade risks it will take a higher rate to make it come out to the prospective borrower.

Whether you like these conditions or not, they are the economic facts of life, and you will have to adjust yourselves to them.

Davies & Mejia Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—James A. Landregan has become connected with Davies & Mejia, Russ Building, members of the New York and San Francisco Stock Exchanges. He was formerly with First California Co. and Walston, Hoffman & Goodwin.

With First California Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Thomas J. White is now with First California Company, 300 Montgomery Street.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

"Reasons" for market and commodity decline plentiful as New York snow. Consider market weak opportunity to buy.

I can't give you a single valid reason for the break in commodities or stocks. And if that is what you're looking for, I suggest you put this down and look elsewhere. I've heard lots of reasons. I've read scores more. Yes siree. I'm loaded with reasons up to here — and none of them mean anything to me. I can't make a dollar on them and if I can't I won't pass them on to you.

* * *

All I know is that a few weeks ago the market began acting like things were going to happen. In my column of January 8 I hung out a caution flag. In my column of January 15 I repeated it by pointing out that surprises were in the wind and "... these surprises will be in the direction of decline."

* * *

Last week was the first time in quite a spell that I began to see daylight, though at the same time I could see stocks go still lower. How low, you can see in last week's table which appeared in the column and is repeated below. In any case, for the first time in months I came out with specific buying advice, giving prices and stocks. That column was written Monday, February 2. Tuesday, Wednesday and Thursday stocks broke all over the list, being sparked by the commodity crack.

* * *

On the market break a few of the stocks recommended in the list became available. These were: American Chain 19½-20½; Anaconda 31½-32½; Briggs 29-30; Consolidated Vultee 12-13; Douglas 50-52; Dresser Industries 21-23; G. L. Martin 15-16, and United Aircraft 23-24.

* * *

Total stocks recommended were 17, of which the above were the only ones to sell low enough to come into the list. However the full list as printed last week remains the same. Should any of these stocks go down any further they should be bought.

* * *

Again I want to repeat that the stops included in the list should be rigidly observed. For my own purposes I don't use stops because I don't want them on record with the order clerk. I prefer to watch my stocks and step in with a sell order when a certain level is broken. But for your uses, particularly if you don't watch the tape all day, a written stop is advised. It may not be the best method but it's the only one I know that's practical.

* * *

Here's the full list with buying points and stop levels:

	—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

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.]

L. Courtney Parkes Now Is With A. M. Kidder Co.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—L. Courtney Parkes has become associated with A. M. Kidder & Co., Alfred I. du Pont Building. In the past he was a principal of Nichols & Co. of Nashville and prior thereto was with W. N. Estes & Co., Inc. and was an officer of Craig, Parkes & Co., also of Nashville.

Gross, Rodgers Adds Two

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Malcolm T. McFarlane and Irvin Steinberg have been added to the staff of Gross, Rogers & Co., 458 South Spring Street, members of the Los Angeles Stock Exchange.

With Daniel Reeves & Co.

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Horace E. Martin has joined the staff of Daniel Reeves & Co., 271 South Beverly Drive, members of the New York Stock Exchange.

Two With Bailey, Selland

(Special to THE FINANCIAL CHRONICLE)

FRESNO, CALIF.—Dudley L. Hayes and Redmond A. Rudolph have been added to the staff of Bailey, Seeland & Davidson, Fresno Building.

John G. Perry & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—R. Eugene Neher has become associated with the staff of John G. Perry & Company, Equitable Building.

Trust Administration and Current Economic Problems

(Continued from page 11)

combat the forces of inflation and to provide assistance to the countries of Western Europe to enable them to rehabilitate their economies and to resume the economic and political roles which they played in the past. Both problems are closely interwoven because the greater forces of inflation in the United States, the more difficult it wil be for us to live up to our European responsibilities and commitments. Furthermore, the assistance the United States is called upon to render to Europe will undoubtedly aggravate the problem of inflation in this country.

The forces of inflation are rampant in the United States. They are the result largely of the sharp increase in the supply of purchasing power put in the hands of the people during the war and the great pent-up demand created during the years, when half the productive capacity of the country was devoted to the war effort. They are partly the result of the too rapid repeal of the controls imposed during the war. In part they are due to the fact that the United States has been called upon to contribute to the rest of the world large amounts of goods in scarce supply at home. Under present conditions, it looks as if the forces of inflation will have to run their course, since neither political party is willing to take the necessary measures and none of the important economic groups is willing to surrender its own immediate advantages for the welfare of the country as a whole.

The anti-inflationary law recently passed by Congress cannot contribute materially toward stemming the forces of inflation. It is probable that a reduction in individual income taxes will take place, thus further increasing the supply of purchasing power. New York and Ohio are paying and other States will also pay veterans' bonuses, thereby again adding to the purchasing power of the people. Labor will insist on another round of wage increases, which will mean that more money will compete for the same quantity of food, thus driving food prices higher and higher. Farmers are insisting on floors without any ceiling, although farm income during 1947 was the highest on record. The year 1947 was also very profitable for industry, but the constantly rising break-even point has rendered many enterprises very sensitive to even a slight drop in unit output.

The outlook for basic industries, such as steel, iron, coal, oil, railway and farm equipment, and automobiles is very favorable; and no decline in the demand for these products is in sight. The Marshall Plan, in one form or another, will be passed; and this in turn means that considerable quantities of food and other commodities in short supply in the United States will be shipped abroad. Under these circumstances, it is no wonder that frequent predictions are being made that 1948 is bound to witness a further acceleration of the forces of inflation.

There are other forces at work, however, which may bring the forces of inflation to an end suddenly and without warning. The constant increase in the cost of living, and particularly of food, forced many families whose incomes have not kept pace with the price advances to cease buying goods which they considered necessities before the sharp rise in prices. Production in the United States is increasing; but the higher the prices go, the smaller will be the number of buyers. While exports under the Marshall Plan will certainly be substantial, it is likely that in 1948 they will be smaller than in 1947. Should crops in Europe during the current year be better than those of last year (and so far the outlook is favorable), this will undoubtedly lead to a reduction in the foreign demand for food from this country, accompanied by a decline in prices of farm and food products.

Above all, important changes are taking place in the monetary field. The Treasury is expected to have a surplus during the next few months of $7 billion which will be utilized to redeem maturing obligations held primarily by the commercial banks and the Reserve Banks. The utilization of the surplus in this manner will reduce the volume of bank deposits and also the balances of the member banks with the Reserve Banks, thus further tightening the credit base of the country. This will retard the increase in the volume of loans. The relatively higher money rates and the uncertainties which prevail in the money and capital markets may be expected to cause a reduction in the supply cf securities offered by states and municipalities as well as by corporations, and may slow down the volume of capital expenditures. Such a development would reduce the demand for all types of goods and thereby ease the inflationary pressure. Monetary measures work slowly, but sooner or later their effects will be felt in the economy of the country.

Thus, while there are inflationary forces at work in the economy of the country, the deflationary forces are beginning to grow in strength; and it remains to be seen which of these forces will prevail in 1948. That the inflation will come to an end some day is quite certain. The longer the process lasts, the more difficult will the period of readjustment be and the longer its duration. It certainly would be to the interest of the country as a whole if the long-advertised and long-expected readjustment should occur this year and not be postponed; for while under these conditions it would be painful, it would not be very serious.

The Controversy Over Credit Control

Since the forces of inflation became so pronounced and their consequences fully realized, a serious controversy has arisen over the efficacy of the type of credit control that has been employed up to the present time. Some believe that because of the seriosu inflation the monetary authorities should adopt drastic credit restrictive measures. Others, including the Board of Governors of the Federal Reserve System and the Treasury authorities, have opposed such measures. Those favoring drastic credit restrictions take the view that it is more important to break the forces of inflation than to maintain prices of government obligations and prevent money rates from rising sharply.

What would be the consequences of drastic credit restrictive measures? The first step would be for the Federal Reserve Banks to reduce member bank reserves through open market sales of government obligations. This in turn would force the member banks either to borrow from the Reserve Banks or to liquidate government obligations. Since many banks prefer not to be indebted to the Reserve Banks, they would undoubtedly choose the second alternative, with the result that prices of government bonds would go down sharply and money rates would increase. Drastic credit control would also force the banks to liquidate loans, and this is bound to have an effect on business activity. It would also make it even more difficult for states and municipalities and corporations to sell long-term bonds in the open market. These would ultimately lead to a decline in capital expenditures and an increase in unemployment; and if the credit contraction policy were continued, it undoubtedly would break the spiral of inflation and set in motion a spiral of deflation.

Those responsible for the credit policies of the United States have expressed the view that drastic credit restriction could do more harm than good. In the first place, it would materially complicate the refunding operations of the Treasury, which during 1948 will be confronted with the task of refunding over $55 billion of short-term obligations, and increase the cost of carrying the public debt. Secondly, since the member banks hold a large volume of government obligations, a decline of five to ten points in prices of government securities could wipe out the capital and surplus of many financial institutions. It would also cause big losses to insurance companies and other institutional and individual holders of substantial amounts of government obligations. Thirdly, the monetary authorities have to consider carefully what effect a sharp break in prices of long-term government obligations would have on the holders of Series E, F and G Savings Bonds. They must take into account at least the possibility that if long-term government bonds should decline to 90 or less, many holders of United States Savings Bonds might redeem their securities in order to buy long-term obligations yielding a higher return and offering at the same time the possibility of appreciation. Since there are over $50 billion of government obligations outstanding which are, for all practical purposes, redeemable on demand, the redemption of only 10 or 20% of this amount could place the Treasury in an embarrassing position.

It is easy for those who do not have the duty of administering credit control to propose drastic measures because they will not be held responsible for the consequences. But it is quite understandable why the monetary authorities have adopted a different attitude, why they have refused to permit the government bond market to find its own level and have pegged government bonds even though they relaize that this policy tends to strengthen the inflationary forces. So far, however, despite the large purchases of long-term government obligations by the Reserve Banks, the volume of Reserve Bank credit has not increased because the Federal Reserve Banks liquidated more short-term government obligations than the long-term or medium-term bonds they acquired. The problem of credit control has been rendered more difficult by the substantial inflow of gold, the gold holdings of the Treasury having increased from $20.088 billion at the end of August, 1945 to $22.790 billion on Jan. 14, 1948. Although the monetary authorities are not in a position to adopt drastic credit restrictions, they will utilize the surplus of the Federal Government to narrow the credit base of the country and to tighten the money market, especially by redeeming maturing obligations held by the Federal Reserve Banks.

It may be expected that sooner or later the inflationary forces will come to an end and that a readjustment will set in. Should this take place sometime in 1948, it will not be serious or of long duration. The greatest danger to the economy of the country would be a continuation of the spiral of wages and prices for an indefinite period. Such a development could undoubtedly wreak great havoc to the economy and to investment values and ultimately might seriously undermine the economic and political foundations of the country.

The course of business activity will have a pronounced effect on investment policies of trust companies. At present, a rather cautious attitude is indicated as regards all types of investments, including bonds and mortgages as well as equities. As it becomes evident, however, that the forces of inflation have run their course and that a period of readjustment has set in, trust companies could again begin to buy long-term high-grade obligations, since with the end of inflation the demand for credit and capital will decline and money rates will tend downward.

Reconstruction Abroad

The proposal to assist in the rehabilitation of Western Europe is another major problem confronting the nation. It has been argued that in view of the inflationary spiral in the United States, the rendering of assistance to Europe on the scale proposed by the President to the Congress might undermine the economic stability of the country without contributing much to the rehabilitation of Western Europe. This view is not realistic. The contribution the United States will make under the Economic Recovery Plan constitutes only a small fraction of the national product of this country. Moreover, it is hoped that a portion of the funds placed at the disposal of European countries will be utilized for the purchase of commodities outside the United States, thus reducing the pressure on prices in the United States.

The rehabilitation of Western Europe is of the utmost importance to the United States. It will make it possible for the sixteen Western European countries and Western Germany to restore their economies and to again play an important rule in the international interchange of commodities. It will create a market for American products and will provide important sources of supply to this country. The adoption of the European Recovery Plan could lead to a better cooperation among the nations affected and in the long run to the elimination of trade restrictions and ultimately to the establishment of a customs union. The Marshall Plan could also help maintain the American economy on a stable level during the next few years, particularly at a time when the forces of inflation have run their course and the period of readjustment sets in. While it cannot be denied that so far as the European Recovery Plan leads to increased purchases of commodities in scarce supply in this country it tends to contribute to the inflationary forces, a careful weighing of the pros and cons leads to the conclusion that on the whole the adoption of the plan would be of advantage to the country.

To summarize the economic outlook, the world at large is confronted with the serious task of rectifying the maladjustments that were created during the war. Because of the long duration of the war, the vast destruction and the huge expenditures, leading to a sharp increase in the supply of money in all countries, and because of the unfortunate split between East and West, reconstruction has become a much more difficult job than was generally expected after the end of hostilities. In the United States, the principal problem confronting the nation is that of combating the forces of inflation and preventing a further sharp increase in prices of commodities. Greater inflation would harm everybody, and particularly those who live on fixed incomes, and would undermine the system of private enterprise in the minds of many people at home and abroad.

While the forces of inflation are still pronounced, there are already in evidence signs that some anti-inflationary forces are also beginning to be felt in the economy and that a readjustment may be nearer at hand than is generally believed. Basically, the economy of the United States is sound. A readjustment during 1948 could not be of long duration because there is still a great pent-up demand for all kinds of commodities, notably housing, and because it is clear that the United States will be called upon for a number of years to contribute heavily to the rehabilitation of the world.

While the international situation is clouded and complicated, to say the least, in this respect also an unduly pessimistic attitude should be avoided. The majority of the people in the United States apparently realize that the Marshall Plan is a constructive step, and in all probability it will be passed in one form or another by Congress. This will give new hope to the Western European countries; and if the plan is properly administered, it could lead to the speedy recovery of those nations and to an increase in the standard of living of about 270 million people who are among the most skilled and productive in the world. A recovery in Western Europe will eliminate the threat of social unrest and of the spread of Communism in those countries. A strong Western Europe, cooperating with a strong United States, could be an important factor in solving the acute international political problems confronting the world at the present time.

Conclusion

In spite of our experience after World War I, in spite of the general knowledge that inflation is a dangerous economic disease that affects particularly those who are unable to increase their income commensurate with the constant increase in the cost of living, and in spite of the fact that we all know that a period of inflation is invariably followed by a period of deflation, the United States shortly after V-J Day dropped virtually all controls and let nature take its own course. Because of the huge public debt and the knowledge that drastic credit restrictive measures could change the inflationary trend into one of serious deflation, no such measures should or will be taken. The situation is further complicated by the fact that 1948 is a presidential election year, a fact that keeps Congress from taking measures that could curb the forces of inflation, which to many shortsighted businessmen and labor leaders is synonymous with good business. However, it is always darkest before dawn, and already certain signs can be detected that the period of inflation may run its course sooner than has been expected, while the adoption of the Marshall Plan would be an important step toward the restoration of the economy of the Western World.

The trust officer confronted with the task of investing funds entrusted to him will naturally be guided in his policies by the broad economic trends prevailing in the country. So long as the forces of inflation are strong, these policies will be those of caution and conservatism, both as regards investments in long-term high-grade bonds and purchase of equities. Should the long expected and much advertised recession set in in 1948, however, the investment officer could again buy without hesitation long-term quality bonds as well as high-grade preferred stocks. Strange as it may seem, once the inflationary forces have run their course, it may also become advisable to invest in equities, because in that case the fear of a boom and bust will have been eliminated.

Above all, the investment officer will always keep in mind, and also impress upon those with whom he comes in daily contact, the necessity of doing everything possible to prevent the forces of inflation from going much further. This can be done by the individual's refraining from buying anything not absolutely necessary, by the corporation's refraining from making capital expenditures unless they lead to an automatic increase in productivity of labor and hence to a reduction in the cost of production, and by adoption of the same policy by states and municipalities. Finally, it is essential that people throughout the United States realize that Congress could do much more to combat the forces of inflation, and probably would do much more if the people back home were to tell their chosen representatives that they oppose inflation and expect them to forget politics and pass legislation which will benefit the country as a whole.

Editor's Note—In the course of the foregoing address, Dr. Nadler, by way of comment on the recent heavy drop in prices on the commodity exchanges, stated it is impossible as yet to tell how much significance should be attached to it, but added "it cannot be overlooked as a possible forerunner of the end of inflation." He pointed out that a factor which "may change the course of events" is action by the government that "may check the heavy drop in prices on the commodity exchanges."

News About Banks and Bankers

(Continued from page 18)

—the $300,000 additional having been brought about by a stock dividend of that amount.

* * *

The newly-organized **First National Bank of Sebring, at Sebring, Ohio,** opened for business on Feb. 7, as a member of the Federal Reserve System, it was announced by President Ray M. Gidney of the Federal Reserve Bank of Cleveland. Member banks in the Fourth District now total 711 and hold approximately 85% of the total bank deposits in the District. Officers of the First National Bank of Sebring, which has capital of $50,000 and surplus of $50,000, are T. F. Shaffer, President; W. G. Millner, Vice-President, and J. R. Saunders, Cashier.

* * *

Action toward enlarging the capital of the **La Salle National Bank of Chicago** was taken on Jan. 13, when the stockholders voted to increase the amount through the issuance of 18.000 shares of $50 par stock at $60 a share. In referring to the announcement of the plans by John C. Wright, President, in advance of the meeting, the Chicago "Journal of Commerce, said in part:

"Of the $1,080,000 to be raised from the stock sale, $900,000 will be credited to the capital stock account, lifting the total to $1,500,000 from $600,000. New Surplus $900,000. The remaining $180,000, plus a transfer of $120,000 from undivided profits, will be placed in the surplus account to raise total surplus to $900,000 from $600,000.

"This will increase the combined capital and surplus to $2,400,000, which is double the present total."

* * *

The Lincoln Security National Bank of Chicago has advanced Harry Krauspe, Assistant Vice-President to the office of Vice-President it was stated in the Chicago "Daily Tribune" of Jan. 28.

* * *

At the annual stockholder and board meetings of the **Ann Arbor Trust Company of Ann Arbor, Mich.** the following changes were announced by Earl H. Cress, President. John C. Fritz retired as Treasurer and L. A. Tappe was promoted to Vice-President and Treasurer to fill that vacancy. Mr. Fritz will continue to serve as a director and member of the Executive Committee. Title changes were announced for five other officers. Homer L. Heath was elected Vice-President, Harry E. Foster and Edward M. Heffernan, Trust Officers, C. Russell Pryce, Comptroller, and Genevieve M. LeRoy, Secretary. Pearl I. Manning was elected Assistant Secretary. All other officers and directors were reelected. These changes, says Mr. Cress, indicate the growth and development of the Company and are further evidence of the complete trust services provided.

* * *

The Trust Company of Georgia, at Atlanta, Ga., announces the election on Jan. 13 of Marshall B. Hall as President of the institutions and James D. Robinson, Jr. as President of the **Trust Company of Georgia Associates.**

* * *

An increase of $1,000,000 in the capital of the **Citizens & Southern National Bank of Savannah, Ga.,** raising it from $5,000,000 to $6,000,000 was effected by the sale of $1,000,000 of new stock. The enlarged capital became effective Jan. 2.

* * *

An addition of $200,000 to the capital of the **First National Bank of Beaumont, Tex.** has resulted in enlarging the capital from $400,000 to $600,000. The increase, effective Jan. 22, was brought about through a stock dividend of $200,000 it is reported in the Bulletin of the Office of the Comptroller of the Currency.

* * *

The sale of new stock to the amount of $2,000,000 by the **Republic National Bank of Dallas, Tex.,** has resulted in an increase in the bank's capital from $10,000,000 to $12,000,000. The increased capital was made effective Jan. 5.

* * *

The **Utah State National Bank of Salt Lake City, Utah,** has increased its capital from $500,000 to $750,000 through a $250,000 stock dividend. The new capital was made effective as of Jan. 21, it was indicated by the Office of the Comptroller of the Currency.

* * *

The pension plan for members of the staff of the **Anglo California National Bank of San Francisco,** approved by the shareholders at their annual meeting on Jan. 13, as recently announced by Allard A. Calkins, President, has met with practically unanimous acceptance by the staff, Mr. Calkins said. Participation by those who were members of the staff on Dec. 31, 1947, the effective date of the plan, was voluntary. New staff members after that date, however, will automatically fall under the provisions of the plan after one year of employment and on attaining the age of 25 years. The normal retirement age is 65 years. Provision is made for retirement with modified benefits at age 60 for those who have completed 20 years or more of service. The bank is paying the entire cost of past service benefits. This will amount to approximately $1,750,000, payable in installments over an 11½-year period. The first payment of $155,000 was made by the bank on Nov. 24, 1947. The bank is also paying approximately $108,000 a year on account of future service benefits, representing about two-thirds of the annual cost. These payments are in addition to the bank's expenditures for Social Security benefits.

* * *

The **Anglo California National Bank of San Francisco** has been granted a permit by the Comptroller of the Currency in Washington to open a branch office on Van Ness Avenue (in San Francisco), it was recently announced by President Calkins.

* * *

At the annual meeting of the stockholders of **The Bank of California National Association of San Francisco** held on Jan. 13, Charles K. McIntosh, the Chairman of the Board, announced his decision to retire as an officer and director. He stated that he had been engaged in banking for 58 years, of which 38 had been devoted to The Bank of California. In expressing extreme regret at the retirement of Mr. McIntosh, President James J. Hunter referred to his many years of service of Mr. McIntosh not only to the bank; but in other responsible positions, including that of a charter member of the Board of Directors of the **San Francisco Federal Reserve Bank** to the date of his voluntary retirement in 1946.

* * *

The capital of the **Security-First National Bank of Los Angeles, Cal.** has been increased from $24,000,000 to $30,000,000 through a stock dividend of $6,000,000. This was made known in the weekly bulletin (Jan. 2?) of the Office of the Comptroller of the Currency, which reported that the new capital became effective Jan. 20.

* * *

The National Bank of Commerce of Seattle, Wash., announces the election by the Board of Directors on Jan. 13 of J. W. Maxwell Honorary Chairman; Andrew Price, Chairman of the Board; Homer L. Boyd, Vice Chairman; Arthur W. Faragher, Vice Chairman; and Maxwell Carlson, President.

* * *

George W. Spinney, who after serving in various capacities in the **Bank of Montreal, Montreal Canada,** became President in December, 1942, died on Feb. 1. He was in his 59th year.

A native of Yarmouth, N. S., Mr. Spinney entered the service of the Bank of Montreal in 1906. Prior to becoming President he had been designated Joint General Manager in December, 1936. Mr. Spinney had also been Chairman of Canada's First Four Victory Loan campaigns in the Second World War.

Mr. Spinney's first position, according to the Montreal "Gazette," was as a clerk in a Yarmouth drug store; some months later he entered the service of the Bank of Montreal in its Yarmouth branch. The "Gazette" in part further said:

"Mr. Spinney served in various capacities in numerous branches of the institution, including offices at Edmunston, N. B.; Quebec, Hamilton and Montreal, where he was to remain.

"Sir Frederick Williams-Taylor, who had been brought back from the Bank of Montreal's London, England, office to become general manager, had not been more than two years in that position before staff changes—brought about by the First World War—prompted him to look about him for a new Secretary.

"In 1915, George W. Spinney was taken from the accountant's department in a Montreal branch and transferred to the head office to become Secretary to the General Manager.

"In 1922 Mr. Spinney was appointed Assistant to the General Manager.

"Then in 1928, Mr. Spinney became Assistant general Manager with supervision over Quebec, Maritime and Newfoundland branches of the bank as well as supervision over the securities department. Eventually as noted above, he became Joint General Manager, and finally President."

Dreyfus Adds to Staff

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock Exchange, have announced that Harry Mitchell and Mrs. Joan Masi have become associated with them.

Calls Baruch Modern Santa Claus

(Continued from page 4)

were required in 1939—actually more than 60 million persons are being now employed and we do not come anywhere near supplying the tremendous demand that we still have for goods that are unobtainable.

Certainly, the uninspiring example of the Government's attack on keeping down prices by raising wages and shortening hours, does not lend zest to the theory that they can go on a more expanded program not only here but all over Europe. Presumably, if we figure out all the money that has been spent by the government during the last 6, 7, 8 or 10 years, we might find out that the failure to earn a proper return in production for what has been paid in dollars, might have a great deal to do with the theory of inflation. Extravagance in government is the same as spending the money in the war because it fails to produce that for which the money was brought into being.

Mr. Truman has new economic luxuries outside of a new balcony —his council, economic advisors with an appropriation for the current year of $350,000. Mr. Truman is asking $400,000 for the next year. Their importance may be judged from the fact that the Vice-Chairman, Mr. Keyserling, is reputed to have devised the $40 a head (elect me) tax credit! The council has also figured out that we will have 64,000,000 employment in 1958, but failed to give proportion of males and females employed! Of course, one can't have everything for $400,000 per annum!

More Taxes No Cure For Inflation

All taxes are spent by the Government and are taken from the producers, workers and investors. The producers will add it to the cost which will be paid by the buyer. The worker, producer and the investor will have less and the government will have more. If taxation will cure inflation and improve our economic situation, why not increase taxes to the vanishing point of income and thus bring Utopia? Our schizophrenic administration believes in shouting deflation while fueling the fires of inflation because they have been fed on payment of subsidies, sustaining bureaucracies, maintaining agricultural prices, vast amounts for military and defensive, veteran expenditures that seem to know no limit. Our budgets are 20% of our national income and equal to one-half of our income in 1929 and 1939 and about all in 1932. In fact, one-third of our entire national income is now absorbed by local, state and national taxes. In 1939 the Government spent $9 billion; 29% for national defense, foreign and veterans' interest and 71% for all other programs. In 1949 the Government will spend over $39 billion of which 21% will be for other items and programs and 79% for the first mentioned purposes — national defense, etc. As a processor of inflationary forces this Democratic administration has no equal.

Production and Taxes a Travesty

Additional taxes and increased production do not go well together because the latter will suffer by the imposition of the former. Neither is a sure cure for inflation—certainly not taxes which in essence curb production and stimulate governmental expenditure and are in fact a tax on production. In fact the theory of higher taxes and resulting increased Government expenditures recommended by Mr. Baruch have probably done much to form and hold the base for our present inflationary forces. All this does not click with the stress Mr. Baruch places on "thrift." To win a war necessitated a Spartan regime which was accepted in life and property. To continue it in peace when the resources of all should be given to production seems an economic barbarism. We need capitalistic production as we never needed it before—it is on trial for its existence. To punish it and take away the fruits of its planning and legitimate deserts to give additional power to governmental spending at this stage smacks of out-and-out socialism and of Karl Marx. Production is in and by itself not a cure for inflation until it has restored the economic, physical and financial devastation of war.

No more is prosperity a cure for inflation. Every dollar of goods produced creates a dollar to be expended so the balance between goods and dollars remains the same. You must use and reach the dollar that isn't produced—the dollar that is in "somebody's sock" which represents potential spending and/or lending. That's what Mr. Baruch thinks he gets by increasing taxes, but he is in error.

The dollars taxes take come from the corporate or individual income that represents earnings, production or investment. Where does that dollar go? Why, to the government. The government, who is he? Why, the most profligate spender in the whole universe. Does he produce? Not a thing. Is he rich? Hasn't a cent except what we give him. What does he do with the money? Mr. Truman's budget has an item of $116,000,029 to buy wool, eggs, potatoes, sweet potatoes and peanuts so that the poor people can't buy them. So we give him (the Government) more and that stops inflation—beautiful!

Some of the bright New Dealer boys from our late lamented Franklin D. Roosevelt's administration must have thought this out for brilliant Barney Baruch. Further, under Mr. Baruch's plan the Government would stop inflation by continuous buying, paying subsidies, taking on a new force of experts, bureaucrats and officials all over the world that is supplied by the hard workers or savers (past or present). These last dollars could possibly help the flow of capital to our much needed producers who must pay 2 or 3 times more for the machinery and improvements than they formerly did.

Our Debt, Taxes and Inflation

The debt, that seems to horrify Mr. Baruch and costs us $5 billion a year is already cut in half —we spent it in 1941-1945 dollars and we owe it in 1947-1948 dollars which are only worth around 50c in buying power. We could then figure our debt cut in half, or roughly $125 billion, and our national resources roughly worth $600 billion—50% over prewar. This merely tends to illustrate the effects of inflation—it can work both ways.

If the Government buys Government bonds, in order to peg a price that was fixed (at 2½% return) below the fair rate of interest in a misguided attempt to save charges and taxpayers' money, it is inflationary. If the Government buys bonds to reduce debt held by the private investor, he gets money which he can either invest or spend. If the debt be paid off to a bank the money finally finds it way to the Federal Reserve Bank where it adds to its reserves and could be of further use to debt expansion by the member bank. Thus, the purchase of bonds or retirement of debt will be a direct and indirect inflationary threat respectively.

A Government debt is not considered by the classic economist as an unmitigated burden providing the credit is sound and the interest coverage ample. It should be reduced but we should not wreck or injure our economy to do it, for a good debt is better than a poor debt even if substantially reduced. And above all, taxes should be reduced in order that we may be able to effect those things we want to effect. These huge and unprecedented inflationary forces once generated are not so easily extinguished and a list of apparent remedies are far from a cure of so gigantic a terrestrial calamity as a great war.

Increase of Excess Profits Tax

Mr. Baruch's recommendation to restore 50% of the cut from excess war profit tax levels would be the negation of his entire program. As one of the senior industrialists, he must know that every additional thread, pin or additional minute of labor in maunfacturing adds to the cost and, therefore, to the price which is basically determined by cost, including depreciation, reasonable profit and surplus.

Such a price makes resistance from the buyer and, therefore, exercises a pressure for decreased production. This seems too elemental for even a cursory explanation and casts doubt on Mr. Baruch's glorification of thrift and production.

Surplus represents savings (can this be thrift?) needed for new machinery, depreciation of plant and inventories, (all now in high price areas) and for "fat"—our basic element of protection for all productive processes, including life itself, against reverses of any kind. There could be no more oppressive brake on the production of the 470,000 manufacturing corporations of this country, which are the backbone of our democratic processes and now much needed power, than in an increased tax on production to swell government expenditures.

Our Purpose and Remedy

The President, his Cabinet and particularly Secretary Marshall and Congress, offically and unofficially, together with the attendant staffs have all sweated out this problem of Europe's rehabilitation as is Democracy's duty. As America, that is all we have to give to Europe in procedure, methods, conclusions and sacrifices. And despite differences of opinion, once determined on a program we should proceed with vigor and determination. Nevertheless, there are our own immediate problems that have been discussed for years in Congress, in the public press and otherwise and should not be intertwined or confused with these extraordinary problems abroad, that represent our heritage from a catastrophic war. Those we must settle from our own fundamental practices and procedures as above outlined.

However, there may be an order of precedence which may emphasize the relative importance of these problems which to the writer's belief should be in approximately the following order. Reduction of Governmental and State expenditures including the subsidence of subsidies, reduction of taxes, an approach to the retirement of excess monies in connection with gold convertibility and the convertibility of Government Bonds into cash (and thus restrain inflationary process of supporting bond prices), a plan of readjustment of debt service on Government obligations to meet market appraisal, maintenance of low tariffs (thus affording the countries abroad we are attempting to revive a market for their goods), abolish restrictions (unusual and discriminatory margin requirements, etc.) on creation of equity values necessary for obtaining necessary capital for production.

A solution in part or whole of these last mentioned problems, to which we must give a singleness of purpose with a freedom from political maneuvering, would substantially stimulate savings, production and curtail inflation. We could give more to the laborer and secure more production if we stopped devising means to take more from him in high cost living and taxes; at the same time we would give more to the producers who might then envisage a period of stability on which plans for production, labor and the investor all would have a solid and enduring base. We must correct our imbalances without which no permanent improvement can ensue.

Conclusions

All these many suggestions of Mr. Baruch together do not lend themselves to efficient, constructive and successful regime in a very difficult, perilous time which require agreement, co-operation and immediacy of many countries and millions of people not responsible to our Government. To throw into this hopper of urgent need, so many conflicting, economic, political and financial theories with a world-wide ocean of undeterminable responsibilities, seems the height of universal folly. For, to follow his recommendations we would embark on a sea of remedies, experimentation and extension of our present extravagant "set up" in money, bureaus, experts, finances and farflung extravagant operations not only in our country but all over the world, which could result in Mr. Baruch finding his "cold war" has been heated up to a "hot war." We might also find that America will be working for the whole world under the "Barney Baruch" plan!

At present we are an island of potency in a sea of tragic incompetency and disaster never equaled in the history of the world and—the medieval Moloch waits without but with diabolical intrigue, cunning and omnipotence—bores within!

THEODORE PRINCE, L. L. M.
Feb. 11, 1948
30 Broad Street,
New York 4, N. Y.

[Theodore Prince is an Economist, Investment Counsel and Lawyer specializing in corporate practices and taxes, and a financial circle figure for 30 years, and was for 20 years head of the Stock Exchange firm which bore his name—Editor.]

Our Reporter's Report

Monday promises to be a busy day in the new issue market But since the major issue, of three scheduled for that day, is comprised of Illinois Soldier Bonus bonds, where bidding most likely will be limited to commercial banks, there should not be any serious strain on marketing facilities.

Two public utility companies also will be in the market on that day. However, in neither instance is the total of new securities of burdensome proportions. Rather these two issues should be the center of keen competition because of their moderate totals.

Illinois will be in the market for $85,000,000 more to finance the payment of the State bonus to servicemen and this offering should afford a real cue to the change which has taken place in that particular section of the money market since the initial $300,000,000 was sold last year.

The current issue is expected to be of considerably shorter average maturity since the interest rate of 2% set by law is hardly conducive under present conditions to the two- to 25-year average fixed on the first offering.

The yield basis in the state and municipal market has risen substantially since the flotation of the initial issue and bankers, accordingly, will be fitting their bids to prevailing conditions.

Bids Due Next Week

Illinois Power Co. will open bids on Monday for its $15,000,000 of new first mortgage bonds, due 1978. Prospective bidders already have been advised on the information contained in the registration statement.

Current indications are that the bonds will be sought by at least four banking syndicates suggesting, in view of the comfortable size of the undertaking, that competition will be keen.

Meanwhile Iowa Power Co. is slated to sell its issue of $6,000,000 first mortgage bonds of 25-years maturity on the same day, with some nine groups believed prepared to make bids.

The Ohio Public Service Co., a subsidiary of Cities Service Co. will open bids on Wednesday for its $10,000,000 first mortgage bonds, due 1978. The prospects are that at least seven banking syndicates will compete for the issue.

Still Popular

Testifying to the wide appeal for institutional investors which railroad equipment trust certificates hold was this week's experience of the New York, Chicago & St. Louis Railroad, which offered a small issue, $1,400,000 of this type of security.

The road was literally inundated with bids from potential purchasers, having received no less than 11 tenders for the paper.

The successful group paid the road 98.256 for a 2⅛% coupon. The reoffering was at prices to yield from 1.40% on one-year maturity to 2.45% for the 1958 maturity. The return on the long maturities compared with 2.35% recently returned on the longest-term maturity in the Chesapeake & Ohio issue.

Plenty of Work Ahead

These may be slow days in the seasoned security markets, but investment bankers find little real reason for complaint as corporate borrowers, chiefly the utilities, continue to pile up potential business for months ahead.

Columbia Gas & Electric Corp., will be asking for bids soon on $45,000,000 of new debentures designed to provide funds for expansion. West Penn Power Co., subsidiary of West Penn Electric Co., is seeking SEC approval of plans to sell $12,000,000 first mortgage bonds and 50,000 shares of preferred stock series B, $100 par. The parent company plans to take up any unsubscribed portion of additional common to be offered to the subsidiary's holders.

Louisiana Power & Light Co. is expected to file registration shortly for $10,000,000 of new mortgage bonds to be sold about the middle of March.

Southwestern Bell Tel.

When Southwestern Bell Telephone Co. enters the market early in May for new funds, it will be for the entire $100,000,000 of new debentures authorized by shareholders recently.

This undertaking, which will rank with the biggest in recent years, is expected to see a duplication of the rivalry between banking groups that has marked all Telephone issues in recent years. The same two houses are expected to head the opposing syndicates.

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. 15	92.7	94.0	98.7	93.7
Equivalent to—					
Steel ingots and castings produced (net tons)	Feb. 15	1,670,900	1,694,300	1,723,200	1,639,700
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Jan. 31	5,318,237	5,336,287	5,291,237	4,650,150
Crude runs to stills—daily average (bbls.)	Jan. 31	5,434,000	5,446,000	5,637,000	4,729,000
Gasoline output (bbls.)	Jan. 31	15,986,000	16,747,000	17,163,000	14,426,000
Kerosine output (bbls.)	Jan. 31	2,561,000	2,403,000	2,346,000	2,033,000
Gas oil and distillate fuel oil output (bbls.)	Jan. 31	7,690,000	7,718,000	7,405,000	5,453,000
Residual fuel oil output (bbls.)	Jan. 31	9,141,000	9,182,000	9,392,000	8,567,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Jan. 31	102,973,000	100,586,000	94,099,000	98,696,000
Kerosine (bbls.) at	Jan. 31	11,702,000	11,997,000	15,983,000	13,732,000
Gas oil and distillate fuel oil (bbls.) at	Jan. 31	40,580,000	42,402,000	49,934,000	48,197,000
Residual fuel oil (bbls.) at	Jan. 31	50,839,000	51,094,000	51,426,000	47,134,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Jan. 31	727,038	771,992	682,038	835,051
Revenue freight rec'd from connections (number of cars)	Jan. 31	629,970	666,119	544,621	711,636
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Feb. 5	$123,813,000	$99,683,000	$85,675,000	$111,546,000
Private construction	Feb. 5	66,640,000	46,614,000	34,834,000	78,138,000
Public construction	Feb. 5	57,173,000	53,069,000	50,841,000	33,408,000
State and municipal	Feb. 5	21,737,000	43,115,000	38,747,000	24,094,000
Federal	Feb. 5	35,436,000	9,954,000	12,094,000	9,314,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Jan. 31	11,350,000	12,200,000	11,470,000	13,760,000
Pennsylvania anthracite (tons)	Jan. 31	1,167,000	1,180,000	784,000	1,240,000
Beehive coke (tons)	Jan. 31	136,600	*130,600	127,900	123,400
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Jan. 31	233	*226	204	217
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Feb. 7	5,412,361	5,429,202	5,277,680	4,801,179
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Feb. 5	97	91	87	45
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Feb. 3	3.18925c	3.18925c	3.18925c	2.87255c
Pig iron (per gross ton)	Feb. 3	$40.17	$40.17	$39.00	$30.15
Scrap steel (per gross ton)	Feb. 3	$40.83	$40.83	$40.00	$31.67
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Feb. 4	21.200c	21.200c	21.200c	19.375c
Export refinery at	Feb. 4	21.525c	21.500c	21.425c	20.025c
Straits tin (New York) at	Feb. 4	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Feb. 4	15.000c	15.000c	15.000c	13.000c
Lead (St. Louis) at	Feb. 4	14.800c	14.800c	14.800c	12.800c
Zinc (East St. Louis) at	Feb. 4	12.000c	12.000c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Feb. 10	100.69	100.69	100.69	104.34
Average corporate	Feb. 10	110.70	110.70	110.88	117.40
Aaa	Feb. 10	115.82	115.63	116.02	122.09
Aa	Feb. 10	114.27	114.27	114.08	120.22
A	Feb. 10	109.79	109.97	110.15	117.20
Baa	Feb. 10	103.47	103.64	103.97	110.88
Railroad Group	Feb. 10	105.17	105.34	105.52	113.12
Public Utilities Group	Feb. 10	112.56	112.37	112.75	118.60
Industrials Group	Feb. 10	114.66	114.85	114.85	120.84
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Feb. 10	2.45	2.45	2.45	2.21
Average corporate	Feb. 10	3.13	3.13	3.12	2.78
Aaa	Feb. 10	2.86	2.87	2.85	2.55
Aa	Feb. 10	2.94	2.94	2.95	2.64
A	Feb. 10	3.18	3.17	3.16	2.79
Baa	Feb. 10	3.54	3.53	3.51	3.12
Railroad Group	Feb. 10	3.44	3.43	3.42	3.00
Public Utilities Group	Feb. 10	3.03	3.04	3.02	2.72
Industrials Group	Feb. 10	2.92	2.91	2.91	2.61
MOODY'S COMMODITY INDEX	Feb. 10	407.2	442.2	452.8	390.2
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUP—1935-39=100:					
Foods	Feb. 7	235.5	238.8	244.0	213.8
Fats and oils	Feb. 7	242.0	278.9	289.2	280.7
Farm products	Feb. 7	260.8	271.9	279.6	236.8
Cotton	Feb. 7	318.3	331.0	337.1	309.5
Grains	Feb. 7	282.6	310.2	310.8	205.9
Livestock	Feb. 7	252.1	259.1	270.1	238.8
Fuels	Feb. 7	220.8	220.8	216.0	157.5
Miscellaneous commodities	Feb. 7	178.4	181.4	178.8	154.1
Textiles	Feb. 7	217.3	219.1	220.4	214.6
Metals	Feb. 7	162.2	162.1	161.0	142.4
Building materials	Feb. 7	233.6	233.6	236.2	213.2
Chemicals and drugs	Feb. 7	155.3	155.3	154.5	155.0
Fertilizer materials	Feb. 7	137.9	138.0	135.9	125.5
Fertilizers	Feb. 7	142.5	142.5	141.8	133.6
Farm machinery	Feb. 7	137.2	137.2	134.5	124.3
All groups combined	Feb. 7	220.7	224.5	226.0	191.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Jan. 31	196,886	188,717	187,093	204,033
Production (tons)	Jan. 31	185,944	188,002	136,219	179,347
Percentage of activity	Jan. 31	103	104	78	102
Unfilled orders (tons) at	Jan. 31	432,911	423,160	452,124	579,562
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Feb. 6	147.6	150.0	150.6	151.6
WHOLESALE PRICES—U. S. DEPT. LABOR—1926=100:					
All commodities	Jan. 31	163.7	164.4	164.4	140.3
Farm products	Jan. 31	195.1	199.2	199.2	164.8
Foods	Jan. 31	176.5	177.4	181.3	154.1
Hides and leather products	Jan. 31	201.2	201.5	202.2	171.0
Textile products	Jan. 31	145.8	145.5	147.5	135.8
Fuel and lighting materials	Jan. 31	131.2	130.4	128.5	98.5
Metal and metal products	Jan. 31	154.1	153.9	152.0	138.3
Building materials	Jan. 31	191.3	191.3	189.4	168.6
Chemicals and allied products	Jan. 31	139.3	139.3	135.0	127.8
Housefurnishings goods	Jan. 31	137.5	137.2	135.3	122.8
Miscellaneous commodities	Jan. 31	123.9	123.6	121.8	109.9
Special groups—					
Raw materials	Jan. 31	182.3	184.8	184.5	152.6
Semi-manufactured articles	Jan. 31	157.3	156.5	157.9	139.5
Manufactured products	Jan. 31	156.5	156.5	156.6	135.6
All commodities other than farm products	Jan. 31	156.8	156.7	156.6	135.0
All commodities other than farm products and foods	Jan. 31	148.0	147.6	146.4	127.5

*Revised figure.

	Latest Month	Previous Month	Year Ago
ALUMINUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of November:			
Total shipments (thousands of pounds)	133,154	146,602	124,913
AMERICAN GAS ASSOCIATION—For Month of December:			
Total gas sales (M therms)	2,987,107	2,388,005	2,662,563
Natural gas sales (M therms)	2,608,912	2,088,959	2,307,321
Manufactured gas sales (M therms)	233,368	189,777	206,360
Mixed gas sales (M therms)	144,827	109,269	148,882
COPPER INSTITUTE—For month of Dec.:			
Copper production in U. S. A.—			
Crude (tons of 2,000 lbs.)	80,593	*72,534	78,674
Refined (tons of 2,000 lbs.)	108,816	97,525	77,578
Deliveries to customers—			
In U. S. A. (tons of 2,000 lbs.)	113,446	106,232	141,218
Refined copper stocks at end of period (tons of 2,000 lbs.)	74,832	66,622	80,832
COTTON GINNING (DEPT. OF COMMERCE)—Prior to January 16:			
Running bales	11,373,407	10,596,350	8,165,034
DEPARTMENT STORE SALES—SECOND FEDERAL RESERVE DISTRICT, FEDERAL RESERVE BANK OF N. Y. 1935-39 AVERAGE =100—Month of December:			
Sales (average monthly), unadjusted	416	304	*384
Sales (average daily), unadjusted	408	323	392
Sales (average daily), seasonally adjusted	241	248	232
Stocks, unadjusted as of Dec. 31	211	263	213
Stocks seasonally adjusted as of Dec. 31	236	234	238
EDISON ELECTRIC INSTITUTE:			
Kilowatt-hour sales to ultimate consumers—month of November (000's omitted)	18,726,158	18,655,776	16,933,489
Revenue from ultimate customers—month of November	$335,687,200	$328,208,600	$300,599,300
Number of ultimate customers at Nov. 30	38,248,940	38,077,298	35,989,107
GRAY IRON CASTINGS (DEPT. OF COMMERCE) Month of November:			
Shipments (short tons)	1,020,239	1,154,192	987,069
For sale (short tons)	561,660	654,426	561,626
For producers' own use (short tons)	458,579	499,766	425,443
Unfilled orders for sale at end of month (short tons)	2,687,244	2,668,781	2,940,199
INTERSTATE COMMERCE COMMISSION—Index of Railway Employment at middle of December (1935-39 Average=100)	†132.5	†130.3	134.6
LIFE INSURANCE — BENEFIT PAYMENTS TO POLICYHOLDERS — INSTITUTE OF LIFE INSURANCE—Month of November:			
Death benefits	$101,334,000	$112,523,000	$99,258,000
Matured endowments	29,838,000	36,261,000	31,022,000
Disability payments	6,924,000	7,609,000	6,999,000
Annuity payments	17,975,000	18,024,000	16,466,000
Surrender values	27,829,000	34,205,000	24,772,000
Policy dividends	35,323,000	38,527,000	35,226,000
Total	$219,223,000	$247,149,000	$213,743,000
LIFE INSURANCE PURCHASES—INSTITUTE OF LIFE INSURANCE—Month of December (000's omitted) %:			
Ordinary	$1,478,120	$1,258,442	$1,196,725
Industrial	287,203	335,561	290,439
Group	435,592	203,386	475,709
Total	$2,200,915	$1,797,389	$1,962,873
MAGNESIUM WROUGHT PRODUCTS (DEPT. OF COMMERCE)—Month of November:			
Shipments (in pounds)	269,000	299,000	764,000
MALLEABLE IRON CASTINGS (DEPT. OF COMMERCE)—Month of November:			
Shipments (short tons)	72,111	83,979	68,987
For sale (short tons)	39,969	47,673	39,328
For producers' own use (short tons)	32,142	36,306	29,659
Orders booked, less cancellation for sale (short tons)	35,784	*40,092	36,802
Unfilled orders, end of month, for sale (short tons)	206,510	210,695	278,446
PERSONAL INCOME IN THE UNITED STATES DEPARTMENT OF COMMERCE — Month of October:			
Total personal income	204.5	210.9	184.0
Wage and salary receipts, total	125.0	124.5	113.6
Total employer disbursements	127.1	126.6	115.4
Commodity producing industries	57.9	57.5	49.5
Distributive industries	36.5	36.4	32.0
Service industries	15.1	15.2	14.2
Government	17.6	17.5	19.7
Less employee contributions for social insurance	2.1	2.1	1.8
Other labor income	1.9	1.8	1.6
Proprietors' and rental income	50.9	48.4	45.1
Personal interest income and dividends	14.9	15.0	13.3
Total transfer payments	11.8	21.2	10.2
Total nonagricultural income	179.9	188.1	162.7
Total agricultural income	24.6	22.8	21.3
RETAIL FOOD PRICE INDEX IN LARGE CITIES—U. S. DEPT. OF LABOR—1935-1939=100—As of December 15:			
All foods	206.9	202.7	185.9
Cereals & bakery products	170.5	167.9	141.7
Meats, poultry & fish	227.3	227.0	192.8
Meats	223.2	223.6	190.5
Beef and veal	227.6	226.3	187.6
Pork	218.2	219.7	193.3
Lamb	221.5	227.1	198.8
Chickens	190.7	184.6	189.4
Fish, fresh and canned	302.3	302.4	267.6
Dairy products	204.9	198.4	200.9
Eggs	236.1	224.7	201.1
Fruits and vegetables	205.3	199.6	185.0
Fresh	212.1	205.0	180.6
Canned	157.3	156.5	172.6
Dried	255.4	251.7	268.0
Beverages	198.5	194.7	176.2
Fats and oils	208.2	196.4	207.3
Sugar and sweets	183.7	183.2	175.3
STEEL CASTINGS (DEPT. OF COMMERCE)—Month of November:			
Shipments (short tons)	130,125	148,358	130,608
For sale (short tons)	97,143	111,288	93,878
For producers' own use (short tons)	32,982	37,070	36,728
Unfilled orders for sale at end of month (short tons)	493,309	497,344	372,058
UNITED STATES GROSS DEBT DIRECT AND GUARANTEED—As of Jan. 31 (000's omitted)	$256,650,614	$256,981,254	$260,046,395
General fund balance	4,648,247	3,097,078	4,711,493
Net debt	$252,002,367	$253,884,176	$255,334,902
Computed annual interest rate	2.154%	2.144%	2.059%

*Revised figure. †Preliminary figure.

Technical Considerations in Market Analysis

(Continued from page 7)

that invites offerings. The professional element is constantly subjecting the market to tests in the nature of buying one industrial group, then another, selling one group and so on to observe the market's response. When these professional operators determine the line of least resistance in which they can attract a public following, their buying or selling is done on a scale large enough to inaugurate trend action.

Function of Market Technician

It is the function of the market technician to determine where the market is, at any given time, on a trend basis. Or if it is a sidewise and trendless market, to determine the direction of the next trend and to judge about how far it is likely to carry. This can be accomplished by able and experienced market analysts with a reasonably and consistently good degree of accuracy. The market technician appreciates that certain background market factors must be taken into consideration with regard to buying and selling common stocks. So much emphasis is placed on the action of market averages that there is a widespread feeling that all stocks move together. Such is not the case, however, except to a very limited degree. Individual stocks ordinarily do not move in a direction counter to the averages. But while the average advances substantially, individual stocks will advance only moderately if they are in a long-term downtrend. When the average later dips somewhat, such individual stocks are likely to continue their downward moves rather substantially. Actually the long-term major cycles of individual stocks reach their tops and bottoms at times totally unrelated to each other or to the averages. Individual issues are in their own major bull or bear trends irrespective of what the market composites may be doing and it might take two or more bear markets in the averages for an individual stock to reach its ultimate bottom.

The following will serve to illustrate the disparity between the action of the average and that of individual stocks. The Dow Jones Industrial Average advanced 200% between 1919 and 1929 yet during this period American Agricultural Implement declined 80%, American Woolen declined 84% and Kelley-Springfield Tire declined 86%. The Dow Average declined 49% between the high of 1929 and the 1937 top but during this period Coca Cola advanced 347%, Dome Mines advanced 445% and Food Machinery advanced 222%. Between the highs of 1929 and 1947 the Dow Average was down 51% but in this time Abbott Laboratories advanced 988%, Amerada advanced 970%. Minnesota Mining advanced 900%. These are only a few of a great many issues in all of the categories mentioned. For instance, 142 big board stocks topped their 1929 highs in 1947.

The foregoing comments are not meant to disparage the value of studies of the various market averages. Charts of the averages are valuable for over-all market analysis, but it must be remembered that all averages are composed of a number of individual stocks which are in different phases of their own market cycles. At times like the present, when there are cross currents and mixed trends within the market, the strong and weak components of the averages are likely to cancel each other out and create a somewhat inconclusive chart pattern in the averages. At such times the position and prospects of the stock market are more effectively analyzed by market-action studies of a considerable number of representative stocks. Even when this is accomplished there will be times when the evidence of bullish and bearish factors is in fairly even balance. Studies of market techniques, to a large extent, are studies of the law of probability as it relates to prospective market movements. Varying degrees of conclusiveness, therefore, will attach to judgments arrived at by weighing the favorable and the unfavorable technical factors in the market at any time. There have been times in the past when it has been possible to be rampantly bullish; at other times it has been possible to be abjectly bearish, in each case with complete assurance because of the preponderance of technical evidence which made the conclusion entirely conclusive—and long before the market made the conclusion obvious. The point I want to make here is that if the market is in the early stages of a testing phase, nobody under heaven knows whether buying power or selling pressure will develop to the point of dominating the next trend. If the market is in the latter phases of a broad testing area the competent technician can be relied upon to point the direction of the next trend and to measure its importance.

Ken Ward of Delafield & Delafield wrote an excellent article under the provocative title "Stock Charts—An Aid or Handicap in Judging Market Trends?" This appeared in the issue of last August of the "Exchange Magazine." The article gave a very fair outline of the advantages and shortcomings of technical analysis. Mr. Ward said: "The broad-gauge investor requires a chart picture because he recognizes that the public buys and sells securities not only on a current earnings basis but also on a prospective earnings basis. Value and price are distinctly and radically different. The value of a stock is its worth in the economic cycle as determined by competent statisticians. The price of a stock reflects public opinion. Therefore, the investor, who is having a most difficult time planning a safe investment course in these days of social unrest, high taxes, depreciated currencies and revolutionary changes, needs to know at all times what the public is thinking. Thus he is aided in anticipating excesses of optimism or pessimism." I consider that Ken Ward has done a very useful job in giving a better understanding of the technical approach to market analysis and at the same time promoting a better understanding among statisticians, chartists and investors. There is bound to be a natural prejudice one way or the other based upon past personal experience. But these difficulties and prejudices can be ironed out to the advantage of all parties concerned if they retain an open mind.

It may be of interest for you to know how my firm of investment counselors approach the subject of coordinating fundamental and technical considerations in directing the supervision of our accounts. At the beginning of each year we make it a practice to outline our general investment policy for the new year. Here is the outline of such general investment policy for 1948:

The Look Ahead

From the standpoint of national income, industrial activity, corporate earnings and dividend payments, 1947 was a good year. The evidence currently available warrants the assumption that 1948 also will be a prosperous year.

Somewhat lower volume of production could be sustained without seriously impairing earnings as profit margins gradually improve to a more normal level. This is expected despite the prospect of moderately higher labor cost. Profit margins will improve with a better flow of raw materials as new plant and equipment become available and also as labor becomes more efficient and productive.

The ratio of investment in bonds and preferred stocks to equity investment, as always, is dictated by the nature of individual investment accounts. Money rates are gradually hardening and this tendency may be expected to continue although their further effect on bond prices is likely to be minor for the present and intermediate future. High grade bonds currently yield almost 3%, so that, for the first time in years, a more constructive view of bond investment is warranted. Yields of 5½% or more are commonplace among high quality equities where dividends give every promise of being well secured by earnings. Share prices are unusually low in relation to current and prospective earnings and equity values are bound to rise if a more normal relationship of price to earnings and dividends is to be attained, which is a strong probability. The percentage of well situated equities in investment accounts should therefore be as high as possible consistent with the requirements of the account. As early as February or as late as May should witness the best buying opportunities in 1948.

An unusual amount of discrimination will be needed to maintain a high standard of investment performance in an economy and in a stock market that will continue to be subject to many adjustments and mixed trends. In seeking to uncover outstanding investment values and to promote sound timing of purchases and sales, equal weight should be given to fundamental and technical considerations. Fundamental analysis of background economic factors include industry trends, balance sheet, earnings and management considerations, a study of profit margins and competitive position, etc., and appraisal of value based on how these factors measure up. Market action studies of the supply-demand relationship of each security under review seeks to determine how the market is likely to capitalize current and prospective earnings to effect proper timing of purchases and to detect evidences of distribution after an important market advance.

Durable vs. Consumer Goods Industries

A basic factor in investment policy calls for confining selections to industries which have completed their reconversion and other adjustments and where large earning power is indicated to continue through the year. In general, this involves substantial representation in durable goods industries and smaller representation in those of consumers' goods.

Industries in which labor cost is a relatively small percentage of the product value should be given particular consideration; also makers of labor-saving equipment.

Equity investment should be concentrated in good quality stocks of companies having able and experienced management. The return to a competitive economy requires that marginal companies, which boomed during the war while the government was the only customer, must be strictly avoided in investment accounts.

Also to be avoided are companies having large, high-cost inventories even where reserves have been set aside for possible inventory losses through declining commodity prices.

Strong emphasis should be placed on companies in a long-term growth trend, where the earnings curve has been advancing through the years. This would include companies which have not reached maturity and whose products are in growing demand over those of competitors. Among the growth companies would be those having new products or processes in an expanding industry. Particularly attractive in these categories of growth enterprises are those companies which have plowed back a considerable portion of earnings for expanded facilities, thus creating even larger earnings.

The foregoing procedure must be integrated with the specific needs, objectives and preferences of the individual investor, all of which will dictate the balance between cyclical and stable holdings to be selected. This general policy is indicated for businessmen's investment accounts which, subject to the prime consideration of capital conservation, seek a good measure of capital growth with moderate income.

If the needs of the account require that greater emphasis be placed on securing as much income as is consistent with prudent investment, some modification of the foregoing procedure would be necessary. On the other hand, in accounts seeking accelerated capital growth without regard to income, the foregoing procedure would be followed except that rotation of investment holdings would be needed to take advantage of stocks and industrial groups which at different times are in a price uptrend. This involves taking a sideline, or partially liquid position, from time to time.

Regardless of the needs and objectives of individual investment accounts, continuous supervision and review now, as always, is a very necessary ingredient for attaining capital conservation and growth.

What Business May Do From Now On

(Continued from page 4)

bring pressure on the near-term money supply. The decline in deposits may reach $3 billion or a little more.

Unit Consumption Lagging

In appraising the near-term price outlook, we must finally consider the position of the buying public. Here we must weigh between two contrasting tendencies.

First, I have no doubts whatsoever that the public will continue to spend to the utmost of its ability. We frequently hear talk about a buyers' strike, but I find no evidence in past history that a buyers' strike has ever occurred. The public can be depended upon to spend practically all of its income.

On the other hand, there is not the slack in purchasing power that was available when the war ended. At that time expenditures for consumers' goods were abnormally low in relation to income, simply because so many items had been in short supply. Now this margin has been removed. Savings last year dropped to only about $9 billion, out of the record high income that approximated $197 million. The public is spending up to the hilt now, and there is not much margin for increase left unless income keeps on going up.

Greater use of consumer credit, of course, has a stimulating influence on income. I am allowing for this when I say that income will probably reach its peak sometime during the first half of the year. I base this conclusion on offsetting influences, the most important of which is the downward trend in unit consumption of most items.

Although its dollar expenditures have remained high, the public has been squeezed by high living costs and high prices for other merchandise. For an increasing number of items, unit volume has begun to taper off or activity decline. There are still exceptions and some of them are important. The fact remains, however:

That a very small increase in production during the latter part of 1947 was enough to supply a further inventory rise, despite the high level of sales;

That last year's late recovery affected dollar measures much more than it did measures of physical volume. In particular, the increase in prices was substantially greater than the gain in sales.

Commodity Price Peak Near

Let me sum up briefly before going on.

I find no evidence in last year's developments, or in the current position of business at large, or of the consuming public, to encourage the belief that commodity price inflation will go on much longer. Let me remind you again that the purchasing agents' policies, like the banks' lending policies, are determined more by a sense of values related to past experience than they are by the amount of credit that may be immediately available.

This conviction that the present commodity price inflation may not be far from a peak is based not only on logic but on observation. The action of prices during the past 30 to 60 days shows a definite slowing down in the advance. The weekly index of prices published by the Bureau of Labor Statistics advanced for 11 consecutive weeks, beginning at a level of 157.4 in the week ending November 1, 1947, and reaching a level of 165.5 in the week ending Jan. 17, 1948.

The daily index of primary commodities published by the same Bureau, however, has been declining for several weeks. This index is more heavily weighted with imported commodities and I need not point out to this group that United States tariff concessions, as well as devaluations abroad, will have a depressing effect on the domestic price level.

During this same period, commodity futures markets failed to make much progress. My organization maintains an index of commodity futures prices, since these are so sensitive and frequently have such barometrical value. This index reached a high on Nov. 28, declined sharply in December, and came back again in early January to a new high. But the new high was only 1.5% above the November level. Since then these markets have backed and filled, showing more weakness than strength.

Price Test Likely in Second Quarter

It seems to me that the entire price structure is moving forward to an important test at a relatively early date.

Two sections of the price structure have been inflated to a particularly great extent. I refer to farm products and building materials, particularly lumber.

As I shall point out later, a part of the inflation in farm products is the direct responsibility of the Government and the buying policy it has followed. Nevertheless, it also reflects the partial failure of this year's corn crop and the unsatisfactory volume of foreign crops, particularly European.

Last Fall and this Winter, however, weather conditions have been favorable. Unless there is a turn for the worse in the Spring, world crops will be substantially larger and world agricultural prices will probably decline sharply. Although most of the new crop movement falls in the second half of the year, I have no doubt that futures prices will anticipate larger crops well ahead of time.

There are also special circumstances in the field of building and construction that must be considered. There were restrictions on both residential and non-residential building last year, which were removed in May and July respectively. The industry then experienced a late pickup. An abnormally large number of new homes were still uncompleted and unsold at the year-end. But will they be sold? A survey made by my organization in late October showed that about 7% of the homes completed at that date by speculative builders in the $10,000 and over class were still unsold.

Dollar volume of construction remained high in January, largely because of the carry-over of work already started. But the outlook for new starts, at current prices, is at best uncertain. And building material prices are so high now that any faltering of demand, I am afraid, will bring about a sharp decline in prices.

Favorable world crops and an unfavorable level of building starts, I believe, would be enough to precipitate a general price decline this Spring.

Government Partly Responsible For Current High Prices

The prospect that the present commodity price inflation will be self-correcting does not mean that the Government should sit with its hands folded, doing nothing to bring about a decline while there is still a chance that it might be reasonably small.

The Government, in fact, must bear a part of the responsibility for the present high level of prices. It has been the biggest buyer of grains. In any commercial market the biggest buyer usually has a definite advantage. I simply cannot convince myself that the Government had to pay as high a price as it did for wheat. The Department of Agriculture is dedicated to the welfare of the farmer; that it interprets this to mean high prices has been shown plainly during the past twelve months. I wonder if you fully realize how extensive Government buying, not only for relief but for support purposes, has actually been:

The CCC expects to buy 12 million pounds of honey, paying bee-keepers not less than 10 cents a pound.

$6 million has been ear-marked to buy straight and concentrated grapefruit juice. 162,000 gallons of concentrated orange juice have already been purchased.

Nearly one-third of the total dried fruit crop had been purchased by the end of December.

The House and Senate have approved bills granting fur ranchers the same loan privileges other farmers have. Up to $8 million in Government loans would be allowed if the market slumps.

If any of you gentlemen are interested, I suggest that you obtain from the Department of Agriculture its most recent purchase report. Between July and November, more than 15 billion pounds of farm products were purchased. More than 47 million pounds of horsemeat and gravy were bought, for whose relief or benefit I cannot imagine. As Secretary Anderson testified before a Senate subcommittee, his Department has done as much business in a year as the nation's ten largest private food companies combined.

I think the Government is also responsible for having encouraged the wildest sort of rumors about stockpiling and commodity requirements under the ERP, without any organized effort to lay the real facts before the buying public. The Administration last fall expected to ask for new authority, some of which is of debatable necessity. This may explain the reason why it broadcast its inflationary fears, although it hardly provides an excuse.

It is no wonder that sellers have been able to advance prices, even in markets where the demand has fallen and order backlogs have been exhausted.

Congress and the Administration both are playing politics when they propose tax reductions. Tax relief is needed, badly needed by moderate and low income families, which are still in the majority. But to pretend that putting more spendable income in the hands of the public is not inflationary is so much nonsense. Tax relief should be given when prices and production start down hill, not before.

Greatest Inflationary Dangers Later

Perhaps you think I take a calm view toward the present perils of commodity inflation. Let me assure you, however, that I do have great respect for the dangers of a later inflation of bank credit.

That a later inflation of bank credit may not affect commodity prices, in fact, merely means that it will be that much more dangerous. Let me emphasize again—the dangers of inflation will not end when the present commodity price inflation ends.

After the last war the commodity price inflation ended in 1920. But a real estate inflation continued until 1925 and a security market inflation until 1929. Underlying all of these movements was a bank credit inflation, which also reached its peak in 1929. Closely associated with this inflation of bank credit during the twenties was an inflation of many types of plant capacity over and above the amount that was soon found to be needed.

I am very much afraid that something of that sort will happen again within the next ten years.

No one, of course, can be certain of what will happen that far ahead. Nevertheless, economic changes originating in the war indicate that long-term demand for consumers' goods will be far above previous levels. The demand for capital goods will be greatly inflated by the need of industry to reduce labor costs despite the high level of wage rates. It would not be surprising if our first recession were followed by a sustained period of high level activity, similar to that of 1922-29 but on an even higher plane.

If that happens, we can draw on our knowledge of human nature and reach a conclusion something like this—

An enormous credit base will be there, ready for expansion and use. We would be optimistic indeed if we did not recognize the danger that it will be misused.

New Controls Needed

This brings me to my last point.

If I am right about the longer term dangers of credit inflation and its misuse, new powers over credit will be badly needed. Because public debt is now about 50% larger than private and other debt, the Federal Reserve has lost its control over the credit supply. Open market operations cannot be used effectively to reduce bank reserves and to limit the supply of credit if the Reserve System is also to bear the responsibility of managing the public debt in an orderly fashion and at reasonably low interest rates.

Furthermore, new powers will probably be harder to obtain later than they are now. At present, the rising cost of living and the obvious nature of speculative excesses provide a powerful and dramatic argument for some limitation of bank credit. At a later date, the effects of credit expansion will probably be far less dramatic, but they will probably be far more dangerous.

The special reserve proposal, on which Congressional hearings will begin shortly, is disliked almost unanimously by bankers and is branded as unorthodox. But the situation is unorthodox, and the end result of the proposal—restoration of Reserve System control over the credit supply—would be completely orthodox.

I believe, therefore, that the debate over new powers, such as the special reserve should center on the ends rather than the means, and that the final decision should be based on the longer term dangers of credit expansion rather than on the immediate dangers of commodity price inflation, which I believe are overestimated.

I shall attempt no brief summing up of what it has taken me this long to say, except to point out again that the dangers of credit inflation will be the greatest when they are least obvious, and that this point lies some distance ahead.

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sures and where decisions are not made until the last moment.

Meaning of Maximum Production

So we have undertaken in the document of this year to explore what the meaning of maximum production as laid down in that act is. In subsequent years there are a variety of matters of that sort which would be explored and they are general background material of the sort that a professional agency may discuss. I elaborate on this a little because it is the same idiom in which the Chairman of the Council is permitted to speak in public and only in which he may properly discuss the subject matter of the economic condition of the country. He may not present personal views on the specific measures which are highly controversial matters in the Congress and in public thinking at the present time.

Just one word more. Don't misunderstand if you read some more or less garbled accounts of a certain amount of tension or misunderstanding which has developed as to whether the Council should come to the Hill and appear before committees of Congress to discuss particular measures or particular recommendations of the President's Economic Report.

It has been my position that we are set up as a professional body to serve the President. The act says nothing about our serving Congress. We can through our staff work with the staff of the Joint Committee (where my good friend Charles Hardy, whom some of you know, is at the head of the Committee staff) be of great professional service in promoting understanding of the problems brought before Congress.

But what is laid before the Joint Committee is the Economic Report of the President and in my judgment, it is utterly impossible for the Council to debate the President's economic policies. Either they would have to stultify themselves and go down the party line as economic attorneys or else they would have to debate, shade, qualify, or oppose the policies enunciated by their Chief. This would destroy completely the friendly and confidential relationship and their usefulness in serving the President. So, I have, as a matter of principle, maintained what is sometimes called "aloofness." It is not aloofness of the Ivory Tower variety. It is simply an attempt to soundly define the role of a unique professional agency in the Executive Office of the President and to keep it strictly in the economic field and definitely out of all the political and partisan issues which the subject matter becomes enmeshed in.

Now I want to talk with you under the title I have selected. I shall give you a generalized explantation, but shall make no particular recommendations or proposals. I shall present a generalized philosophy of how the purposes of the Employment Act can be carried out and of the roles of the several agencies in that connection.

Who can or, in fact, who must in the last analysis underwrite the commitments and undertakings through which national prosperity shall be achieved? If we are going to move on into an age of greater maturity and economic sophistication in the handling of the affairs of the country under a system of free competitive enterprise as laid down in the act, this is a question we must answer. But this is a complementary expectation that our representative form of government will enable us to accomplish some purposes through our united action as citizens just as we accomplish other economic purposes through our united action as members of an underwriters' association, as members of bankers' associations, as members of a great corporation, as members of great trade unions or as members of agricultural organizations. We must get an understanding of the fact that we accomplish the economic purpose of a nation through two different lines of organizations and use such in its proper role—then I think we will be stepping forward appreciating and accomplishing the purposes of this new type of act.

Preventing Risks of "Underprosperity"

I hope you will not find the title as I set it down unduly fanciful. I may seem unsophisticated and untechnical in the use of the word "underwrite." Naturally, you of the Underwriters' Association think of it in the highly technical sense in which you use it in your professional connections. But, speaking as a layman and in the broad sense, the underwriter is one who puts his name and with it his resources and his commercial honor at the end of an explicit, carefully considered, and legally binding commitment. It is a commitment which involves calculated risks, which serves a productive business purpose, which contemplates proper reward for him who undertakes it and which provides useful protection to other parties.

Here we might contrast the use of the word underwrite with the word "insurance" which always is used in this connection. We may make some application of these differences to the problem of national prosperity which we are considering. In the early days, the individual underwriter of the Lloyd's variety and more generally in modern practice, the great underwriting company puts its name to the underwriting contract and assumes an operative responsibility for carrying it into effect. In the case of an individual or shareholder of a stock company, the underwriter, at least nominally, places his capital in jeopardy, but at most it is a small factor in the actual process of providing insurance benefits. In a very fundamental sense, it is the participants themselves who are organized to provide mutually each other with maximum safety. The titular underwriter provides for the collection of premiums and the investment of funds, the examination of claims and the disbursement of benefits. He performs the essential technical function in the system, but the process as a whole would not be possible except for the premium contributions of the insured. Indeed it is a striking fact that insurance business is the principal business which has recognized most completely and most explicitly the cooperative character of great economic undertakings by adopting or evolving ever so much of its area into the mutualized form.

One might comment also in this matter of what is "insured" by noting the fact that insurance is not merely taken against inevitable risk and then attempting to administer those losses, but very definitely and very properly toward making savings and profits by reducing those risks. In a very bald form, it might be said that the various branches of insurance seek to underwrite inevitable losses and to lessen the burdensome and demoralizing effect by distributing them widely according to equitable principles of participation. For the purpose of maximum contrast, I might say it is the basic proposition of the Employment Act that underprosperity derived from non-utilization of resources is not regarded as an inevitable risk to be spread, but as a largely preventable waste to be eliminated or greatly reduced through wise managerial action.

And here we have the counterpart in your own experience. Modern insurance by no means limits itself to the payment for losses which it does nothing to prevent. The Life Extension Institution which the life underwriters established and developed promotes health and postpones death; the accident prevention work sponsored by the accident insurance company saves eyes and fingers and limbs; the detective system of the liability company reduced defalcation; the Fire Insurance Patrol works to protect property at or near the scene of a fire. And think of all the fire prevention work which has gone into that insurance field. These are all striking cases of constructive and positive programs which stem from insurance operations, and each in its particular area of control seeks to eliminate waste.

I think that there is a link between this concept of underwriting, the conserving or productive services of the insurance companies, and the purpose of underwriting prosperity as set forth in the Employment Act. It is not straining a point to say that if national prosperity is to be assured for all or most of us, it must be by a frank recognition on the part of all groups and interests that economic life is a "seamless web," and that all parties are both indispensable and inter-related. Each must make his positive and equitable contribution if all are to withdraw maximum benefits from the system.

Inter-related Responsibilities

In my attempt to explore the meaning (and it is still there before us to be explored and be developed) of the Employment Act and of the kinds of economic thinking — some new economic thinking—and of economic behavior—some reformed economic behavior—which it calls for, I am led to stress this idea of inter-related responsibility. This includes responsibility of the capitalist employer and of the organized worker, the responsibility of the farmer and of the consumer. It seems to me that we need to stress also, as I touched on it before, the fruitful responsibilities of what we are pleased to call private enterprise and of the government and to learn what is the most effective complementary re-

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lationship between the two types of organization in which men and women associate themselves for the purpose of getting things done in the most orderly and efficient fashion.

I have time only to give a very brief statement of what seems to me the general principle of that division of responsibility and performance in my interpretation of the Employment Act and of how the various parties and interests can underwrite that sustained prosperity and that avoidance of waste which it sets up as an objective. As I see it, all factors must subscribe their honorable intentions to function responsibly in support of the economy. That is the basic concept of the act, the Economic Report of the President, and the report of the Joint Committee. They seek to produce an integrated program, to look at the affairs of the economy as a whole and our part in promoting efficiency for that economy in order that we may share in the benefits of an economy of maximum production. Because if you have maximum production, *ipso facto* you have maximum employment, and from maximum production, you derive maximum purchasing power.

As I just said, I think this involves some rethinking of the economic philosophy by which we live — no scrapping of our tradition, but a clearer thinking of the things which are necessary in our philosophy and in our behavior to accomplish a better stabilized production; instead of the sort of each-man-for-himself and the-devil-take-the-hindmost which we found in periods of stress in our past.

Phases of Government's Responsibility

Very briefly now, I want to state the three phases of the government's side of this problem. First let us say that in normal times, or all the times, there is a responsibility upon our representative government to establish good business institutions, not partisan institutions, but institutions which will serve the economic interest of the people as a whole. That is a high ideal. We are not going to accomplish it perfectly, but we are pretty proud of the institutions which we have evolved in some 175 years of national economic life. We should not rest on the oars. We should recognize that there are some problems still unsolved and a modification of those institutions, to use a phrase that CED was fond of, "To provide the most favorable climate within which private enterprise can operate," the most favorable economic machinery for this great system of private competitive enterprise —don't forget that word "competitive" as it is written into the act.

Second, the special role of government to meet the stresses which come into our economic system. In boom times we naturally and properly turn to the agencies of government to promote and to exercise leadership and to some limited extent control in enforcing restraints because we know that it is characteristic of these great economic swings we have had that people throw restraint to the winds and that some form of popularly inaugurated discipline is necessary. We recognize that every day from the traffic laws on up. There is a special manifestation of that need in boom times.

The third general phase of government's role is its responsibility in establishing policy and action in recessionary times. We properly look to the over-all organization of government, under control of the people, to inaugurate and support these measures. We have quite a body of experience. If not perfect by any manner of means, it begins to give us something of a guide. I want to describe, since I am stating general principles, the one principle which seems to me basic in determining the character of those supporting measures. They must be of the activating type, that which makes for production—in the terms of the Employment Act useful productive work, not leaf-raking. Such measures also promote a sound reappraisal of the property situation and the re-establishment of a scale of capitalization and valuation which is workable, a sort of a reorganizing process, which is familiar to everyone in business life.

I am going to take one illustration of what I think has come into out kit of tools in the case of the agricultural depression which was so pivotal in the last depression period. A new device was set up. We recognized that if you allow nature to take its course at such a time, you will simply have foreclosure precipitating new liquidation and more foreclosures and the displacing of farmers. Here you have something which strikes at the very root of the productive system. The life insurance companies, the local government and even the courts became involved as you perhaps remember when there was practical defiance of the dispossession of tenants. Then a recognition came that the one thing to be accomplished was to keep the farmer on the farm, to scale the value of his debt obligation to something that could be made to pay out, and then to go forward on a new production basis. You know something of the local reappraisal committees and the debt scaling process that went on.

I think that is a pattern of the sort of activating, reappraising, constructive sort of operation which cannot be handled exclusively through our private institutions but which our private institutions can conduct in conjunction with wisely considered government agencies.

Responsibility for Checking Inflation

Now I want to revert to the second point because it is the one which is concrete with us at the present time. In boom times, if we are to underwrite prosperity, the persons who are contributing to the inflationary spiral must take some responsibility for checking inflation, not just climbing on the bandwagon and riding the boom to a common disaster. I state that as a principle.

Since my time is nearly gone, I want to illustrate it by two cases or perhaps three. We have had them all within recent times. One is the action of certain businessmen, and I needn't cite them by name. You can fill the names in some of them last year and some of them within the last few weeks, who have said, "the process of inflationary spiral threatens to get out of hand. It is a boom which threatens all business and for whose checking the businessmen themselves must take some responsibility." They are not saying "we think we can make a killing out of this and get out in time and let someone else bear the burden of the crash." They are not playing themselves against the economy but playing themselves as an integral and constructive part of the economy. Several of them, and one a distinguished citizen of your city, head of a well-known company, made a statement in the finest kind of economic terms, and I have quite a file of these by other businessmen.

That is something of the new thinking and practice of business, that you have those statements put out and companies paying for a whole page of a newspaper to say "this is our constructive policy. This is the commitment that we make and our name signed at the bottom means that we are going to underwrite the security of this economy. We could ride along and contribute to an inflationary boom, or we can take some risk in putting our backs against it. We don't know that all businessmen will join with us. But we will take leadership." Some of them have sent out letters to their suppliers and pointed out the common interest that they have in resisting inflation and saying we cannot have prosperity unless you go with us. That is the No. 1 problem that is before business management at the present time, to get enough of that response or underwriting pholisophy or taking calculated risk to avoid a greater danger.

Now we have had the same kind of business leadership manifested in the banking field. One of the manifestations of a boom that threatens to get out of hand is the incautious extension of credit, extending credit for undue expansion in industrial areas or for undue valuation of property. Credit is the life blood of business, but you can get blood poisoning in a boom period and so I think it is tremendously significant that the American Bankers Association also put out a document stating their philosophy and putting their names at the bottom saying, "We underwrite this effort toward stemming the tides of inflation and building a solid basis of prosperity."

I wish it were possible within the structure of the labor union movement to have a more general statement on their part that they will realize the contribution of undue wage advances to an inflationary spiral. That thinking, however, is not lacking. We have an arrangement whereby we can talk intimately around our Council table with labor leaders and we know that labor unions are coming to that level of understanding and to that sense of responsibility. You know that they have a tough job to keep their members in line to carry out a policy of that sort even when they know its wisdom and would like to carry it out. So I say, instead of being too critical, let's say, "God bless you, we know you are in a tough spot. Do all you can." And let us, instead of opposing every move, instead of having an antagonistic attitude, build a cooperative attitude toward helping them to acquire that sort of policy of moderation which I have been talking of and thus of using some power of restraint.

My time is up. It has been a pleasure to present this matter to you. I think it suggests a challenging new type of business thinking to which we all have to give our hearts and our minds. I believe that we should take a good deal of encouragement from the plane on which discussion of national economic problems has been proceeding in the last year or two. Fortunately, I was born as a congenital optimist. I am inclined to see the constructive factors in this situation. I would go down in my job if I were frustrated and disappointed by the fact you don't get 100% results. The one thing I have tried to say is that this act becomes the ground work and sets up a machinery for a constructive attack on the problem of the economy by all the responsible parties and if it is to be carried out, it is up to all of us to underwrite prosperity.

With Trusteed Funds, Fla.

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—James C. Cooper is with Trusteed Funds, Inc. of Florida, Biscayne Building.

Why I Am Opposed to Military Training

(Continued from first page)

a Senator, I shall vote against that legislation.

I might remind you that more than two years ago, in a radio broadcast over WIBW and the Kansas Network, on Sept. 28, 1945, I commented on President Truman's recommendation to Congress that universal military service legislation be enacted. The remarks I made at that time appear in the Appendix to the Congressional Record of Monday, Oct. 29, 1945.

At that time I quoted the following from President Truman's message, which I now quote again:

"Universal military training is not conscription," President Truman told the Congress. "The opponents of training have labeled it conscription, and by so doing have confused the minds of some of our citizens.

"Conscription is compulsory service in the Army or Navy in time of peace or war.

"Trainees under this proposed legislation, however"—I am still quoting from President Truman's message—"would not be enrolled in any of the armed services. They would be civilians in training. They would be no closer to membership in the armed forces than if they had no training. Special rules and regulations would have to be adopted for their organization, discipline and welfare."

The foregoing is quoted directly from President Truman's message to Congress, recommending such legislation.

With all respect to President Truman, I must observe that these boys would be under compulsion of a Federal law to enroll, and under direction of officers in the armed services, would be compelled to take military training.

UMT Is Conscription

So I take with a grain of salt the President's contention that when we adopt universal military training, we are not, really, adopting conscription for military service.

In that same broadcast I noted that David Lawrence, whom I have known for 30 years, as a reporter, columnist, as editor and publisher—who never has been accused of being either a pacifist or an isolationist—commented on the President's universal military service recommendation in the following language:

"President Truman has swallowed hook, line and sinker, the militaristic approach to universal military training. He has accepted the plans of the high-ranking generals and militaristically inclined civilians in the War Department who believe that it is highly desirable to interrupt higher education for military purposes, even in times of peace."

Only a few days ago, Sen. Robert A. Taft of Ohio, in a speech to the Rhode Island Republican Club, at Providence, Rhode Island, said this which I quote:

"Compulsory universal military training, is contrary to every American tradition. To take a boy from his home, his education, his chosen occupation and force him to serve for a year under the direction of the Federal Government is the greatest limitation of individual freedom yet proposed. It violates every principle of liberal thought. It should only be carried through if absolutely essential to the safety of our people.

"As advocated in its present form it is neither desirable nor advisable as a means of training our men efficiently for modern warfare. It is not the best method of getting reserves, nor does it provide the kind of reserves we might need.

"UMT," Senator Taft says further, "and I believe that not only myself, but such men as Hanson W. Baldwin, military authority for the New York "Times," would agree, "would provide some 10 or 12 million partially trained men for mass movements which is most unlikely to occur in any war we can foresee. We certainly do not need any such number of men for defense against sudden attack. If it should become necessary to send a mass army abroad, it would require two years to provide the new weapons and methods of transport for any such army. During that time, additional men could be trained, and trained in the methods of war they are to fight instead of (the methods of) the war in 1944."

That was Senator Taft speaking. I might say that France, which had compulsory military conscription during the period between World War I and World War II, had the best army in Europe, based on 1919 ideas of warfare. But the training was static. The German army of 1940 eliminated France's 1919 army with ridiculous ease. And in turn it was the American army of 1943-44 which was too much for the German army of 1940. Germany also had military conscription in peacetime.

You might be interested in a further statement from Senator Taft, who says, and I quote:

"If the Army will once get over its fanatical interest in UMT and go about building an efficient and adequate reserve on a volunteer basis, it could soon have as large a reserve as we need. It can, of course, be supplemented by an extension of the ROTC system in our colleges, and the encouragement of military and physical training in our high schools."

That ends the quotation from Senator Taft, with whose conclusions on this subject I thoroughly agree.

Top-Ranking Generals Do Not Favor It

It is my understanding that a number of the best minds in the armed services, including some top-ranking generals, do not believe in compulsory military training, but these are barred from expressing their view by Army regulations. We may hear from some of them later on, as they are retired, or as their sense of citizenship rises above Army regulations.

There is a real danger, as I see it, of universal military training courses being used to indoctrinate our boys and young men with the militaristic spirit — and perhaps with the political and economic philosophies of the Administration in power—as the youth of Germany were indoctrinated under the Hitler program. That may sound far-fetched to you, but believe me, the danger is there. And in my opinion it is a very real threat to individual thinking, individual initiative, and to the liberty of the individual.

President Truman sees no danger of creating either a military caste (generals and colonels and majors and captains and non-coms by the thousands would have jobs indoctrinating the boys and young men of America through UMT) or of a spirit of militarism in the UMT proposal. He maintains it will do just the opposite: increase democracy and hold down the militaristic spirit.

I cannot see that.

Of course, no militarist, at home or abroad, has ever conceded a militaristic spirit. But the development of a military caste cannot be prevented by saying there is not any intention of doing that.

while you take the steps that will do just that.

Militarism is a state of mind that can be foisted upon the youth of America, just as it was upon the youth of Germany—I think Frederick the Great started that many years ago when he put universal military conscription into effect.

And as for military conscription —which inevitably is the next step after military training—assuring victory in wars, we have only to look at the two World Wars we have passed through to raise a more than reasonable doubt as to the validity of that argument.

Example of Britain and U. S.

It was not military conscription, nor universal military training, nor indoctrinated and disciplined people taught to take orders—and to depend upon orders for courses of action—that brought the United States and Great Britain through World Wars I and II as the only major nations on the winning side in both wars.

Neither of our nations had it. Most of the losers had conscription in one form or another, and had had it for generations.

I seriously doubt if universal military training is the answer to the problem of military defense, or national security as it now is called. National defense called for the defense of the Americas; national security apparently calls for defense of all the world.

Unless, of course, it should develop that the sized Army and Navy and Air Forces that the United States must maintain under the secure and lasting peace won by the United Nations in World War II are so large that the necessary personnel cannot be obtained by voluntary enlistments.

However, if that is the case—and I must admit that the victories we won for Soviet Russia through participating in World War II point to it as at least a strong possibility—if that is the case, I repeat, it is not universal military training but actual compulsory military service that we will have to adopt.

I say that if we must adopt compulsory military service for survival, then let the advocates of universal military service, so-called, say so honestly and frankly, and face the issue that raises, squarely and without any double-talk.

I trust I have made my position perfectly clear.

I am opposed to universal military training, as the preliminary step to military conscription in peacetime.

Securities Now in Registration

• INDICATES ADDITIONS SINCE PREVIOUS ISSUE

• Aeronca Aircraft Corp., Middletown, O.
Feb. 3 (letter of notification) 1,588 warrants to purchase common shares ($1 par) through F. Eberstadt & Co., Inc. and Simond and Pontius. For corporate purposes.

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.

• Associated Drug Industries, Inc., Lakewood, O.
Feb. 3 (letter of notification) 152,475 shares common ($1 par). Working capital for expansion.

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.

• Blue Eyes Mining Co., Reno, Nev.
Feb. 6 (letter of notification) 250,000 shares of common (20¢ par). No underwriter. For development of mining properties.

Cameron Aero Engine Corp.
Dec. 29 (letter of notification) 101,000 shares of common stock (par $1), of which 85,000 shares will be sold to the public; 8,500 shares will be issued to underwriters as additional underwriting consideration and 7,500 shares will be issued to American Die & Tool Co. for investment in return for cancelling $15,000 open account for machine tools. **Price**—$2 per share. **Underwriters**—R. A. Keppler & Co., Inc. and Henry P. Rosenfeld & Co., New York. To provide operating funds, etc.

• Colloidal Operators, Inc., Reno, Nev.
Feb. 2 (letter of notification) 20,000 shares class A common ($10 par). No underwriting. For working capital.

• Crampton Manufacturing Co., Holland, Mich.
Feb. 5 filed $600,000 first mortgage 5½% sinking fund bonds, due 1966, with warrants to purchase 60,000 shares ($1 par) common stock. **Underwriter**—P. W. Brooks & Co., Inc., New York. **Proceeds**—To retire secured indebtedness, finance inventories and supplement working capital. **Business**—Manufacture of plumbing hardware.

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.

• Deardorf Drilling Corp., Oklahoma City, Okla.
Feb. 3 (letter of notification) 1,000,000 shares common (10¢ par). To be offered through Tellier & Co. For expenses and working capital.

• Electro Refractories & Alloys Corp., Buffalo, New York
Feb. 9 (letter of notification) 7,400 shares of common stock (no par). **Price**—$15 a share. **Underwriter**—Hamlin & Lunt, Buffalo. **Offering**—Stockholders of record Feb. 13 given rights to subscribe at rate of 1/12th of one warrant for each share held. Rights expire Feb. 27. Additional working capital.

NEW ISSUE CALENDAR

February 16, 1948

Illinois Power Co., 11 a.m. (CST)	Bonds
Iowa Power & Light Co., noon (CST)	Bonds

February 17, 1948

Philadelphia Electric Co., noon (EST)	Bonds

February 18, 1948

Ohio Public Service Co., 11:30 a.m. (EST)	Bonds
Southern Ry., noon (EST)	Equip. Trust Ctfs.

February 19, 1948

Missouri-Kansas-Texas RR.	Equip. Trust Ctfs.

March 1, 1948

County Gas Co.	Stock

March 23, 1948

Columbia Gas & Electric Corp.	Debentures

• First Acceptance Corp., Minneapolis, Minn.
Feb. 6 (letter of notification) 500 5% ($100 par) preferred shares. No underwriters. For additional 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.

• Gatesville (Texas) Industrial Foundation, Inc.
Feb. 6 (letter of notification) 500 shares common stock ($50 par) to be issued in exchange for preorganization subscriptions. No underwriters. To lend money for civil improvements.

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 Feb. 4 are 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 at $4.10 per unit. Rights expire Feb. 17. **Proceeds**—To develop a plant and facilities for the company's subsidiary, Carolina Giant Cement Co., Harleyville, S. C.

• Gre-Nair Corp., Washington, D. C.
Feb. 2 (letter of notification) 499 shares 5% cumulative preferred stock ($100 par) and 998 shares common ($1 par). No underwriters. To manufacture heating process.

• Greer Hydraulics Inc., Brooklyn, N. Y.
Feb. 3 (letter of notification) 28,850 shares of common stock (par 50¢) to be issued upon exercise of outstanding warrants evidencing right to subscribe to one share of stock at $4 a share. **Underwriting**—None. For additional working capital.

• Hollywood Colorfilm Corp., Burbank, Calif.
Feb. 3 (letter of notification) $300,000 first mortgage 5% convertible bonds. No underwriters. To retire debts.

• Illinois Power Co. (2/16)
Jan. 20 (by amendment) $15,000,000 1st mtge. bonds, series due 1978. **Underwriters** — To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman Ripley & Co., Inc.; Glore, Forgan & Co. (jointly); and White, Weld & Co. **Proceeds**—To pay short-term bank loans and for construction. **Bids**—Bids for purchase of the bonds will be received by company at Room 1567, 231 South La Salle St., Chicago, up to 11 a.m. (CST) on Feb. 16.

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.

• Interstate Power Co., Dubuque, Iowa
Feb. 5 filed $20,000,000 first mortgage bonds, due 1978; $5,000,000 sinking fund debentures, due 1968, and 1,500,000 shares ($3.50 par) common stock. **Underwriter** — Smith, Barney & Co., New York. Price and interest rates by amendment. **Proceeds**—To permit consummation of the company's reorganization plan. **Business**—Public utility holding company.

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.

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.

• Laclede Gas Light Co., St. Louis, Mo.
Feb. 4 filed $6,084,000 15-year convertible sinking fund debentures. **Underwriters**—Lehman Brothers, Goldman, Sachs & Co., and The First Boston Corp. **Offering**—To be offered initially to common stockholders. Unsubscribed publicly by underwriters. **Price**—By amendment. **Proceeds**—Payment of outstanding 3½% installment notes. **Business**—Gas utility.

• Lee Paper Co., Vicksburg, Mich.
Feb. 6 (letter o fnotification) 7,457 shares of ($10 par) common. Price $20 per share. No underwriters. To increase working capital.

• McArthur Advertising Corp., New York
Feb. 3 (letter of notification) 1,600 shares of 5% nonconvertible preferred stock and 9,600 shares of common stock (no par). **Price**—$100.60 per unit, consisting of one preferred share and six common shares. **Offered** for subscription by stockholders of record Jan. 9. **Rights** expire Feb. 16. Options to purchase not more than 2,500 common shares at 10¢ per share may be issued to employees for assisting in distribution of the stock. Proceeds for corporate purposes.

McClanahan Oil Co., Grand Rapids, Mich.
Dec. 30 filed 260,000 shares ($1 par) capital stock. **Underwriters**—None. **Offering**—Shares will be exchanged for $1 par stock of Great Lakes Chemical Corp. on the basis of one share of McClanahan common for each two shares of Great Lakes common. Offer will expire March 15, 1948.

McColl-Frontenac Oil Co., Ltd., Montreal, Can.
Dec. 16 filed 900,000 shares (no par) common. **Underwriting**—None. **Offering**—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.

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.

Mid-Continent Airlines, Inc., Kansas City, Mo.
Jan. 9 (letter of notification) 30,601 shares ($1 par) com-

(Continued on page 38)

(Continued from page 37)

mon stock. **Price**—$6 per share. **Underwriting**—None. For working capital and equipment.

● **Mines Operating, Inc., Seattle, Wash.**
Feb. 3 (letter of notification) 100,000 shares common. No underwriter. For benefit of owner, T. B. Cosgrove.

Minnesota Power & Light Co., Duluth
Feb. 3 filed 100,000 shares (no par) common stock. **Underwriters**—Company has asked SEC to exempt sale from competitive bidding. If competitive, probable bidders include: The First Boston Corp. and Blyth & Co., Inc. (jointly); Kidder, Peabody & Co. and Shields & Co. (jointly). **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.

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.

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.

● **Norden Laboratories, Lincoln, Neb.**
Feb. 2 (letter of notification) 1,000 shares common. No underwriters. For working capital and new plant equipment.

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.

● **Northwest Gypsum Co., Spokane, Wash.**
Jan. 30 (letter of notification) 1,000,000 shares of common non-assessable stock (par 10¢). No underwriters. For development of gypsum deposits and corporate purposes.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

● **O'Connor (J. Louis), Washington, D. C.**
Feb. 5 (letter of notification) preorganization subscriptions for 1,000 shares common ($100 par). No underwriters. For benefit of corporation (not yet formed).

Ohio Public Service Co. (2/18)
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. **Bids**—Bids for purchase of bonds will be received by the company at Room 1600, 70 Pine St., New York, up to 11:30 a.m. (EST) on Feb. 18.

Pacific Gas and Electric, San Francisco
Jan. 29 filed 686,953 shares ($25 par) common stock. **Underwriting**—none. **Offering**—To be offered at par to holders of outstanding common stock of record Feb. 27 at the rate of one share for each 10 held. Rights expire April 9. **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.

● **Pennsylvania Coal & Coke Corp.**
Feb. 6 (letter of notification) 18,000 shares of capital stock (par $10). Options to purchase 13,000 shares at $10 per share will be given six directors and to the personal representative of one deceased director. Contingent options to purchase 5,000 shares, at $10 each, will be given to five stockholders. Shares not purchased by the options may be offered for sale by the corporation. Corporate purposes.

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. **Bids**—Bids for purchase of bonds will be received up to noon (EST) Feb. 17 at 900 Sansom St., Philadelphia.

● **Port Jervis (N. Y.) Packing Co., Inc.**
Feb. 10 (letter of notification) 6,000 6% cumulative nonconvertible preferred shares (par $10) and 12,000 common shares (par $1). **Price**—$15 per unit of one preferred and two common shares. **Underwriter**—George Loose, Port Jervis, N. Y., will use his best efforts to sell these shares. Freezing and cold storage equipment and locker plant, purchase of building and working capital.

● **Puget Sound Products Co., Seattle, Wash.**
Feb. 4 (letter of notification) 50,000 shares common stock ($1 par). For plant construction. No underwriters.

● **Public Service Co. of New Hampshire, Manchester, N. H.**
Feb 6 filed 199,627 shares ($10 par) common stock, of which 141,101 shares will be purchased by the underwriters from the New England Public Service Co. **Underwriters**—Kidder, Peabody & Co. and Blyth & Co., Inc., New York. **Offering**—To be offered present holders at rate of one share for each 3½ shares held. **Price**—By amendment. **Proceeds**—Construction program.

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.

Red Rock Bottling Co. of Cleveland
Jan. 23 (letter of notification) 40,656 shares ($1 par) common. **Price**—$1 each. No underwriting. For working capital.

Reiter-Foster Oil Corp., New York
Jan. 16 (letter of notification) 180,000 shares (50c par) common stock. **Price**—80 cents. **Underwriter**—Frank W. Bennett & Co. For working capital.

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.

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.

● **Standard-Thomson Corp., Dayton, O.**
Feb. 3 (letter of notification) 21,700 shares of common ($1 par). To be sold through brokers on New York Curb Exchange.

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.

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.

● **Warren Petroleum Corp., Tulsa, Okla.**
Feb. 5 filed 150,000 shares ($100 par) cumulative convertible preferred stock. **Underwriter**—Merrill, Lynch, Pierce, Fenner & Beane, New York. Price and interest rate to be filed by amendment. **Proceeds**—To purchase capital stock of Devonian Oil Co. **Business** — Buying natural gasoline from manufacturers and selling it to refiners.

● **Weather-Seal, Inc., Barberton, O.**
Feb. 3 (letter of notification) 6,000 shares new class A common ($50 par). No underwriters. To increase capital for expansion.

● **Western World Industries, Inc., Salt Lake City**
Feb. 2 (letter of notification) 40,000 shares non-assessable common (par 20¢). No underwriters. For corporate purposes.

Wisconsin Power & Light Co.
Dec. 29 filed $3,000,000 30-year first mortgage bonds Series B, and 30,000 shares ($100 par) 4.80% 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

● **Chicago Rock Island & Pacific Ry.**
Feb. 9 directors authorized expending $14,688,000 in 1948 and $4,700,000 in 1949 for the purchase of new equipment. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler.

● **Columbia Gas & Electric Corp. (3/23)**
Feb. 9 corporation asked the SEC for authority to issue and sell at competitive bidding $45,000,000 of new debentures, due 1973. Interest rate, offering price and underwriting terms will be governed by competitive bidding. Probable bidders: Morgan Stanley & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc. Company plans to invite bids to be opened March 23.

● **County Gas Co. (3/1)**
The Public Service Corp. of New Jersey is inviting proposals for the purchase of 7,460 shares of common stock of County Gas Co. Proposals must be submitted on or before March 1.

● **Dallas Power & Light Co.**
Feb. 7 reported company plan the sale in April of $4,000,000 of debentures. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp., and Blyth & Co. Inc. (jointly).

● **Kansas Gas & Electric Co.**
Feb. 6 reported company plans sale of $5,000,000 "new money" bonds in near future. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp., and Blyth & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane.

● **Louisiana Power & Light Co.**
Feb. 10 reported company will file a registration statement with SEC shortly covering $10,000,000 new mortgage bonds, the proceeds to be used for construction expenditures. Bids expected to be opened about March 15. Probable bidders: The First Boston Corp.; Halsey, Stuart & Co. Inc.; Kidder, Peabody & Co.; Blyth & Co., Inc.

● **Louisville Gas & Electric Co. (Ky.)**
Feb. 9 reported possible sale of $8,000,000 of "new money" bonds in near future. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp.; Lehman Brothers and Blyth & Co., Inc. (jointly). Expected about March 16-19.

● **Missouri-Kansas-Texas RR. (2/19)**
Company will receive bids up to Feb. 19 for the purchase of $1,620,000 equipment trust certificates, dated March 1, 1948 and due semi-annually in 15 years. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Shields & Co.; Harris Hall & Co. (Inc.); Harriman, Ripley & Co. and Lehman Brothers (jointly).

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.).

● **Southwestern Bell Telephone Co.**
Feb. 11 it is expected that company's debenture financing will be for the full $100,000,000 authorized by stockholders. The big issue will be put up for sale at competitive bidding on May 4, according to present plans. Probable bidders: Morgan Stanley & Co., the other by Halsey, Stuart & Co. Inc.

● **Texas Electric Service Co.**
Feb. 7 reported company contemplates sale of $5,000,000 mortgage bonds and $5,000,000 of debentures about March 15. Probable bidders: Halsey, Stuart & Co. Inc., The First Boston Corp., Harriman, Ripley & Co., Blyth & Co., Inc., Kidder, Peabody & Co. and Smith, Barney & Co. (jointly); W. C. Langley & Co., White Weld & Co., Hemphill, Noyes & Co. and Drexel & Co. (jointly).

● **Texas Power & Light Co.**
Feb. 7 reported company plans issuance of $7,000,000 of debentures early in April. Probable bidders: The First Boston Corp., Halsey, Stuart & Co. Inc., Blyth & Co., Inc., Smith, Barney & Co. and Kidder, Peabody & Co. (jointly); Hemphill, Noyes & Co. and Drexel & Co. (jointly); W. C. Langley & Co.

● **West Penn Power Co.**
The company on Feb. 10 asked the SEC for permission to sell publicly, at competitive bidding, $12,000,000 of first mortgage bonds, series M, and 50,000 shares of preferred stock, series B ($100 par). Probable bidders: Halsey, Stuart & Co. Inc. (bonds only); W. C. Langley & Co. and The First Boston Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co. The company also proposes to issue $2,500,000 of additional (no par value) common stock, to be offered first to its stockholders. West Penn Electric Co. (parent) proposes to purchase all shares not subscribed for by stockholders.

Prices, Profits and Productivity

(Continued from page 11)

ten been available on the farm, but not in the city market place. By the use of the word stimulating, I do not mean to infer that the direction is always toward an expansion of supplies. In some cases, as where prices decline, the effect may be to reduce the stimulation to produce large supplies.

Normally, the price system operates so quietly and effectively that we take it for granted. We are able to convert the income received into the myriad of goods and services we require or desire for everyday living. Through this price system our time spent as teachers or as mortgage bankers is translated into food, clothing, shelter, entertainment and the other requisites of our everyday living. In my judgment, **the free price system is one of the great inventions of all time.**

Profits

Closely related to the operation of the price system is the role played by profits. Profits are the lubricating oil in our economy. As a matter of bookkeeping, they represent the difference between income and outgo, both of which are affected by the price level. But profits are more than a result; they are also a cause. They are the lifeblood of a dynamic and expanding economy. Profit opportunities create job opportunities. For example, in 1939 we had 8 to 10 million people unemployed. This figure is well known. But it is not generally realized that the volume of employment then was about the same as in the middle 20's. The large number of unemployed reflected the annual additions of some 600,000 people to the labor force. The barriers to profit opportunities become in turn barriers to the job opportunities of these new members to the labor force. Alternatively, there was available to them jobs only at the expense of those previously employed.

Profit represents the price paid for taking risks. Here may be contrasted the difference in return in mining with that received on government bonds. Profits also represent a source of funds for re-investment. Many companies do not distribute all of their profits to stockholders. For example, in 1946 undistributed profits aggregated about $7 billion, while for 1947, they are estimated at $10.3 billion. These undistributed earnings are used to acquire new and better plant and equipment, and to finance needs for greater working capital. This plan and equipment, in turn, contributes to greater productivity, which, in turn, makes possible either higher wages, lower prices, greater profits, or some combination of these three.

Productivity

Productivity is usually measured in terms of manhours or the number of workers. This basis of measurement is unavoidable because there is no basis upon which machines or managerial know-how can be reduced to a common and comparable base. The term labor productivity represents an unfortunate conjunction of words. To many people it means that labor is responsible for the increase in productivity. The fact is, of course, that improvements in output reflect a combination of new machines, improvements in managerial know-how, improved flow of raw materials, volume of operations, and increases in efficiency of workers. In many cases, new plant and equipment or developments in managerial know-how are of much greater importance than increases in labor efficiency in contributing to greater production. Our economy has been characterized by a lightening of the work load over the years. The automatic machine has taken the place of the manually operated machine. These improvements in productivity while reflecting the use of all factors of production, actually has resulted primarily from the introduction of new machines and new methods of production.

Productivity is particularly important in connection with wages, prices and profits. Changes in productivity represent the bridge between wage increases and their impact on prices and profits. If wages are increased much more rapidly than output per manhour, the net effect must be either a reduction in profits, an increase in prices, or some combination of both. Over the years, the studies of Dr. Fabricant have indicated that for the economy as a whole, productivity increases at the rate of about 2 to 3% annually.[1] In time, of course, the cumulative effect of these relatively small changes can be quite enormous. But there is no precedent in past changes in productivity for increases in wage rates, averaging 8, 10 or 12% a year as has been the case during the past few years. In 1946, and in 1947, general wage increases of these magnitudes took place. It is already clear that a similar increase will take place in 1948. Wage increases of such magnitude have inevitably contributed to the pressure for higher prices in the postwar period. They affect the price level in two ways. By increasing the volume of purchasing power they have increased the demand for goods and services and hence have contributed to the rise in food prices. By increasing costs, they have increased the pressure on prices from cost side, particularly for industrial products and many services. Outstanding illustrations are found in the price increases for coal and railroad services in 1947.

Factors Affecting Profits

The relationships between prices, wages and productivity previously discussed, represent one of the many groups of factors which affect the level of profits. Other factors include the volume of business, the level of taxes, inventory profits or losses, and the adequacy of depreciation reserves. Considerable publicity has been given to the record level of corporation profits during the past two years. In 1947, for example, it is estimated that profits before taxes totaled $28 billion and profits after taxes about $17 billion.

Several factors must be kept in mind in appraising the significance of this level of profits. First, approximately $5 billion of the total reported profits represented inventory profits according to the U. S. Department of Commerce. Secondly, depreciation reserves, which are deducted before the final determination of profits, have usually been estimated on the basis of original cost. This procedure is followed in large measure because of U. S. Treasury regulations. For tax purposes, depreciation is usually allowed on the basis of original cost allocated over the life of the property. It has been estimated that depreciation reserves have fallen short by a billion and a half dollars of the amounts required to replace used up plant at present price levels. Finally, we must keep in mind that the purchasing power of these profits has been reduced substantially. The cost of doing business as reflected in wage, materials and constructions costs, has risen as surely as has the cost of living for wage earners.[2] When allowance is made for this factor, it is found that the real increase in profits as compared with the prewar period, is significantly less than the unadjusted figures which are so widely quoted.

One additional point may be made in connection with these profits. The increase has paralleled fairly closely the increase in volume.[3] A number of public opinion polls have been taken concerning profits. Most of these polls show that the people interviewed estimated 25% as the prevailing return on sales. These same people considered 10% as being fair. Actually over the years, profits have taken only about 5 cents of the sales dollar. In 1946, the average was 5½ cents, while in 1947 it was somewhat higher. Since there is considerable interest in the level of food prices, it is instructive to examine the relationships in that industry. For food processing, profits accounted for 3.1 cents of the sales dollar in 1946 and was a little lower in 1947. At the retail level, the average profit per dollar of food sales was 1.7 cents in 1946. The large meatpacking companies report that in 1947 they averaged ¼ cent profit on each pound of meat sold. It is clear from these figures that high profits have not caused high food prices. If the entire profit obtained by retailers and processors were eliminated, the reduction in food prices would be nominal.

In terms of the relationship of profits to prices, however, the profits before taxes reflect the impact to a more significant degree. On this basis, the percentages would be moderately higher. For food processing, it would be about 4½%. For food retailing it would be about 2½ cents. For industry generally it would run about 7½ cents.[4] To the extent that these margins are reduced, tax revenues would also be reduced.

Before leaving the subject of profits, it is important to point out that while we refer to our economy as a profit economy, actually it is a profit and loss economy. For example, from 1916 to 1943, for which period we have income tax data, half of all the companies reporting to the Treasury operated at a loss. If we take the four prewar years 1936 to 1939, it is found that 270,000 companies reported no net income, while an average of 200,000 per year reported net income. The companies with no net income accounted for one-fourth of the total sales in that four-year period. In other words, during that period, we were buying many product which were being subsidized in part by the capital of the sellers. The fact that this is a profit and loss economy is also indicated by the large number of business failures over the years.

Postwar Price Rise

The sharp rise in prices since the end of the war must be divided into two phases: (a) the immediate post price control rise, and (b) the rise since June, 1947. The first phase was completed by the fall of 1946. From that time until the middle of 1947 we had a period of comparative price stablity. For example, the consumers' price index ranged from 152.2 in November, 1946 to 157.1 in June of 1947. Similarly, the wholesale price index fluctuated between 140 and 148 during the same period. The second phase of the rise started in June and resulted in a further rise of 10 points in the consumers' price index and a rise of about 16 points in the wholesale price index. The rise in the second phase was due in large measure to the corn crop failure, second round wage increases, high export surplus and a record level of consumer purchasing power. For the entire period 1946 and 1947, about 70% of the rise in living costs was due to the rise in food prices.

If we take a longer range look, it is found that the war and postwar rise in living costs has been 67%. In contrast, weekly earnings of production workers have more than doubled, while hourly earnings have almost doubled. In addition, we have about 12 million more people at work. The combination of higher weekly earnings and more people at work has meant an increase in living standards despite the sharp rise in living costs. In many respects, complaints today stem from the cost of higher living rather than from the high cost of living. It must be recognized, of course, that there are many groups including government workers, those living on fixed incomes, white collar workers and other who have not participated significantly in this expansion in incomes. They are the groups who are being priced out of the market for many products. But when we take the economy as a whole, we find that incomes have more than kept pace with rising living costs, and that general living standards have, as a consequence, improved.

The level of prices alone tells only part of the story. It is also important to consider price relationships. If all prices were in balance, and no distortions prevailed, the economy could operate smoothly at a high price level as well as at a low price level. It has been indicated earlier that significant distortions prevail between the incomes of some groups and the general price level. It must also be noted that prices have risen at different rates with the result that disparities have undoubtedly developed within the price system. Food prices are out of line by any standard. This is true whether we use as our measure farmers' net incomes, which are not at stratospheric levels,[5] or the larger rates of rise for food as compared with prices from any period in the past. This lack of balance in the price structure is one of the chief danger spots in the present business picture. Developments in this area must be closely watched in the months ahead.

1 Solomon Fabricant, *Employment in Manufacturing, 1899-1939*. National Bureau of Economic Research, 1942.

2 Jules Backman, "Purchasing Power of Profits," *Commercial and Financial Chronicle*, Dec. 25, 1947.

3 For an interesting survey of these relationships, see "Data on Wages and Profits," Legislative Reference Service, Library of Congress, *Senate Document No. 21*, March 28, 1947.

4 For survey of the relationship between profits and other economic variables, including wages, dividends, national income, taxes, and net worth, see Jules Backman and M. R. Gainsbrugh, *Profits in the National Economy*, The Conference Board, 1947.

5 Net farm income of $18.0 billion in 1947 was twice as large as in the post-World War I peak year of 1919.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

There are signs that the GOP leadership belatedly recognizes that the time for decisions has come. One of the sharpest signs was the decision on the so-called "legislative budget." In formal conclave last week the majority party leadership put itself on record for cutting a $2.5 billion slice off from Mr. Truman's bargain $40-billion budget. There will be at least another sign later.

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Regardless of the fact that the majority resolved in formal action to trim spending by $2.5 billion, it would be unwise to count upon the prospect either that they will achieve a cut of $2.5 billion or that they won't try for more. The final result of the assault upon spending is still a long way off. The "legislative budget" is nothing more or less than a bearing taken after the first couple of days at sea.

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Most Congressmen recognize that the "legislative budget" is, as they see it, nonsense. It is pure theory to suppose that by Feb. 15 a Congress can set the boundaries of revenues and expenditures. It is a particularly hazardous undertaking this year when taxes may be cut and nobody knows yet what the final outlay will be for foreign aid. A legislative budget might mean something, Congressmen think, if the Congress and the Administration were of the same party. Then the Congress could count on cooperation, not sabotage, in reaching its objectives.

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Foolish or otherwise, the legislative budget idea is now statutory. Hence the majority was more afraid of being hooted down for ignoring this provision than of taking a chance. But the nub of the decision to make a record promise of only a $2.5 billion cut is that the GOP isn't taking big chances any more. Last year the House resolved for a $6 billion cut; the Senate for $4.5 billion, and both Houses jointly resolved in no way whatever because they couldn't agree. The criticism the GOP leadership got from the Opposition hurt. They aren't risking that again.

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Actually the majority feel privately that they can trim $2.5 billion from domestic expenditures and at least $1 billion from foreign aid, but they aren't saying so for publication as a party. They learned last year how an entrenched payroll can make them squirm. But the fact that the majority party cut its sights for economy by more than half from last year is actually encouraging. The GOP knows what's ahead. And it means to fight. But the "legislative budget" itself doesn't tell you what will happen.

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Another sign will be a decision on higher minimum wages. Majority leaders are trying to get together on how much they will boost the minimum under the wage-hour act—a boost which is expected to be the main GOP bid for appeasement of the Left. In reaching this decision the leaders must settle two tough problems. One is how far they can go toward the 70-75 cents per hour minimum demand of the Left. The other is what to do about wage-hour act amendments. On the one hand these amendments would eliminate some of the administrative "abuses." On the other they would extend the scope of the act —make it cover more persons and groups of workers.

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As between tightening up and broadening the act, the majority is likely to decide to do neither. Thus the changes in the wage-hour act will relate strictly to the minimum wages. And these probably will go to 60 or not more than 65 cents per hour.

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On one point of President Truman's "anti-inflation" program, the GOP leadership also is about ready to make up its mind. When, as, and if Mr. Truman decides he really wants legislation permitting the contracting of bank credit, Congress may be disposed to give it to him. The power they would be willing to grant would be the power to raise legal reserves by much less than the 25% (in the form of a secondary reserve) former Reserve Board Chairman Eccles asked.

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On other phases of controls, the GOP leadership has failed to resolve thus far. Because of this lack of resolution, one or two of the party's boy scouts have run off on tangents, fooling with meat rationing this, that, and the other thing.

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In the absence of any party policy the GOP owes its good luck in not getting steam-rollered into hasty legislation more to one man than to any other. That man is Chairman Jesse P. Wolcott of the House Banking Committee. While the Senate Banking Committee has been flirting with allocations, price controls, and other monkey business, the word has gone around quietly that none of that stuff will be considered in the House Banking Committee until the GOP as a whole has taken a careful appraisal of its entire legislative line and cast the die firmly as a party in one direction or another.

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Thus Wolcott took the rap for the obvious Truman opening of "favoring whiskey over bread for the hungry." The distilling industry was willing to go along with a substantial cut in grain use, if not as big as Secretary Anderson proposed. Also the distilling industry does not take bread out of the mouths of European babies. In order to work out something Anderson devised a formula for distributing the scarcity of grain among distillers that aroused dissent within the industry. The grain distillers use is not the bread type. Instead it is largely livestock feed, and theoretically Messrs. Truman and Anderson want to cut down on livestock feeding.

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There is even more to the Southern Democratic revolt than the very great deal which has made the headlines ahead of the schedule. President Truman's strong advocacy of "civil liberties" has pushed ahead the time-table on the proposed "Southern Democratic convention" to well ahead of the national Democratic convention in July. Furthermore, that convention will be for the purpose of nominating "a Southern Democratic" candidate for President. Southern boys are terming the scheduled Philadelphia convention a "mongrel" convention.

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Mississippi's Legislature on Lincoln's birthday (today) is inviting Democrats from all over the South to a big mass meeting at Jackson March 1. This will launch the "grass roots" movement to back to revolt. Only 17 out of 189 members of the State Legislature opposed this call to revolt. Mississippi has nine electoral votes.

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Southern leaders are widely favorable to this revolt, even if it was not entirely apparent at the Southern Governors' conference at Tallahassee. The drive now is to organize the "grass roots" support of voters. That is where revolution in politics must succeed—or fail.

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One of the first fruits of the Southern revolt has been to boost the chances of passage of a tax cut over Mr. Truman's veto. Already at least three Senate votes have turned on the "civil liberties" issue in favor of the tax cut.

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It now looks as though the upper brackets will take the worst beating when the House-passed tax cut is trimmed down to around $4 billion necessary to get it through over Mr. Truman's veto. There are four provisions of the bill which look too politically bewitching to be dropped. They are the increased $100 exemption, the increased exemptions for persons over 65 and for the blind, and the "split income" feature. With those retained instead of percentage cuts of 30% in the lower brackets, 20% in the middle brackets, and 10% in the upper brackets it probably will work out this way: Lower brackets, 30%; middle brackets, 12 to 15%; upper brackets, 4 to 5%.

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Certain newspaper stories indicating that a big, bad banker engineered the dethroning of Marriner S. Eccles as Chairman of the Board of Governors of the Federal Reserve system in a fight over regulation of bank holding companies have been as welcome to the Administration as a warm southern breeze would be to cold New Yorkers. All the time these officials were afraid that the public would get the idea that Mr. Truman had walked out on Mr. Eccles' credit control and on the Left. A powerful pullmotor will have to be applied to revive Mr. Eccles' bank holding company regulation bill.

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Incidentally, Mr. Eccles shows no signs of wanting to stay in the vestibule of the Federal Reserve system. His friends do not expect him to quit after the fuss has quieted down, but to hug his vice chairman's chair most securely. They do not expect him to depart in a few months.

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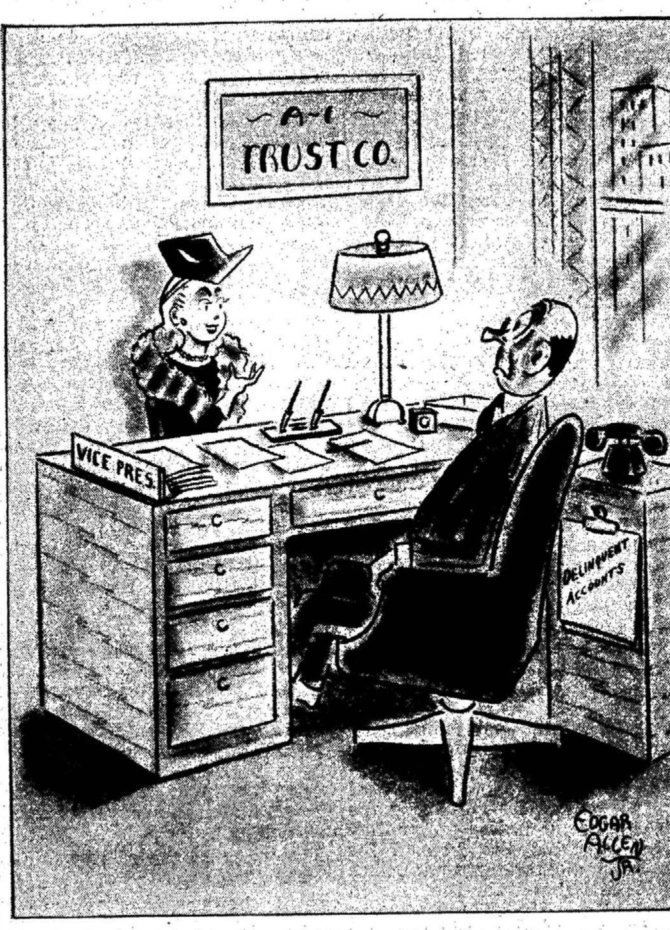
Secretary Anderson, after jilting the high grain price gal, is now wondering whether he did right after all. At the moment the Department of Agriculture cannot make up its mind whether to worry about high prices or low prices and, by talking a boost of 50 million bushels in the grain export goal, is making eyes at the gal he threw over. The department also is worried over the "thinness" of the grain market.

BUSINESS BUZZ



"Why surely a great big bank like yours isn't going to worry about the repayment of a little, itty-bitty, teeny-weeny loan of fifty thousand dollars?"