ESTABLISHED 1839

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Pat. Office

Volume 167 Number 4676 New York, N. Y., Thursday, February 26, 1948 Price 30 Cents a Copy

Inflation Control In a Democracy

By IRVING S. OLDS*
Chairman, Board of Directors
United States Steel Corporation

Mr. Olds lays primary cause of inflation to expanded money and credit supply, but doubts any political party has courage to reduce these factors. Likens increased money supply arising from bank bondholdings to successful counterfeiting. Concludes inflation can be curbed without controls.

The problem of inflation seems to me to have two distinct phases. The first is the ascertainment of the fundamental origin of the present inflationary movement. Little is to be gained by trying to deal with the symptoms of such an affliction in the absence of a knowledge of its causes. A cure should be effected in terms of causes rather than in mitigation of effects.

Irving S. Olds

The second phase is the dissemination of the knowledge thus acquired, so as to create a common determination to resist temptation to indulge in further measures of the sort which have

(Continued on page 36)

*An address by Mr. Olds at the Yale Alumni Luncheon, New Haven, Conn., Feb. 23, 1948.

Outlook for Business

By LIONEL D. EDIE*
Lionel D. Edie & Co., New York City

Dr. Edie, maintaining break in farm prices means no immediate business recession, argues it may mean end of inflationary trend. Looks for no sharp price breaks and holds third round of wage increases may not materialize. Estimates increase in national income for first half of 1948 at from 6% to 9%, and contends Federal Reserve will not reverse deflationary policy until latter part of year. Says recession will come when capital expenditures are reduced, and much will depend on international situation and success of Marshall Plan. Sees no over-expansion of credit and concludes "we have been correcting our mistakes."

This topic is not an easy one to handle at this particular moment, because, in the last three weeks, we have had in this country a very sharp break in farm commodity prices, and this break in farm prices has scared executives and banks until today they are in the state of mind where they wonder whether we are on the verge of some great disaster in this country or whether, by some miracle, we can escape it. The state of mind of this country, in the light of the price break, is fear.

Lionel D. Edie

The problem, as I see it, is to try to determine whether that is justified; and, if justified at all, to what extent and for what reason.

I should like to deal with it in terms of a number of specific questions.

The first question that I will put to myself is this: Does this sharp break in farm prices mean that an immediate business recession faces us, in this country? I have no hesitation in saying that

(Continued on page 26)

*An address by Dr. Edie at 35th Annual Banquet of the New York Credit Men's Association, New York City, Feb. 19, 1948.

Inflation and Bank Credit

By WOODLIEF THOMAS*
Board of Governors of the Federal Reserve System

Federal Reserve analyst reviews current inflationary forces, and holds anti-inflationary effect of government surplus is being offset by heavier business and consumer borrowing. Warns Federal Reserve techniques for maintaining adequate bank reserves are no longer effective and, therefore, continued expansion of bank credit contributes to inflation. Foresees, with further price rises, an overall borrowing demand of $20 billion in 1948. Points out danger in removing support for government bonds, and endorses larger reserve requirements and voluntary credit curbs as proposed by American Bankers Association.

Bankers have a special interest in inflation, which has been the dominant economic force of recent years, because banking and inflation are both concerned with money. In modern economies, banks create the money that makes inflation possible. This does not mean that bankers are to be held responsible for inflation. Banks are not the instigators of our present inflationary developments, but they are the instruments of inflation, and they can help to continue inflation or bring it to an end.

Woodlief Thomas

The basic reason why we have been having, and may continue to have, inflation is that effective demand is in excess of the supply of goods available for purchase. The origin of inflation lies in the wartime

(Continued on page 30)

*An address by Dr. Thomas at the Minnesota Bankers Conference, Minneapolis, on Feb. 13, 1948.

EDITORIAL

As We See It

Sound Fiscal Policy

A good deal is being said these days by various public officials concerning "sound" governmental policies. Much of it has to do directly or indirectly with what is sometimes known as "fiscal policy." This latter term has expanded in recent years to take in a good deal of territory not formerly included, and in current official thought and plans there is embodied (sometimes, we suspect, without full realization on the part of the planning officials) not a little of the philosophies of men like Lord Keynes and Professor Hansen. Not infrequently men with backgrounds which one would hardly suppose would give rise to such strange meanderings in the realms of Alice in Wonderland seem to have become badly involved in the meshes of these enticing doctrines.

Some of the things that the present Secretary of the Treasury has of late been saying are cases in point. A recent address of his began with these rather soothing sentences:

"Our primary fiscal concern is the financial integrity of the United States Government. The only way in which

(Continued on page 26)

Stocks Cheaper Than During Prewar Depression!

By FREDERICK H. ROSENSTIEL
Economist for Arnhold and S. Bleichroeder, Inc.

Investment analyst contends, on basis of both earnings and assets, current prices of stocks are cheaper than in depression years 1937-38. Cites as illustrations, U. S. Steel, Anaconda Copper, Montgomery Ward, Wilson & Co., and Atchison Railroad. Ascribes low stock prices to fear, which, he says has brought about depression price levels.

There are two ways to approach the buying of stocks: buy them as gambling chips or buy them for income and intrinsic value. In the long run, only the second approach pays as A. Wilfred May recently pointed out so convincingly in a series of articles in this paper. It is well known that seldom before have stocks sold at such a low ratio to their earnings as they do at present. At a Dow-Jones Industrial Index of approximately 170, the shares comprising this index sell at about 8½ times last year's earnings. In the boom year 1929, they sold at 14½ times, in the moderately prosperous year 1939, at about 15 times and in 1945 at about 16½ times. However, the Dow-Jones Index consists only of leading shares which normally sell at a high ratio to their earnings; a large number of other shares of well managed but less well known companies sell at only 2 to 4 times present earnings. The bears reply to this that earnings are sure to go down, either in consequence of a recession or through intensified competition. They even consider present earnings particularly vulnerable because of the high *"break-even point"* of many companies. It is not the intention of this article to discuss earnings trends of the future but just parenthetically one factor may be pointed out which is often overlooked. One important reason for the high break-even point of many companies is that they voluntarily hold down their profit margins; they often do that not because of inability to raise their prices, but because profits in dollars and cents, in contrast to percentage profits, are already very high compared with prewar figures as large sales volume often more than balances smaller profit margins. Higher percentage profits would obviously lower the break-even point but the venomous campaign of economic illiterates against the "scourging of the public" has obviously impressed and intimidated many companies. Actually, today's high replacement costs of plants and machinery alone would justify much higher dollar profits than before the war. Even the official statistics show the dollar to have only 50% of its 1935-39 purchasing power, but the implications of this fact are not yet fully recognized by some managements as well as by many economists.


F. H. Rosenstiel

It is the purpose of this article to show that leading stocks, which are admittedly cheap in relation to their present earnings, are just as cheap in relation to their assets. *In many cases, stocks are actually considerably cheaper than during the depression of 1937-38 if one considers the improvement in their liquid asset position achieved since then.* This can be illustrated by the balance sheets of many leading companies.

United States Steel

At the end of 1937, when the steel industry was working at only 25% of its capacity, U. S. Steel shares sold at $54. At the end of 1938, the stock had recov-

(Continued on page 35)

Implications of Changing Credit Conditions

By KENTON R. CRAVENS*
Vice-President, Mercantile-Commerce Bank & Trust Co., St. Louis, Mo.

Prominent banker points out postwar demand for private loans has more than offset government borrowing, and because of drying up of capital markets and price declines in high-grade securities, banks have been called upon to supply more credit than anticipated. This has led to tightening money market and rise in discount rates. Says banks must retain consderable government bonds to guard liquidity, and success of banks' anti-inflation program will further tighten credit. Advises business concerns to keep financial house in order and borrow only when essential.

In inviting me to participate in this meeting I assume you would like for me to discuss with you current developments in my business—the banking business—and what significance and implications, if any, these developments may have for you. It so happens that one of the most significant developments in decades is taking place right now—I refer to the end of an era of easy bank credit. While there is a general awareness of this change inside the banking fraternity, to a large portion of the general public it comes as a shock and a surprise. Few know or understand the story of just how and why this came about. I would like to present it as far as I am able in simple everyday language without resorting to the technical terminology with which professional economists usually becloud any discussion of money and credit problems.


Kenton R. Cravens

In recent months we have experienced the greatest tightening in the money market since the 1920's. The last segment in our economy, the banking business is finally increasing the price of its product. Back of this occurrence is the same force that has been operating in every other type of business for some time—demand has overtaken the available supply.

Looking back at the period before the war at a time when our excess reserves were over $6 billion, it seemed to us in the banking business almost next to impossible that this change could occur. Parenthetically, I might explain that we use the term "excess reserves" to describe the uninvested cash which the banks of the country hold on deposit with the Federal Reserve Banks over and above the amounts they are required by law to carry—in short, idle, unemployed funds. Obviously, such funds would pile up only in a period in which there are no attractive short-term loans or investments available to the banks to employ their cash. What has happened so drastically to reverse this picture? Let us review the events chronologically, step by step.

War's Effect on Excess Reserves

The first change came about with our preparation for and prosecution of World War II when, you will recall, the government's needs for credit were stepped up enormously and quickly used up the banks' unemployed funds. Actually, unless the banking system had been provided with tremendous additional cash reserves through a technical process whereby cash is created through the Federal Reserve System, the

(Continued on page 25)

*An address by Mr. Cravens before the Associated Equipment Distributors, Chicago, Ill., Feb. 16, 1948.

INDEX

Articles and News Page

Regular Features

Published Twice Weekly

The COMMERCIAL and FINANCIAL CHRONICLE

Reg. U. S. Patent Office

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

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

Thursday, February 26, 1948

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

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

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

Subscription Rates

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

Other Publications

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

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

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

Profit Motive and National Security

By JOSEPH STAGG LAWRENCE*

Vice-President, Empire Trust Company, New York City

Prominent economist urges protection of fair profits and healthy industry under private enterprise as means of promoting national security. Calls for a more enlightened attitude through tax reform on wealth accumulation by individuals and new and more constructive monetary policy to promote stability.

The paramount issue of the day is adequate national defense. Other periods have been characterized by the dominant issue of the day—slavery in the ante-bellum days, sound money at the turn of the century, prohibition in the '20s, reform and recovery in the '30s. Today the great question is: How can we preserve our way of life? How can we survive the formidable onslaughts of a ruthless Eurasian despotism?

Jos. Stagg Lawrence

There is no simple, single answer to this problem. Aid to potential allies, encouragement to imminent victims of totalitarian aggression are steps in the right direction. This is the basic reason for support of the Truman Doctrine and the Marshall Plan. The former recognizes in Greece, Turkey and China the outer bastions of American security. The Marshall Plan seeks a balance of power by promoting the recovery and strength of war-weakened nations which might serve as buffers and possible allies in the threatening conflict between East and West.

Military power great enough to assure the probable failure of an aggressor's design is an obvious requirement. Whether universal military training is a necessary component of such power is a moot question. There can be no doubt regarding the need for an adequate, modern air force, a powerful navy and armored units with great striking power available for quick mobilization at incandescent trouble spots. The ace in our armory is the atomic bomb. It is to be hoped that no frivolous or chimeric considerations advanced by soft-shelled humanitarians will induce our country to share this weapon with any potential aggressor.

Swift air fleets, mobile armored columns, a modern navy, the atomic bomb, the Marshall Plan and the Truman Doctrine, important though they be, are merely the military and diplomatic "cutting edge" of a power which we must summon in defense of our security. Back of this edge and determining the force with which it moves, its ability to resist opposing power and its stamina in the face of attack is the industry of this country. In our preoccupation with the "cutting edge," we have paid insufficient heed to the importance of a vital and healthy industry which can meet the imperative demands of a great war.

It has already been forgotten that the prodigies performed by American enterprise under private management, owned by millions of private investors and operated by free workers, made victory during the late war possible. Where other countries were forced to a grim choice between guns and butter, industry and agriculture, in the United States we were able to provide ample food for our armed forces and civilian population, while at the same time we equipped our fighting services with those superlative weapons which finally assured victory. We not only met our own requirements but made substantial contributions to our allies, including the one which has now succeeded to Hitler's infamous role as the chief threat to world peace.

A proper and intelligent solicitude for the defense of this country demands that first consideration be given to the vitality and the welfare of American industry. As a defensive measure, and entirely aside from any desirable effects which it might have on rising living standards and the material welfare of this country, wise statesmanship should consider the following policies.

It should be recognized that a healthy industry is impossible without fair profits. It is these profits that constitute the motive power for management. It is these profits that insure a fair return to the owners who risked their capital. It is these profits, moreover, which permit companies to maintain their equipment in good condition and take advantage of every new technological development which will improve efficiency. One of the greatest concerns of industry at the present time is the supply of capital necessary to consummate postwar reconversion and assure an output which will meet consumer demand both as to price and quality.

The rapid rise in replacement costs raises the question of adequate depreciation charges. To the extent that such charges are based upon original cost of equipment provided during an earlier period of lower costs, profits today are illusory. It may well be that an exaggeration of reported profits due to such inadequate depreciation may actually have subjected American business to a tax which in effect amounted to a capital levy. A tax that impairs the capital patrimony of a country is a tax which at the same time undermines the ability of

(Continued on page 14)

*An address by Mr. Lawrence before the Pennsylvania Manufacturers' Association, Philadelphia, Pa., Feb. 24, 1948.

Roundup of Investment Stocks and Their Industries

By CARL T. HYDER*
Economist, Shields & Co.

Mr. Hyder, after analyzing present stock market position, reviews the position and outlook for securities of moving picture companies, oil, steel, food, paper, tobacco, agricultural equipment, and textile industries, as well as those of mail order houses and railroads. Notes standing of individual stocks and their position in the industry.

Beginning my talk, I thought it might be interesting to know just where the market stands with relation to its past. In 1946 the New York "Times" index of stock prices reached a high of 146 in May. In every year for 36 years except 1928 and 1929 stocks have sold below 140 on this index. In 28 out of the 36 years stocks have sold below an average of 85 on the down side in this index. Also, in 21 of the past 36 years, the average has failed to reach 110, where it is selling as of the close on Feb. 11. The center or the focal point for this index over the period of 36 years is 102.65 and this can only be changed by long-continued displacement of price levels.

Carl T. Hyder

These averages are not the private opinion of anyone; they are not prejudiced, but are the public record inscribed by our investors and speculators. The average investor unfamiliar with stock market analysis in theory and practice is prone to be sceptical, puzzled or hostile. Distrust and bewilderment are perhaps natural. We often have predictions by self-styled analysts and tipsters expressed in inflammatory language which are bound to fill a conservative investor with either contempt or amusement. But one should not blame a piano for the faulty tune. One could not call the stock market an exact science, but it is a science. It is an empirical science, an actuarial science based on a body of market precedents which are always expanding. We as a financial and scientific nation find that it is difficult to bring the public to be scientific in their investments. I believe it is interesting, therefore, to note that we on Feb. 11 were, on this average four points above the low made in October, 1946 and only about 8% above the focal point of this average, established over 36 years.

Abuse of Term "Growth"

In my first lecture (See "Chronicle" Feb. 19, 1948, page 4—Editor) I gave you a few of the common terms used in the investment business and I pointed out some of the characteristics of convertible preferred stocks, described the provisions of sinking funds, gave you a detailed illustration on leverage. Tonight may I add to this another term which is much used in Wall Street today —growth.

I think it is very much abused. If a person buys a public utility, for example, because it has growth, he certainly must look beyond that statement for certain qualifications. First, he should purchase—and I am speaking of an operating utility, of course—securities of a company where the character of the territory served is diversified and broad enough not to be tied to one type of business or even one commodity. Secondly, he should verify the term of the franchise or the specific right which the company has to operate in that territory. Third, he should look into the type of regulation—whether the local political situation or the price at which you are buying the security illustrate the type of regulation being used on the company. Fourth, I would consider the reasonableness of the rates and whether their earnings are too excessive to have the privilege of being a monopoly. Fifth, I would look into the efficiency of the company. Sixth, I would consider the facilities of the plant—whether they will need to buy new plant, expand, and do they have the capacity in excess of demands to be safe. Seventh, I would not wish the company to have topheavy leverage. Eighth, one should know the balance of the load; that is, the hours at which peak consumption is used. This would be determined by the diversity of the industry served.

The use of power is distributed as follows: Residential, 25%; commercial, 20%; manufacturing, 50%; miscellaneous 5%. In defining in this way growth as applied to a particular industry I use it only as an example. Other types of industry have characteristics which are better expressed by other terms than growth in a similar manner.

Moving Picture Companies

The profits for the publicly-reported producing motion picture companies were over $50 million in 1947. The 11 months actual was $42,751,000. The 1946 profit was $46,714,000; 1945 was $23 million. Having thus set up an all-time record of profits the industry proceeded to show an extreme drop in earnings. Among the basic reasons for loss of earnings were, first, producers who start with a budget and when they are halfway finished they double the budget when they know that unless the film is a world-beater it will lose a fortune. They do not worry because they have collected much press notices and prestige in the meantime. Secondly, there was a time when studio workers and technicians worked all hours with no extra pay. Now that they have signed agreements with the producers and it has been reduced to specific writing what does it mean? Just suppose the scene is a shot of a plowman cutting a furrow. Formerly one man with a camera would go in the country and spend the day or part of a day. Now this simple shot calls for nine men—lighting cameraman, camera operator, focus puller, a number boy, camera grips, electrician to carry the battery and motor, an assistant director and two car drivers. If reflectors are needed, two more electricians; and if stage props or a nail to be driven or the plow touched with paint there will be three men — a property man, a painter and a carpenter. If make-up is needed for close shots or sound it takes more than 50 people. Now all this has yet to prove that the worker deserves such treatment, as there is no doubt that the studio workers have allowed a small clique of noisy extremists to propagate the belief that with the nationalization of the industry will come the millennium. The action of some of the stars, paid out of all proportion to their worth, who fluff a scene while they receive $5,000 a week do cause the worker to wonder why he cannot get another $10 a week. The press also gives out much misinformation. The English situation is the case of a good customer going broke.

A normal businessman does not cut off a fine customer. He talks things over. Hollywood, however, dominated by long-haired documentary boys who have been clamoring for nationalization and the establishment of a national chain of theatres, clamored for emphasis on the commercial side, hoping for empty studio space. Glevil Hall stated to the House of Commons that the tax was simply and solely because his country had no dollars and it was not intended as revenue nor as an act against Hollywood in the interest of the British film industry. The real life line in the film business has been the theatre chains. Columbia and Universal, not having any theatres, show the widest fluctuations in earnings. The big decline in the take in these theatres came in the period from April to July before the foreign trade had deteriorated to the low point. This drop in admissions was caused by rapid climbs in food, clothing and durable goods while wages and personal income trailed badly. Needing pay envelopes for food, families cut their movie budget.

Another reason for this drop in the same period was the peculiarity of the film business in that any shift in cost is subject to a delay of from one to two years, depending on how fast a film is released after it is manufactured and in the can. Standard operating procedure in the industry is to not charge the cost of the film against current income but to charge the cost beginning with the actual release. When the film hits the screen the charge-off begins at a pre-determined rate and usually results in the complete charge-off in the first six months of release. Hence we had the expensive postwar films causing the most damage in the middle of 1947.

However, unless the English situation is fixed up, profits will toboggan further in the first quarter of 1948. About $17 million net profit will be lost. Liquid or cash position of the major companies

(Continued on page 29)

*This is the second of two lectures by Mr. Hyder before the Small Investors Forum at Columbia University, New York City, Feb. 12, 1948. The first appeared in the "Chronicle" of Feb. 19.

Inflation and Third Round Wage Increases

By JULES BACKMAN*
Associate Professor of Economics, New York University

Dr. Backman contends a new round of wage increases will add to inflationary pressure, first, by increasing money in hands of consumers, and secondly, by increasing industrial costs. Likens wage-price spiral to kicking a ball while reaching for it, and holds wage increases already granted have been reflected in higher prices and thus have not benefited workers.

The emphasis in the President's Economic Report is primarily upon the current situation, and the emphasis in that report, as well as in many utterances of the President and his chief advisers, has been upon the inflationary dangers.

Jules Backman

Many citations could be given from this report to support this conclusion.

However, I shall confine myself to only a few and very brief ones.

For example, on page 5, he says:

"The nature of the inflation from which we are suffering arises in part from the total excess of buying power over the available supply of goods, and in part from relative scarcities at strategic points in the economy, which give impetus to particular wage-price spirals."

Again at page 41 he says:

"Increasingly through the second half of the year 1947 the total demand for goods was in excess of the amount of goods and services available at current prices to satisfy the combined requirements for final consumption, private capital formation, Government services, and exports."

And again at page 46:

"We cannot increase industrial and agricultural production enough within the next few months to catch up fully with market demands, or to surmount the inflationary dangers of the coming year."

Similarly, his emphasis upon the need for regulation of credit, the opposition to a reduction in taxes, recommendations for selective controls, and so forth, contained at pages 47 to 51 of that report, were all designed to meet the problem of too much purchasing power.

I agree completely that our inflation problem arises from an excess of consumer purchasing power. A new round of wage increases, such as demanded by these employees, and their insistence upon receiving more than an increase of 15½ cents an hour, can only add to the inflationary pressure.

This pressure will result in two ways: First, by increasing the amount of money in the hands of consumers, it means more money to bid for the limited supply of goods.

And secondly, by increasing the costs of basic industries it means that in many cases they will have to raise their prices.

In the case of the railroads I am sure that higher rates for freight will be necessary, if a further increase in wages were to take place.

The illustration that is the best analogy for this wage-price spiral is found in something that is familiar to all of us. You try to lean forward and pick up a ball, and your foot kicks it out of reach again. The wage-price spiral has been going on and we lean forward in the form of a wage increase, and as a result of that increase our foot kicks the ball out of reach again. It is something you can never catch up with.

I think nothing has proved to be more of an illusion to the nation as a whole, and to labor in particular, than the failure of recent wage increases to improve their real wage earnings.

I have previously referred to the alarm expressed by the President concerning the inflationary picture. In that same report he called attention repeatedly to the need for restraint on the part of all groups, including labor, in connection with factors which might add to the pressure on our economy.

A third round of wage increases under present conditions would simply aggravate the pressure now existing in the economy, and will drive many prices still higher. Increased wages in this inflationary setting become increased cost to industry, and hence increased prices for industry's products.

I would like to state a series of propositions concerning third round wage increases:

First: The history of the last two rounds has demonstrated that wage increases cannot win the race with price increases. There is no possibility of absorption of higher wage costs in the railroad industry. The resulting higher railroad rates will mean higher prices for all types of goods and services.

Secondly: Inflationary forces are dominant today. Further wage increases will add to consumer purchasing power and hence add to those inflationary forces. They will mean higher prices and spiraling because of higher costs.

Third: There is only a limited possibility of further short run gains in physical volume of production of goods and services, as indicated in the citation from the President's report a little earlier. Additional dollars of wages will not bring forth any more food, the major area of shortage; it can only increase the pressure on that food supply.

Fourth: Railroads and agriculture draw upon the same basic common labor pool in many rural areas. Railroads draw their clerical help from the same labor pool in suburban and rural areas. Local wage increases would be quickly reflected in higher costs in those areas.

Fifth: Railroads cannot raise their rates continually in a wage-rate race. The net effect must be to intensify losses to other forms of transportation with a consequent weakening of the position of railroads.

Sixth: There are international considerations. The monies appropriated to help foreign countries will have smaller purchasing power. It means we get less goods and services for our appropriations. If we are to try to get the same volume of goods and services it means a still further drain upon our budget and upon the taxpayer. In time it will also mean that the high wage structure

(Continued on page 5)

*Excerpts from a statement by Dr. Backman before the Emergency (Leiserson) Board appointed by the President in the railroad wage dispute, Chicago, Ill., Feb. 23, 1948.

Observations . . . .

By A. WILFRED MAY

BRITAIN EXPORTS SOME ERP REALISM

More and more loose talk is being bandied about among well-meaning Americans charging that in our Marshall Plan-planning we are "pikers," that we are being ham-strung by that "ever-bigoted" Congress, that we have already acted like Shylock instead of Santa Claus in imposing impossible conditions with the previous British Loan, that it would be disgraceful dollar-imperialism to accompany our impending European aid with any political provisos, and that far from making penny-pinching cutbacks we should give double or treble the presently specified amounts as a cheap insurance against our Allies' collapse and ensuing war.

A. Wilfred May

For combatting the widespread confusion in this line of agitation as well as in the converse isolationist doctrine on this side of the Atlantic, this column takes leave to offer first-hand testimony contained in last and this week's issues of "The Economist" of London, the respected publication which has constantly supported a maximum of the doings of its Socialist government.

Let those of us who want to soft-pedal the necessity for our friends' *self*-help in their quest for solvency ponder these exhortations of "The Economist" to its fellow-countrymen (in its leading editorial, "On the Rocks," of the Feb. 14 issue):

"When a family faces bankruptcy, either it goes under to a life of perpetual makeshift and pauperism, or it restores its sovereignty by vigorous action—by buying less, by cutting down every kind of expense and by straining every nerve to sell more of its goods and services. A nation is in no different case and the choice open for the British people is in reality precisely the same difficult choice between pauperism and gruelling recovery. **The only question worth asking today . . . is what further steps the British people can take to consume less and produce more, to reduce their standard of living and at the same time do harder work. . . . Clearly the government's plea that neither wages nor profits shall rise at this juncture is one small part of the much bigger effort that is needed to restore solvency to the British people."**

Alongside the continuously released reports of current production achievements, must be considered further conflicting conclusions of "The Economist." After observing that "bankruptcy is a family responsibility and no section of the community can avoid its hardships," the publication urges that **"the real need for workers and managers alike is longer hours and more output for the same income. In this way more goods could be produced for export without new financial pressure being created to divert those goods to consumption at home.** So drastic a departure from current industrial practice is too much to hope for, but at least the principle of no further wage increases save for cases where workers are genuinely below an adequate level of subsistence must be endorsed."

American suggestions for Britishers' further tightening up on consumption are customarily derided as smugly selfish. But surely little if anything has been uttered by us, the creditor nation, as frank and definite as these further prescriptions from their own "Economist":

"The brute fact remains that standards of consumption in Britain do not reflect the insolvency which may lie only a few months ahead. Can it be said that rationing of domestic fuel has been drastic enough in view of the vital importance of coal as an export?" On bureaucracy, "It is easy to make a case for keeping two million government servants, but if 500,000 were returned to industry, would the gain in output not ease the burden of the controls?" Again specifically, "By what yardstick can the overseas expenditure of £50 million on 'tourism' in 1957 be justified?"

Let Not the Receivers Finance the Extra Bathroom!

Referring to the domestic capital-expenditure program this best-friend-and severest-critic declares, **"In spite of recent cuts in capital, it is clear more has to be done. No one will criticize the government for wishing to build better schools, new hospitals, and more and better equipped houses. But this program has added to Britain's insolvency by diverting materials and manpower from export industries; in that sense it is Americans, Canadians and South Africans who have been paying for part of the British program of development at home. No one denies the desirability of these things, but it is not usual to add a bathroom to the house just as the receivers walk in."**

Specifically bearing on the likely direct results of the Marshall Plan and the size of our grants-in-aid are "The Economist's" further observations seemingly out-Tafting Taft:

"Continual borrowing can have the same effect as continual drinking. The borrower's—like the drunkard's—sense of reality tends to fade. Britain already has had the American loan and the Canadian loan and will get the South African loan. All have been necessary, but all have helped to mask from government and people alike the country's true economic straits. A standard of living has been maintained, reserves have been eaten up, expenditures undertaken, on a scale which is quite out of accord with Britain's real economic position. And what guarantee is there that the Marshall Plan may not be used the same way? **The only proper, the only courageous course would be for Britain to pursue now the policy it would pursue if the Marshall Plan were reduced to half or a third and to use the surplus thus created to build up reserves, modernize industry, develop economic integration in Western Europe and undertake now the long program of hard living and hard working in which in the long run salvation alone will lie."**

All Europe Must Move!

This week (in its Feb. 21 issue) "The Economist," after castigating Europe for its record of great phrases and virtual inaction as all it has to show for the first two months of 1948, exhorts it to "show signs of a vigorous will to recovery and that it shall pursue that recovery not as a queue but as a team."

Elsewhere in the same issue a correspondent shows that Eng-

(Continued on page 21)

The State of Trade and Industry

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

Overall industrial production declined fractionally the past week, though the level of output was generally above that of the like week of 1947.

In the week heavy snows worked to delay the shipment of raw materials in some areas. However, most producers were able to obtain their current production needs.

Total employment held steady and at a high peak last week with labor disturbances at a minimum. Late in the week reports stated that a meeting has been called of chief negotiators for the soft coal operators on Wednesday of this week presumably, the report states, to discuss John L. Lewis' pension demands. It was pointed out that the date is significant, since many industry leaders expect Mr. Lewis to serve notice about March 1, that he wants to open contract negotiations on April 1.

* * * *

Notwithstanding the drastic break in commodity prices returns to the farmers from the sale of agricultural products continue to exceed those of one year ago.

According to an estimate of the United States Department of Agriculture the past week, total cash receipts by farmers from marketing would amount to $2 billion or 10% higher than in February, 1947, but close to 20% below January receipts. The Department noted, however, that some decline from January is usual because of the shorter month, but the decrease this year is greater than usual because of recent price declines.

Receipt from livestock and livestock products, the bureau pointed out, would be down about 15% this month as compared with last month, while it estimated that receipts from crops would be down 30%.

* * *

Is is learned from the Association of American Railroads, based on advance reports from 83 class I carriers whose revenues represent 81.7% of total operating revenues, that estimated operating revenues in January, 1948, increased 8.5% above the same month in 1947. The estimate for January, 1948, covers only operating revenues and does not reflect rising trends since 1947 in operating expenses.

Estimated freight revenue in January, 1948, was greater than in January, 1947, by 10.7%, but estimated passenger revenue decreased 4.1%.

* * * *

A slight increase in consumer buying during the week lifted retail volume somewhat above the level of the preceding week. Retail dollar volume continued to compare favorably with that of the corresponding week a year ago, but unit volume was moderately below the 1947 level. Spring promotions of clothing continued to emphasize Easter items with consumer response generally favorable.

Wholesale volume declined moderately, but retailer buying was somewhat above the level of the like week of last year. Buyers remained very cautious and continued to place moderate orders for current delivery.

STEEL OPERATIONS SET AT SLIGHTLY HIGHER LEVEL FOR WEEK

Some increases in steel base prices and extras under consideration by one steel company have been deferred pending the clarification of the widespread hysteria over the increase in semi-finished steel products—a group of steel products which is a small percent of total steel shipments and which have been selling at close to the price of scrap for some time, states "The Iron Age," national metal working weekly.

Whether or not major steel companies will boost their prices on such products as sheet and strip remains to be seen. But non-integrated steelmakers—those mills which buy their raw materials from large integrated steel producers—either have or will soon advance their prices on cold-rolled strip and some grades of specialty sheets, the magazine adds. This action is made necessary due to the increased cost of slabs and billets.

No major steel producer this week had raised its prices on sheets and strip. Consumers of these products will now be paying three different prices: Those charged by major steel firms; higher quotations put into effect or to be effective soon, by small non-integrated makers and gray market prices which are two and one-half to three times the average mill price.

The failure of some steel companies last week to make public or explain the advance in semi-finished steel accounted for this action receiving more attention than it probably deserved. Contrary to information from some sources the semi-finished steel price increases were not simultaneous nor were they necessarily similar, the trade paper notes. At least two or three days lapsed between the notifications sent out to customers by at least three large steel pro-

(Continued on page 28)

Inflation and Third Round Wage Hikes

(Continued from page 4)

and the propped-up wage structure in this country will put many industries at a disadvantage in competing in international markets.

Seventh: The working capital position of many industries has been weakening. Every notch in the wage-price spiral means that more funds are required in order to meet payroll, carry raw materials, and so on. There is already developing a serious shortage of working capital in many small and medium sized industries.

Eighth: Wholesale and consumer prices are now in the stratosphere. Further price increases will bring us into still more rarefied levels and will only mean an increased danger of subsequent collapse.

Ninth: Finally, productivity has shown only moderate gains since the prewar period. Wages have increased much faster. Hence, unit labor costs have risen, and pushed prices up from the cost side. This tendency would be aggravated by a new round of wage increases.

Joins A. M. Kidder Staff

(Special to THE FINANCIAL CHRONICLE)

DETROIT, MICH.—Edward A. Bridge has become associated with A. M. Kidder & Co., 60[illegible] Griswold Street. In the past he was with Sutro Bros. & Co. and did business as an individual dealer in Detroit.

Gold Versus Inflation

By DONALD H. McLAUGHLIN*
President, Homestake Mining Co.

Mining executive expresses faith in gold's future as value standard, and asserts financial stability can be fully attained only by discipline gold standard can provide. Blames New Deal policies and war for inflationary trends, and points out difficulties to gold mining industry due to fixed gold price. Urges amending Gold Reserve Act so that gold price can be tested in open market and complete interchangeability of gold and paper established. Stresses importance of stable money values in well ordered economic world.

Prices paid for goods and services in paper currencies are undoubtedly determined by many interrelated factors, but among them none is more specific in pushing prices toward higher and higher levels than the vast increase in debts and monetary obligations of our own and practically all major governments.


D. H. McLaughlin

There is nothing unorthodox in the situation in which the gold miners find themselves today. With wages and the prices of all materials that are required in the production of gold at the high levels characteristic of a period of prosperity, phony or otherwise—and with shortages of both men and machinery to contend with as well—the spread between the returns in paper dollars that must be accepted for gold in the United States and the cost of producing it is rather painfully small for most producers. Technical improvements, stimulated by the urgency of declining profits, have to some extent made the decline in profits less drastic in a few cases, but the relief to be gained in this way in an industry already smoothly and efficiently operating is at best rather limited. Consequently we find the gold mines the country over still far below the level of output and profits that formerly prevailed and still struggling to overcome the special financial and physical hardships that were so arbitrarily imposed on them during the war.

Faith in Gold's Future

On the other hand, faith in the inherent value of gold seems stronger than ever, even though the returns from mining are temporarily below the rate that makes the industry as a whole prosperous. This faith is revealed by the persistence of prospecting and exploration in all the gold bearing regions without apparent decline in enthusiasm and hope, and it is most clearly shown by the gold and immense expenditures on deep shafts and large plants that are being made with confidence in new enterprises on the extensions of the gold-bearing reefs of the Rand and on the newly discovered deposits in the Orange Free State.

This faith in gold is maintained and strengthened by the very conditions that create the temporary difficulties of the producers, viz.: inflation through the vast increase in debt and monetary obligations of our own and practically all major governments. As these extensions of credit increase without corresponding increase in wealth the value of the units in which they are expressed must necessarily decline, with the result that less and less is received for a paper dollar, franc, pound or whatever may be used to measure the I.O.U.'s of a government. Under these conditions, gold more than ever appears to provide the only basis to which currencies must eventually be referred, if some measure of financial stability is to be attained, and inflation from this cause checked and held at a reasonable level through the discipline that only gold can provide.

It is not gold that is becoming more valuable in terms of goods and services; it is the paper currencies or the promises of governments to pay that are becoming discounted by their unchecked expansion. Under these circumstances, the gold miner would have nothing to fear or complain about if he were allowed to meet his bills and payrolls with his product. He is, however, penalized by being forced, in accordance with the pattern set by practically all governments as they move more and more toward rigid regulation and curtailment of free enterprise, to accept payment in a depreciating currency at a fixed rate. The growing strength of gold creates confidence that mines with good reserves or prospects for ore afford a means of preserving basic values as the paper currencies weaken, but, on the other

(Continued on page 36)

*An address by Mr. McLaughlin at 166th Meeting of American Institute of Mining and Metallurgical Engineers, New York City, Feb. 19, 1948.

Credit Problems in Foreign Trade

By I. F. BAKER*
Vice-President and Treasurer, Westinghouse Electric International Co.

In describing the worries and problems of financing current foreign trade, Mr. Baker points out, because of shortage of dollar exchange, export and import licensing and many other factors, the American business concerns dealing abroad should fortify themselves with adequate and sound information regarding foreign conditions. Looks for easing of foreign exchange conditions with operation of Marshall Plan, but holds foreign currencies must be stabilized and economic conditions in many countries improved, before foreign trade risks are again normal.

There has never been a time in the history of this country when people were more concerned with international affairs. The man who never got further than the baseball scores is now familiar with the latest score on the Marshall Plan. He has been saturated with advice by the press and radio. He is familiar with words like restrictions, fluctuating currencies, and even multilateral and bilateral trade. People are always knocking on his door asking for his opinion while experts are writing books trying to sell him theirs. Undoubtedly some of this fanfare is caused by the shrinking of the economic world although most of it can be traced to unsettled international conditions of the times. Whatever the origin, such information is stimulating and spreading a general understanding of the part American production must play in world coordination and rehabilitation.


I. F. Baker

No longer is it sufficient to say that the American businessman is interested in foreign trade, for he has enlarged the map of his domestic trade to include the world. Despite the flood of news of world events, however, he is having trouble appraising each selling area of the globe for its real value. For many years, foreign traders were able to pledge allegiance to the three Cs of credit—character, capacity and capital—in judging the worthiness of customers. But today trading values are dependent on so many factors outside the customer that information must be of a more pertinent and timely nature. Economic conditions within a country may easily undermine the financial capacity of the soundest customer. These economic conditions, in turn, reflect cooperation or discrimination by other countries. No matter what measuring stick is used, the American trader of today is doing business at a risk more or less unknown.

One of his problems can be said to be self-made. I refer to the disappearing dollar. In the first flush of postwar enthusiasm he gave such a striking demonstration of overselling that even the American production machine was unable to meet the unprecedented demand. As an example, Argentina ordered a two-years' supply of refrigerators and a five-years' supply of motor vehicles. Argosies of ships carrying American goods entered the harbors of the world, and when they weighed anchor they had transferred cargoes of dollars to the U. S. side of the ledger. The pressure of so much consumer goods flattened the dollar balances and put a staggering load on existing facilities for transportation, water supply and electricity. After countries of the world got out their balance sheets they were seen to be a little ahead of themselves on certain goods but short on dollars. Down went the "Goods At Any Price" sign, up went trading barriers and out came restrictions similar to wartime licenses and priorities, as well as other regulatory measures.

Dollar Shortage Problem

Many present-day orders are based on the expectation that exchange will be available when payment is due. Foreign banks do not hesitate, in such cases, to issue irrevocable letters of credit, but it is much more difficult to get enough dollars placed in the U. S. to secure even partial confirmation by U. S. banks. Investigate the future before shaking hands with yourself when you get an order on this basis. As a matter of fact, looking ahead is required on every order. By this I do not mean that you should be cynical or indifferent to opportunity. While every safeguard against loss must be considered in view of present conditions, the line should never be drawn so finely that it destroys a future position in the market.

Today the trader must learn to live with foreign restrictions and regulations and not be dismayed by their seeming lack of purpose. Some of them will always exist to the same extent that there will always be little men in big jobs who dictate policies on hit-and-miss thinking. Despite indifferent leadership, natural forces have a way of exerting themselves in every country. Of course, this is long-term thinking, but then foreign trade was never recommended to any one expecting to run a shoestring into a fortune, even though the reverse has often been true in this business. The trader of today needs courage to stick it out. Along with this he needs to conduct continual research into causes and effects in the world market in order to lift long-term estimations from the present confusion.

When banking friends visit me and ask of what service they can be, I invariably ask for a trial balance on any country which shows the in-and-out movement of dollars. I have yet to see such a report, possibly because there is no way of one being prepared. We have found it extremely difficult, if not impossible, to interest people in making any kind of prophecies for us. So, as best we can, we have had to make our own. You are not about to learn a newly-discovered financial

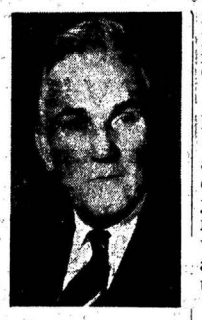
(Continued on page 34)

*An address by Mr. Baker before the New England Export Club, Boston, Mass., Feb. 19, 1948.

From Washington Ahead of the News

By CARLISLE BARGERON

Those political observers who are predicting that the Southern "revolt" will not amount to anything more than a loud noise are overlooking the underlying calculations of its leaders. They figure that the Truman Administration is a dead duck anyway, so they may as well respond to the deep popular feeling against the so-called civil rights program and in the bankruptcy for which the Democratic party seems headed, and thus seek to gain a more dominant voice in the reorganization that will of necessity take place.



Carlisle Bargeron

Had they any thought that Truman could win, they, being practical politicians and enjoying the spoils of office to the exclusion of everything else, would seek to get by with giving lip service to the popular resentment. This is what they sought to do with Al Smith.

I have always believed that had Smith carried New York State in the 1928 Presidential election he would probably have "carried" Florida, Texas, North Carolina and Virginia. In other words he would have been counted in, as he very probably was in Alabama and Georgia.

But when New York fell early in the night, the organization regulars in these four States who were sweating over the popular opinion beating they had been taking, promptly threw up the sponge and set out to square themselves with the "peepul." It took them several years to do it, too, and it was the fear of having to undergo the same experience with Smith that caused them four years later to jump early on the Roosevelt bandwagon which was the beginning of their present troubles.

Anyway, they have no incentive now to try to hold their States in line, or to seek to quiet the "rebellion." It is much better for them to go right along with it; indeed, to assert leadership in it. They have everything to win and nothing to lose.

The common expression around Washington for weeks is that a Chinaman can beat Truman and probably will.

The Southerners know this, so why shouldn't they make their strength felt in the party debacle that is to come.

This being the situation, the bitterness of the Eastern Democratic leaders, or more particularly the ADA crowd, towards the Southerners is unjustified. The ADA, made up mostly of men to whom the New Deal has been a mode of gracious living, is just as bitter towards these Southerners as they are towards Henry Wallace. Just why they couldn't have gone along on the happy team is something the ADA boys can't understand.

In this writer's opinion there was no way for Truman to win, the Gallup Polls to the contrary, and irrespective of Wallace's candidacy or the Southern "revolt."

It is rather a commentary on the accuracy of these polls that they showed only a few weeks ago that Truman would beat any Republican except Eisenhower. Nothing has happened, or rather Truman has done nothing since that time, to explain such a complete reversal as now is generally admitted to be the case. Wallace's candidacy has no bearing on the polls because the question supposedly being put when Truman always led, was whether the person interviewed would vote for Truman or Dewey, Truman or Taft, etc.

However, assuming there was little or nothing that Truman could do to reverse the trend against him, one thing that seems certain is that what he did do was just about the worst. He now is not only destined to be one of the worst defeated candidates, but among large segments of the population, one of the most hated.

His "civil rights" program is rank hypocrisy and even were there no Wallace candidacy it is doubtful it would have gotten him a handful of votes.

Of course, the Republicans are just as offensive on this subject, now that they are exercising themselves to get the Negro vote, but aside from the unusual energy they are now showing in this direction, they are not out of character. Truman is.

The New York "Journal American" in the 1944 Presidential campaign charged that Truman had for a period in Kansas City been a member of the Ku Klux Klan. Truman announced he was filing a suit for libel. He never did, however.

Anyway, the story has been widely circulated among Negroes and the result is that it would take more than a "civil rights" program to bring them to the Truman fold.

What both Truman and the Republicans overlook is that it was not any "civil rights" program that caused the Negroes to support Roosevelt. He never succeeded in passing any so-called anti-lynching or anti-segregation legislation. What Roosevelt did was to lift them not only economically but spiritually, Mrs. Roosevelt doing most of the latter. It went far deeper than the superficial means by which Truman and the Republicans are vying for the Negro vote.

It is overlooked, too, that the expression that the Negro vote is the balance of power in many States is greatly abused. It was not the Negro vote that elected Roosevelt any one of his four times. Not in my time has it ever been decisive in a Presidential election.

Woodrow Wilson won twice, once when the Republicans were split, of course, without this vote. Grover Cleveland won twice without it. In no single one of Roosevelt's elections would the result have been different had the Negroes voted the other way.

It is my belief that the Republicans, notwithstanding their zeal, aren't going to get so much of that vote this year. It is more likely to go to Wallace because he has the appeal for them that Roosevelt had.

With Holley, Dayton & Gernon

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Harold C. Lyman has become associated with Holley, Dayton & Gernon, Rand Tower.

W. E. Bell & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LINCOLN, NEB. — George E. Overturf has been added to the staff of W. E. Bell & Co., Federal Securities Building.

Economists and the Cultural Lag

By EMERSON P. SCHMIDT

Director, Economic Research Department, Chamber of Commerce of the U.S.A.

Dr. Schmidt attacks widespread acceptance of "Keynesian Economics" and recalls Lord Keynes' posthumous article, in which Keynes himself, opposed rejection of classical economic doctrines.

Ideas and statistics have a way of being preserved in literature, including economic literature, long after they have lost their relevancy and validity. The more persistent and pervasive the concepts and opinions, the longer is the time lag between their obsolescence and their liquidation.

Dr. E. P. Schmidt

"Keynesian economics," the concepts of economic maturity and over-savings, and the vast apparatus of aggregate economic analysis gained uncritical acceptance among economists to a degree which may yet call for a study of crowd behavior among them.

In the interest of objective analysis the following five points merit setting forth:

(1) Shortly before his death, Lord Keynes said in Washington words to this effect: "If I were a young American economist today I would not be a Keynesian."

(2) In his posthumously published article in the June, 1946, "Economic Journal," Lord Keynes said:

"I find myself moved, not for the first time, to remind contemporary economists that the classical teaching embodied some permanent truths of great significance, which we are liable today to overlook because we associate them with other doctrines which we cannot now accept without much qualification. There are in these matters deep undercurrents at work, natural forces, one can call them, or even the invisible hand, which are operating towards equilibrium. If it were not so, we could not have got on even so well as we have for many decades past. . . . But in the long run these expedients will work better and we shall need them less, if the classical medicine is also at work. And if we reject the medicine from our systems altogether, we may just drift on from expedient to expedient and never get really fit again."

(3) As to economic stagnation —American business, outside of agriculture, spent over $12 billion in 1946 on new plant and equipment and the figure for 1947 amounted to nearly $16 billion, which is 85% above 1941 and 65% above 1929. Even after allowing for price adjustments the 1947 figure is above those for 1941 and 1929.

(4) The recent revision of the statistical series on gross national product, national income, and related measures of economic activity calls for a re-examination of some preconceptions.[1] Even if we assume that the over-savings theory has any validity, which is not conceded, it is significant to note that in 1929, for example, the old series showed personal savings as 11.1% of disposable income, and the corresponding figure in the revised series is 4.8%; for 1933 the figure was 3.8% on the old basis and —2.7% on the new; for 1946, instead of nearly 13%, the revised series shows 9.3%.

The new estimates of personal consumption and savings will force a fundamental re-examination of some widely held impressions regarding these magnitudes and their relation to economic activity.

Unquestionably the new series of figures will be attacked; perhaps they are no more accurate than what we had before. But if they encourage a little more caution and somewhat less dogmatism, the science of economics may be the better for the new data.

(5) In a powerful book, "Are These Hardships Necessary?" Roy Harrod of Oxford University (1947) lamenting the irresponsible carelessness in economic thinking by economists and others, states:

"To put the matter in the most general terms, I suggest that there was a body of doctrine, which used to be known as 'Political Economy' and which was understood by a sufficiently large number of well-informed people to secure that grievous transgressions of that doctrine were not made without challenge. We now have what is known as 'Economics,' the maxims of which are understood to be different in important respects from those of old Political Economy. Changes of doctrine are particularly associated with, though not confined to, the work of the late Lord Keynes. But, to say the truth, the purport of his teaching has only been understood by a very small circle of people. Economics is thought to have become, and in a certain sense has become, much more difficult. The average well-informed statesman or person interested in public affairs gives it up in despair. The consequence is that we have no body of received opinion, fairly widely understood, to take the place of the old doctrines, and there is consequently no force strong enough to check the Government in its aberrations. People are quite at sea in these matters. This fact may have most injurious effects on public policy. Indeed it might well be argued that we should be better off with the old Political Economy which, with all its shortcomings, succeeded for a long time in retaining its hold upon the mind of the average well-informed citizen."

[1]Department of Commerce supplement to July **Survey of Current Business; Federal Reserve Bulletin**, Sept., 1947, page 1105.

EDITOR'S NOTE — Relative to the above commentary, Dr. Schmidt informs the "Chronicle" that he had also submitted the material for publication in several other leading economic journals, the editors of which, to quote Dr. Schmidt, "found it unsuitable for publication." Dr. Schmidt believes that the reasons advanced by these editors for refusing to publish his remarks are of some interest and, with this in mind, has furnished the "Chronicle" with the accompanying three extracts from the editors' letters of rejection:

(1) "After reading the short note enclosed with your letter of Oct. 23, 1947, I am a little mystified why you think of it as something to be published in. . . . I am by no means adverse to publishing good critical comment upon the Keynes literature, nor upon the significance of the new series of the Department of Commerce. It seems to me, however, that your note is rather in the nature of a smear than of a constructive comment, and I, therefore, do not feel able to accept it for publication."

(2) "After a good deal of thought we have decided not to publish your little note. We found it interesting, but our doubts about it rest largely on the following: first, its extreme brevity which makes it a little difficult to fit into our pattern; second, we are all reluctant to publish a statement attributed to Keynes unless it can be verified much more than you have done in this note; third, the facts you present are interesting and certainly should be made use of in terms of the stagnation theory, but we feel that a much more comprehensive job is required. I would also argue that your point (3) does not strike me as being very effective."

(3) "I regret that we are unable to accept your communication 'Economists and the Cultural Lag'. . . . I found it very interesting but it is too fragmentary for acceptance in its present form."

With Dreyfus & Co.

Dreyfus & Co., 50 Broadway, New York City, members of the New York Stock Exchange, announce that Kurt Strauss is now associated with their Foreign Department.

Public Utility Securities

Southern Company

Commonwealth & Southern last year formed the sub-holding company, Southern Company, which took over the entire system holdings in Alabama Power, Georgia Power, Gulf Power, Mississippi Power and Savannah River Electric. South Carolina Power will probably be sold to South Carolina Electric & Gas and merged with that company. This deal has met with some local objections which, however, may be cleared up by anticipated approval of the SEC and FPC.

Southern Company has proposed to sell sufficient common stock (par $5) to obtain about $20,000,000 after deduction of any underwriting discounts and commissions. The shares will be sold in part to the public and in part to Commonwealth, the latter probably investing some $5-$10,000,000. However, since Commonwealth expects to use the proceeds of the sale of South Carolina Power stock for this investment, registration of the new offering had been delayed by the slowness of the South Carolina sale.

The Southern Company system properties are all interconnected and substantial interchanges of electric energy occur among them. (Savannah River is a non-utility company which owns flowage land.) Total assets of the Southern system amount to about $500,000,000 and revenues are around $100,000,000 level.

The Southern system's construction program for 1948-49 is estimated at about $93,000,000 ($56,000,000 in 1948 and $37,000,000 in 1949). However, of this total amount only about $45,000,000 will have to be raised before the end of 1949 through sales of additional securities. Alabama Power and Georgia Power, which sold $10,000,000 bonds each last year, will need about an equal amount of cash this year. Hence, the money to be raised by Southern Company will probably go principally to those companies.

It is probable that sale of the common stock will be on a negotiated basis since an exemption from Rule U-50 has been granted by the SEC. It is understood that negotiations are on a competitive basis, however. Groups reported formed to work on the deal include First Boston, Harriman Ripley, and Morgan Stanley.

In the calendar year 1947 *pro forma* share earnings for Southern Company (based on 10,000,000 shares, the present outstanding amount) were $1.07 before the appropriation to general reserve for investments and 87c after such appropriation. The appropriation in the *pro forma* 1947 figures amounted to $2,000,000. Southern Company has agreed with the SEC to set aside this amount out of earnings each year (one-quarter on the books of the parent company and three-quarters in the accounts of the subsidiaries). The purpose of the appropriations is to amortize the excess (some $65,000,000) of the investments in subsidiaries ($146,000,000) as compared with the underlying book value at date of acquisition. Such excess has doubtless resulted from plant write-offs due to restatement on an original cost basis. Moreover, the combined subsidiary plant accounts contain some $35,000,000 plant acquisition adjustments (account 100.5) which is being amortized "above the line" at the rate of about $2,600,000 per annum. Thus, system earnings are subject to two special deductions totalling about 46c a share, which amount will be available each year for reinvestment in plant account. In studying the new stock and the dividend rate (when announced) due consideration should be given to this fact.

However, the share figures given above are based on the present number of shares. It is not clear how many additional shares will be issued but assuming that the new stock was sold to net $8, sale of about 2,500,000 shares would be necessary to raise the desired $20,000,000 cash. On this basis, with 12,500,000 shares outstanding *pro forma* of 1947 share earnings would be reduced to 86c before the special appropriation and 70c after the appropriation. Of course earnings might be expected to increase as the result of the additional investment in the property.

There are certain dividend restrictions at present on some of the subsidiaries, but it is probable that this situation will be improved as a result of the additional equity money being invested.

Commonwealth & Southern and Southern Company have agreed to dispose of the transportation and gas properties in the system. Alabama Power sold its properties in 1947. Gulf Power is negotiating a sale of its gas properties to the city of Pensacola. Sales of other properties will probably be negotiated. Gross revenues from transit properties in 1947 were about $11,000,000 and from gas $2,184,000.

The southern portion of the Commonwealth & Southern system shares in the low rate policy for which the system is noted. The average electric rate for the four companies in 1947 was 1.27c, and the residential rate 2.31c. Residential kwh. sales were 1,903. These figures compare very favorably with the national averages.

Andrew F. Lynch Now Is With Osterman & Hutner

Osterman & Hutner, 120 Broadway, New York City, members of the New York Stock Exchange, announce that Andrew F. Lynch has become associated with the firm. He will specialize in securities research. He was formerly Manager of the Statistical Department for Abraham & Co.

Dealer-Broker Investment Recommendations and Literature

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

Banks and Trust Companies of Northern New Jersey—Comparative pamphlet on leading institutions—Parker & Weissenborn, Incorporated, 24 Commerce Street, Newark, N. J.

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

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.

Democratic Capitalism—The Unassuming Utopia—Free reprint of "Fortune's" editorial—B. S. Lichtenstein & Company, 99 Wall Street, New York 5, N. Y.

Manual of St. Louis Bank Stocks—1948 Edition—G. H. Walker & Co., Broadway and Locust, St. Louis 1, Mo.

Also available is a recent report on **Hewitt-Robins, Incorporated.**

New England Company—Descriptive analysis of special situation on 86-year-old New England company—Raymond & Co., 148 State Street, Boston 9, Mass.

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

Security Charts—March 80-page folio of 303 charts—special semi-annual offer; send $2 for Folio CF-223—Securities Research Corp., 141 Milk Street, Boston 9, Mass.

Television—Brochure—E. W. Axe & Co., Inc., 730 Fifth Avenue, New York, N. Y.—$1.00 (50¢ to public libraries and non-profit institutions).

* * *

Allied Stores Corporation—Memorandum—A. M. Kidder & Co., 1 Wall Street, New York 5, N. Y.

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

Central Illinois Public Service Co.—Research item—Goodbody & Co., 115 Broadway, New York 6, N. Y.

Central Illinois Public Service Co.—Data—Buckley Brothers, 1420 Walnut Street, Philadelphia 2, Pa.

Also available are memoranda on **Portsmouth Steel, Buffalo Bolt Co.,** and **DuMont Laboratories.**

Chase National Bank—Circular—Laird, Bissell & Meeds, 120 Broadway, New York 5, N. Y.

Cuba Railroad Company—Summary and analysis—Stern & Co., 25 Broad Street, New York 4, N. Y.

Dresser Industries, Inc.—Investment appraisal—Kalb, Voorhis & Co., 15 Broad Street, New York 5, N. Y.

Also available is a company review of the **American Tobacco Company,** and **Otis Elevator.**

Electric Power & Light Corporation—Analysis—Newburger, Loeb & Co., 15 Broad Street, New York 5, N. Y.

Electrol, Inc.—Analysis of manufacturer of hydraulic control equipment for aviation and industrial uses—Seligman, Lubetkin & Co., Inc., 41 Broad Street, New York 4, N. Y.

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.

Myer-Bridges Co.—Report—Bankers Bond Co., Inc., Kentucky Home Life Building, Louisville 2, Kentucky.

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 **DuMont Laboratories,** and **Buffalo Bolt Co.**

Safway Steel Products, Inc.—Report—Loewi & Co., 225 East Mason Street, Milwaukee 2, Wis.

Southwestern Public Service Co.—Memorandum in current issue of **"Public Utility Stock Guide"**—G. A. Saxton & Co., Inc., 70 Pine Street, New York 5, N. Y.

White's Auto Stores, Inc.—Special bulletin—First Colony Corporation, 52 Wall Street, New York 5, N. Y.

COMING EVENTS

In Investment Field

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 19, 1948 (New York City)
Security Traders Association of New York 12th Annual Dinner at the Waldorf-Astoria Hotel.

May 10, 1948 (New York City)
Annual Election New York Stock Exchange.

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

Business Man's Bookshelf

Creeping Paralysis of Europe, The—Melchior Palyi—Henry Regnery Company, Hinsdale, Ill.—paper—25¢.

Railroad Motive Power—P. K. Kiefer—Steam Locomotive Research Institute, Inc.—Simmons-Boardman Publishing Company, 30 Church Street, New York, N. Y.—cloth—$2.00.

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

Building Cost Trends

By MAX H. FOLEY*

President, New York Building Congress

Maintaining there is no indication building costs will come down much in near future, Mr. Foley points out these costs have not risen above level warranted by inflationary conditions and that building costs cannot be kept in vacuum. Says backlog of building in New York alone is $3¾ billions, and contends building is not priced out of market. Decries tightening of construction credit, and contends present price levels are here to stay, but sees need of combating further inflation.

As appraisers of the mortgage and sale value of property you have an enduring interest in present and future building costs.

As a member of a firm of architects and engineers, whose function is to design buildings and advise prospective property owners on when and what to build, I, too, have an enduring interest in building costs.

Max Foley

The trend in costs gives us a binding mutuality of interest and I am happy to be here tonight to discuss this all-important problem with you. It is a subject that has been mulled over and kicked around by many experts, all hoping to place themselves in the position of saying "I told you so" at some future date, regardless of what happens.

But, unfortunately, we cannot wait until that "future date" arrives and calmly judge the trend in retrospect. We must stake our business acumen now, and make win-or-lose decisions today.

I am no expert in trend-spotting, but I will tell you what I think, based on many years of keeping pretty close tabs on conditions in the building and construction market.

There is no indication that building costs will come down appreciably in the near future. In fact, there is no sound, economic reason why the public should expect building costs to go contrary to the general price structure of the nation. How can we reduce over-all building costs when the prices we must pay for every component part of a building—materials and labor—remain at a high level?

Building Costs Not Separated From Other Costs

The cost of building a home, apartment development or commercial building is relative, and cannot be separated from our general economy. Today, employment is at a peacetime peak, wages are higher than ever, and the national income in 1947 reached $197 billion, the highest in our history. This was an increase of $20 billion over 1946. We have heard a great deal about the high cost of houses, yet there seem to be buyers for every house erected. We must remember that the people who grumble about paying $10,000 for a so-called $5,000 pre-war house, or those who lambast the property owner as an "extortionist" when he raises the rent, are the same people who are earning double in pay or wages compared with pre-war. The whole scale of living costs has moved up and you can't expect housing costs to remain static under such inflationary conditions.

In 1939, a modern house in the $25,000 class, individually designed and built, would cost 60 cents per cubic foot. Today, that same type of house would cost $1.25 per cubic foot.

In the late '30s, low cost housing jobs were completed at a cost of $800 per room. Today, for the same type of construction, the room cost is $2,000. Before the war, we designed and built fine, modern office buildings at a cost of 70 cents per cubic foot. Today the same type of construction costs $1.50 per cubic foot.

These higher building costs reflect the postwar inflationary trend which has brought sharp increases in material and labor costs, beyond the control of the builders, just as higher production costs in other industries are reflected in the cost of food, clothing, automobiles and washing machines.

Wages, Bulk of Building Costs

Don't forget that by far the highest percentage of all building cost is labor. By labor costs, I mean pay for work performed, whether it be a logger in the lumber camp, a mill worker, bricklayer on the building, the construction superintendent, or the draftsman who draws the plans for the building.

When you analyze building costs, you will find that the actual cost of raw materials is a very low percentage, and the remainder is consumed first, in salaries and in wages for those who dig out the raw material, fabricate it, distribute it to the point of construction, and put it together to erect the building; and, second, for the facilities required by those workmen.

Labor, or work performed, must be paid for, regardless of the category. When you add up the total, you will find that labor cost is the biggest item of construction. And how many of us expect, or desire, to see the day come when it will be necessary to sharply reduce the pay of the wage-earner? When that sad day comes, we won't be bothered about worrying over building cost trends. It will be too late, as the bottom will have dropped out of our economic structure.

Just the other day, I was talking with an officer of one of the biggest financial houses in New York City. They have a world-wide reputation for analyzing economic conditions. The Vice-President asked me to tell him what is going to happen to building costs.

I was flattered by the implied compliment, but my answer was:

"You tell me what is going to happen to our general economy—the price of food, clothing and other major cost of living items—

(Continued on page 24)

*An address by Mr. Foley before the Society of Residential Appraisers, New York City, Feb. 19, 1948.

N. Y. Stock Exchange Nom. Com. to Meet

An open meeting of the Nominating Committee of the New York Stock Exchange will be held at 3:15 p.m. on Monday, March 1, for the purpose of receiving suggestions for the positions to be filled at the annual election to be held on May 10th. All members and their partners are invited to attend; those unable to be present may suggest nominees by letter.

Vacancies to be filled are chairman of the board of governors, seven governors for three-year terms; two trustees for the gratuity fund; and five members of the nominating committee.

No governnor and no member of the present nominating committee is eligible for election to the nominating committee for 1949.

Members of the Committee for 1948 are Harold W. McEvoy, chairman; William D. Dana, secretary; George J. Leness; Benjamin F. McGuckin; and John O. Middlebrook.

Chicago Stock Brokers Assn. Banquet Success

CHICAGO, ILL.—John Little of Paul H. Davis & Co., and Frank Collins of Hornblower & Weeks, are still receiving congratulations on the success of the Chicago Stock Brokers Associates annual banquet held Feb. 10 at the Casino Room of the Congress Hotel. Jack Brickhouse, ace sportcaster, was emcee and did a swell job as a barker for the main event, "Along The Midway." The press was well represented and everyone relaxed after the market explosion.

With Atkinson, Jones Co.

(Special to THE FINANCIAL CHRONICLE)

PORTLAND ORE. — Bruce H. Percified is now with Atkinson, Jones & Co., U. S. Bank Building.

Bank and Insurance Stocks

By E. A. VAN DEUSEN

This Week—Insurance Stocks

In the issue of the "Chronicle" dated Jan. 2, 1947, there appeared in this column a discussion of insurance stocks which opened with the following question: "In which fire insurance stocks should one invest available funds in 1947?" A request has been received for a similar discussion for the year 1948. So here goes.

As was pointed out last year, a suitable answer to this question depends on several factors including the objective of the investor. Does he desire relatively high dividend yield with secondary prospects of long-term equity growth and market appreciation, or does he look for moderate dividend yield combined with above-average prospects for long-term equity growth and market appreciation? Or perhaps he may wish to put his money in some of the more speculative and depressed issues which carry exceptionally high current yield.

The same group of stocks is used in the discussion today as was used a year ago, as listed in the following table, together with certain significant statistical data.

25 FIRE INSURANCE STOCKS

	Annual Dividend Rate	Asked Price 2-18-48	Div. Yield	Dividend Safety —Factors— *Coverage	†Years	‡Equity Growth	Market Perform'ce Year 1947
Aetna Insurance	$1.60	46	3.9%	2.00	74	31.2%	—11.5%
Agricultural Insurance	3.50	60	5.8	1.29	84	24.5	—15.8
American Equitable	1.00	16	6.2	0.13	13	—4.8	— 7.0
Bankers & Shippers	4.00	72½	5.5	0.74	22	9.4	+ 6.1
Boston Insurance	2.40	69	3.5	1.48	73	27.0	+ 3.1
Continental Insurance	2.00	51¼	3.9	1.78	94	39.1	+ 8.3
Fidelity-Phenix	2.20	55¼	4.0	1.81	39	44.0	+ 2.7
Fire Association	2.50	49	5.1	1.20	89	18.0	—13.6
Franklin Fire	1.00	19½	5.1	0.74	116	3.6	— 9.1
Glens Falls	1.60	42¾	3.7	2.20	81	14.1	—15.5
Great American	1.20	29⅛	4.1	1.74	74	32.4	— 2.6
Hanover	1.20	28	4.3	1.21	87	3.6	— 1.0
Hartford Fire	2.50	105	2.4	3.13	74	67.7	+ 2.6
Home Insurance	1.20	25¾	4.7	1.22	73	12.6	No Change
Ins. Co. of No. America	3.00	97	3.1	2.20	73	44.7	— 1.5
National Fire	2.00	46	4.4	0.95	75	16.9	—17.0
New Brunswick	1.50	21	7.1	0.62	19	7.2	—19.2
New Hampshire	2.00	46	4.4	0.96	77	8.7	—12.6
North River	1.00	23	4.4	1.20	108	14.7	+ 7.8
Phoenix	3.00	85	3.5	1.72	72	21.1	— 9.6
Providence Washington	1.40	32½	4.3	1.86	40	34.1	— 8.9
St. Paul F. & M.	2.00	72½	2.8	2.66	75	65.4	+ 6.0
Security Insurance	1.40	25	5.6	1.20	53	24.0	—18.0
Springfield F. & M.	1.90	42¾	4.4	1.41	80	23.1	+ 2.6
U. S. Fire	2.00	51	3.9	1.58	37	29.5	— 2.0
AVERAGES			4.3%	1.48	68	24.5%	— 5.0%

*Five-year coverage of dividends by consolidated net operating earnings. †Unbroken dividend record. ‡Eleven-year growth, measured by accumulated excess of parent company net earnings over dividends relative to 1936 liquidating value.

The year 1947 saw a continuation of the down-trend in fire insurance stock prices, consequently it was not in the cards for investors to show a capital gain over the year. It will be noted that average movement of the 25 stocks was a decline of 5.0%, which compares with a decline of 1.0% for Standard & Poor's weekly index of fire insurance stocks. However, there were some exceptions to the downward movement, for the following eight stocks advanced an average of 4.9%: Bankers & Shippers, Boston, Continental, Fidelity-Phenix, Hartford, North River, St. Paul, and Springfield.

At current market, the average dividend yield of the group is 4.3%; the average dividend coverage by 1946 net operating earnings is 1.48; the average length of unbroken dividend payments is 68 years; and the average 11-year equity growth to the end of 1946 is 24.5%.

In this disscussion the 25 stocks will be classified according to dividends yields into four groups, as follows:

Group I: High Yields—Unusually high yields of 5½% and over, are provided by Agricultural, American Equitable, Bankers & Shippers, New Brunswick, and Security. However, the dividend coverage ratio of these four stocks averages below 1.0, viz. 0.80, which introduces an element of doubt as to the maintenance of the present dividend rates, as a group, though Agricultural and Security appear relatively safe.

Group II: Above Average Yields—More moderate yields, but well above the average of 4.3%, are provided by Fire Association, Franklin, Home, National, New Hampshire, North River, and Springfield. Dividend coverage of this group of seven stocks averages 1.10, which is substantially below the 1.48 average of the 25 stocks. Springfield is the only stock in this group with a ratio close to the average.

Group III: Average and Moderately Below Average Yields—Dividend yields in this class are provided by Aetna, Continental, Fidelity-Phenix, Great American, Hanover, Providence Washington and U. S. Fire. Average dividend coverage is 1.71 compared with the 25 average of 1.48. Hanover is the only stock in this group with a below-average coverage.

Group IV: Below Average Yields—Yields substantially below the 4.3% average are found in Boston, Glens Falls, Hartford, Insurance Co. of North America, Phoenix, and St. Paul Fire & Marine. Except in the case of Boston, whose dividend coverage is the average ratio of 1.48, these stocks all have a high coverage ratio, the average of the six being 2.23. Hartford is really in a class by itself, with the lowest dividend yield of 2.4%, the highest dividend coverage of 3.13 and the maximum long-term equity growth of 67.7%. However, it should be noted that St. Paul Fire & Marine runs it a close second.

The characteristics of the four groups can be summarized as follows:

Group	Classification	No. of Stocks	Average Yield	Average Dividend Coverage	Average Unbroken Record	Average Equity Growth
I	High Yield	5	6.0%	0.80	38	12.1%
II	Above Average Yields	7	4.6	1.10	88	13.9
III	Approximate Average Yields	7	4.1	1.71	63	30.6
IV	Below Average Yields	6	3.2	2.23	74	40.0

This summarization shows that stocks in **Group I** are inherently more speculative than those in other groups, since dividends have not been completely covered, due principally to poor underwriting experience within the past few years. Unbroken dividend record is also below average, while long-term equity growth has been meager.

Group II stocks provide attractive yields, though dividends have only been fractionally covered during the past five years, and equity growth is only moderate.

Group III stocks at current prices offer a yield of approximately 4% with better than average protection and good long term equity growth. The outstanding characteristics of **Group IV** are moderate yield, wide dividend coverage and excellent long term equity growth.

The average market performance during 1947 of the stocks comprising each group was respectively as follows:

Group I	—10.1%
Group II	— 6.0
Group III	— 2.1
Group IV	— 2.5

The average market decline of 2.5% of the six stocks comprising Group IV is distorted by the disproportionate drop of 15.5% of Glens Falls, occasioned by a 30% capital increase and consequent dilution in October, 1947. The average decline of the other five stocks in this group was only 0.1%.

This column does not presume to say which fire insurance stocks are the best and which the worst. It merely presents an analysis and classification of some significant statistical factors, in the hope that this data may assist dealers and investors to make selections suitable to their objectives.

Sees Little Volume U. S.-Russia Trade

At Bond Club luncheon in Philadelphia, William Henry Chamberlin points out Russian policy of self-sufficiency will prevent her from flooding world markets.

At a luncheon of the Bond Club in Philadelphia on Feb. 18, which was presided over by its President, H. Gates Lloyd, partner of Drexel & Co., William Henry Chamberlin, author and correspondent and long time resident of Russia, expressed the belief there is little likelihood of any substantial volume of trade developing between the United States and Russia at any time in the future, to judge by the present drift in Soviet economy. Indications are that Russia is undertaking to work out a plan of maximum self-sufficiency.

Mr. Chamberlin stated the extent of trade likely to develop with us will be limited to our purchase of surplus metals such as chrome, and Russia's purchase of machinery. From other sources her buying will probably be confined to tin, rubber, tea and coffee.

Russia's own needs are so great, and will be for several generations, as to remove any possibility of her flooding the markets of the world with her products.

The speaker saw no elements in the present relationship between the two countries that are not susceptible to treatment by capable diplomacy, and believes the Marshall Plan and the Truman Doctrine are steps in the right direction.

New South Wales Bds. Called for Redemption

City Bank Farmers Trust Co., as fiscal agent, on Feb. 26 notified holders of Metropolitan Water, Sewerage and Drainage Board, New South Wales, Australia, 20-year 5½% sinking fund gold bonds due April 1, 1950, that $110,000 principal amount of these bonds have been drawn by lot for redemption, out of sinking fund moneys, at their principal amount on April 1, 1948. Payment of the drawn bonds will be made on the redemption date at the principal office of the fiscal agent, 22 William St., New York City.

Wants Reserve Free Of Treasury Influence

Thomas I. Parkinson of Equitable Life Assurance Society urges also reduced government spending, amortizing of Federal Debt and brake on rediscount privileges of Federal Reserve as inflation curbs.

At the annual meeting of the board of directors of the Equitable Life Assurance Society of the U. S. in New York City on Feb. 19, Thomas I. Parkinson, its President, proposed measures for curbing current inflation. Stressing that inflation continues to be a source of great concern to the more than 73 million owners of life insurance policies throughout the nation, Mr. Parkinson urged that a realistic program be set up by Congress to combat it. The excessive supply of money in our banking system, he emphasized, is the primary source of this inflation.

T. I. Parkinson

"There must be a reduction in government spending, now six times the prewar rate excluding interest," Mr. Parkinson warned. "There must also be a reduction of at least $5 billions annually in the Federal debt held by banks; repeal of the provision in the Federal Reserve Act which enables member banks to discount with the Federal Reserve banks practically any type of asset, and liberation of the captive Federal Reserve Board, created as the nation's Supreme Court of Finance, from the influence of the Federal Treasury, the greatest borrower in history.

"Most important of all, the wartime rule requiring the Federal Reserve banks to buy any government bonds offered to them by member banks must be ended. This rule, while enabling the Treasury to maintain an artificially low interest rate on government borrowings, permits and encourages banks to create additional bank 'credit' that can be spent as 'money'."

New York State to Sell Bonus Bonds March 2

As officially announced on another page, the State of New York issue of $300,000,000 war bonus serial bonds is scheduled to reach the market on March 2. Sealed bids will be opened at 11 a.m. (EST) on that day by Frank C. Moore, State Comptroller. The bonds will mature $30,000,000 yearly from 1949 to 1958, inclusive, with the bonds maturing in 1958 being subject to prior redemption, at par, on July 1, 1956, or on any subsequent interest payment date. Bidder is required to name an interest rate of not more than 4%.

With Interstate Securities

(Special to THE FINANCIAL CHRONICLE)

CHARLOTTE, N. C.—William W. Rader is now with Interstate Securities Corp., Commercial Bank Building.

Railroad Securities

Railroad reorganization legislation is again in the news. Last week the Senate Committee on Interstate and Foreign Commerce unanimously approved a proposed bill designed to simplify and expedite railroad capital readjustments. Such legislation has been under discussion for a number of years.

As to one phase of it there is fairly general approval. That is the provision to allow companies not now in bankruptcy or receivership to modify their debt structures through voluntary agreements with bond holders, and subject to Interstate Commerce Commission approval. A bill embodying such authority was passed by the House last year.

Voluntary debt readjustment plans are not new. Since the bankruptcy wave of the early and middle 1930's there have been two separate laws passed allowing such debt readjustments without recourse to the bankruptcy courts. Both of these, however, were temporary. Under them such roads as Baltimore & Ohio, Boston & Maine, Delaware & Hudson, and Lehigh Valley all arranged for extension of bond maturities that they were unable to pay off or refund when they came due. In addition, Baltimore & Ohio and Boston & Maine put a portion of their annual fixed interest permanently on a contingent basis. Lehigh Valley in its plan merely postponed a portion of its junior bond interest.

The main reason why it has been impossible to get any permanent legislation allowing voluntary readjustments through in the past two years has been the controversy over whether or not railroads already in bankruptcy should be allowed to take advantage of it. On the claim that the reorganizations formulated by the I.C.C. under Section 77 of the Bankruptcy Act unjustifiably eliminated old stockholders, there has been considerable agitation to cover these roads as well. Opposition to such a step, which would have returned most of the bankrupt roads back to the stockholders regardless of how much back interest was still due the bondholders, effectively blocked enactment of any reorganization legislation.

The house bill passed last year covered only debt changes by roads not now in bankruptcy or receivership. The proposed Senate bill would additionally cover stock recapitalizations. It is believed that this broadening of the provisions will not encounter any great opposition. The proposed Senate bill, however, also would allow, within limitations and subject to security holder and I.C.C. permission, roads now in bankruptcy to take advantage of the voluntary proceedings. While this is the feature that has wrecked earlier attempts to pass reorganization legislation it is indicated that changed conditions will reduce, if not entirely eliminate, this opposition.

The main reason for believing that opposition to inclusion of roads already in bankruptcy will not now be strong is that most of the roads that could have taken advantage of its terms have progressed to far in reorganization that they would not now be affected. Denver & Rio Grande Western; St. Louis-San Francisco; New York, New Haven & Hartford; and Chicago, Rock Island & Pacific have already been reorganized. St. Louis Southwestern has been removed from bankruptcy without reorganization. The Central of Georgia plan has been confirmed and is expected to be consummated within six weeks or so.

There are few roads now in bankruptcy that would be in a position to attempt a voluntary readjustment even within the broadest interpretation of any new legislation. Conceivably, theoretically, the Central Railroad of New Jersey, the Missouri Pacific System roads, and the Wisconsin Central might qualify. However, none of them need new legislation to give the old stockholders an opportunity to demonstrate that they still have an equity in the properties. No plan has been formulated for the Central of New Jersey and the Missouri Pacific and Wisconsin Central proceedings have been reopened by the Commission without congressional compulsion. With this background, it appears likely that new reorganization legislation will be forthcoming this year.

The Next Time—

When you hear someone say, "What do I care how much taxes those big corporations pay," show them these facts.

American Telephone & Telegraph Co. has 723,374 stockholders . . . 207,800 of these stockholders only own from 1 to 5 shares, while 681,900 stockholders hold less than 100 shares each. Sure that's big business—big business that is owned by hundreds of thousands of good Americans who are not millionaires, just plain people like you and me.

But . . . the tax collectors took $245,654,622 away from A.T. & T. in 1947. In other words they took these hundreds of millions from the people who own this company . . . the one-share owners, as well as the five share people, and the 100-share people. All that the people who owned the company received in dividends was $189,312,852.

The Government took away $245,654,622.

The owners received $189,312,852.

And then the Government turned around and levied another tax on the $189 million the owners received in dividends.

This is what you call soaking the *poor, not the rich.* and soaking them not once but twice at that. Isn't it about time our legislators in Washington woke up to *the facts of life . . . and corrected this unfair discrimination against the plain people of this country who believe in the old-fashioned virtues of thrift and self-reliance?*

—JOHN DUTTON

(Foregoing facts from annual report of American Tel. & Tel. Co.)

Edgerton, Wykoff Co. Adds

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Harold S. Hughes has been added to the staff of Edgerton, Wykoff & Co., 619 South Spring Street, members of the Los Angeles Stock Exchange. He was previously with Crowell, Weedon & Co.

The Status of Mortgage Lending

By FRANK C. RATHJE*

President, Chicago City Bank and Trust Co.
Former President, American Bankers Association

Prominent banker reviews changes in mortgage loan situation arising from Federal mortgage guarantees and housing situation. Says soundness of government guaranteed mortgages has not yet been tested and that mortgage value stability is adversely affected by forced home ownership. Concludes unless care is used by mortgage lenders there is danger housing credit may become motivated by political expediences, without reference to economic stability.

Today, there are two general types of mortgage lending—conventional mortgages and insured or controlled mortgages. As I see it, the conventional mortgage on single and multiple housing is passing down the lane with the proverbial horse and buggy. In contrast, the insured mortgages that are now being made have passed into what many bankers and lenders call safety zones. Conventional loans are still being made on commercial and industrial properties; but the bulk of today's mortgage lending on housing units is being made in the field of the insured or controlled mortgage. The insured mortgage is the type of loan which is made without reference to the judgment and prudence of the lender. It is made according to a statutory formula and under the influence and solace of the device of the Federal guaranty.

Frank C. Rathje

There is little doubt that a bulk of today's mortgage lending at present terms, ratios, and rates would not be made by mortgage lenders' assuming the full burden of the risks involved. In fact, it it doubtful if government economists themselves would have evolved the present program, were it not for the philosophy that housing must be provided for our people at any cost. Now we have added the legislation relating to our veteran. While the veteran and the citizen as well are entitled to every consideration in the matter of housing, we must always bear in mind that we owe them, above all else, a sound economy. They must be able to earn the cost of a home that they may build or buy. The only way in which they can do that is to live and work within an aggressive, sound economic structure.

What, then is the status of our mortgage lending today?

Soundness of Guaranteed Loans

The soundness of government guaranteed mortgages has not yet been tested. The device has thus far been employed only in a rising market. As nearly as we can see the situation which prevails, there are significant points to be considered for and against the safety of mortgages now being made.

On the safe side, we can point to the fact that virtually all of the urban mortgage debt today is being systematically retired on a monthly payment basis. It has eliminated the dangers of a total debt due date.

In many instances, these mortgage payments are a lower percentage of today's gross family income than ever before in our history. The rate of urban construction in the single-family dwelling is still below the expanded housing demand, and there is almost universal belief that it will be a long time before we are faced with a situation of oversupply. Yet, it is to be noted that approximately 850,000 non-farm-dwelling units were built in the United States during the year 1947. If we continue this rate of building activity, we may again in the near term years witness a full supply.

Another factor on the safe side—it is especially important that the bulk of today's mortgage lending is in the home ownership classification, as contrasted to the multiple-unit building. There is definitely less danger of overbuilding in the home construction field than in the multiple-unit field, especially so if Federal controls are judiciously used. Such controls are available to the proper governmental authorities, and their intelligent use can be of great service to our economy by curbing builders who build only for speculative gain as distinguished from a normal profit accruing to a contractor.

On the doubtful side, it can be said that under present long-term lending, the borrower's monthly payments are mostly for interest, not so much for amortization of the principal; as a result, the principal of the loan is retired over a very long period. In the FHA 608 type of mortgage, this debt retirement is extremely slow. On a mortgage of this type, bearing 3½% interest, with a maturity date of 34 years and 6 months, the borrower pays only 8% of his principal during the first 5 years of its life—not enough to cover the normal depreciation as we learned to understand it in years past.

When we look back and view the so-called "gold bond" type of lending so extensively engaged in in the 1920's, one is prone to wonder what is, in fact, the difference between that type of lending and the present much heralded FHA 608 type of mortgage. We now have the individual holder of the mortgage and we have governmental insurance, but the extreme high ratio of loan to value and the weakness of the corporate borrower are as marked today as they proved to be in the days following the ill-fated "gold-bond."

Forced Ownership and Mortgage Stability

In evaluating the stability of today's mortgage borrowers, we cannot overlook the fact that a large number of buyers are in the forced ownership class. They regard their down-payment as a premium for occupancy and their monthly payment as rent. Unless the present market endures for a sufficient length of time to enable these buyers to accumulate a safe equity, they are apt to be distinctly unstable borrowers. This is especially true because the original equity payment required of a mortgage borrower is now the lowest in all history.

Finally, on the doubtful side, we must recognize the fact that real estate mortgages and building construction always reach their respective peaks at the time of highest consumer income. The phenomenally high wages and salaries prevailing today cannot be viewed as characteristic of a new era. There is little reason to believe that our economy has hit a plateau from which it will never decline again. It is to be realized that we are working on higher ratios than ever before, a fact which means that even a modest decline in real estate values and consumer incomes can produce a wave of defaults with resultant foreclosures.

Ratio of loans to value has always been the basic problem in real estate mortgage lending. Prior to 1933, the lender had the privilege of determining not only the value but the ratio of loan to that value as well. The Federal laws that have been enacted establish maximums of ratio of loan to value. It is to be borne in mind that the legal limitations are not minimums but maximums. Nothing in the law requires the lender to loan the maximum. If he is inclined to lend at ratios less than those fixed by the statute, that is his privilege, and no criticism is due him. Values as well are his province.

Housing, to serve its long-range purpose, must not only be built on a sound foundation structurally, but it must rest upon a sound economic foundation as well.

We are to realize that the basic causes of our present housing shortage are two-fold: first, the erroneous restrictions imposed by the government during the war; and secondly, the vast expansion of spending power in the hands of the American people.

The curtailment of construction by the government was too severe. We cheerfully forgive that error because of the war emergency; but caution is required now, that we do not aggravate the consequences of that mistake by excesses both in building and financing that will have regret as its only and final reward.

The Loan Value Margin

I am not convinced that we are serving the best long-range interest of the veteran by financing his home purchase by a mortgage to the extent of 100% of his present purchase price. A similar comment on a 90% mortgage insured under Title VI of the FHA Law is warranted.

To advocate a return to the philosophies of conventioned lending as they existed prior to 1920 would be too narrow and to urge that we limit ourselves to the provisions of Title II of the original FHA Law, with a ratio of 80% of loan to value, with 15 years as the maturity date, would probably be termed reactionary. Yet, the conventional mortgage was the vehicle in vogue when this great country was built. Unless we adopt with wisdom and discretion the new ideas in mortgage lending under Federal guaranty, the conventional mortgage may again be welcomed in a period of reduced spending power in the hands of the public.

It would seem that there are several possible developments depending entirely upon our economic conditions over the months and years ahead. With a continued high level of business acticity, the public may be critical of the caution and conservatism of the lending agencies. If these lending agencies tighten mortgage credit, which they now appear to be doing, it will be urged in many places that the government—either, national, state, or local, shall venture into socialized housing or direct lending, all at the taxpayer's expense. This would probably be under legislation similar to the suggested Wagner-Ellender-Taft Bill considered by the last two sessions of the Congress, or under the terms of an

(Continued on page 20)

*An address by Mr. Rathje delivered at the A.B.A. Anti-Inflation Pilot Meetings.

Claims New Construction Under Prewar Rate

C. Benson Wigton points out last year's new building volume was only 5% of gross national product, compared with 6½% in 1939. Sees return of normal ratio between government and private building.

Despite the increase in building activity since the end of the war, the volume of new construction continues to represent a comparatively small share of the nation's entire productive effort, and considerable room exists for further expansion of the industry to match the gains made by other sectors of the American economy, C. Benson Wigton, president of Wigton-Abbott Corporation, engineers and contractors, of Plainfield, New Jersey, states.

C. Benson Wigton

"When the value of all new construction is measured against the value of all the products of industry plus the value of all services—what the economists call the gross national product—it is clear that construction has not yet regained its prewar role within the economy," he said.

"In 1939, new construction, according to the Department of Commerce, totaled $6,062,000,000 which constituted about six and one half per cent of the market value of $90,426,000,000 for all goods and services produced that year.

"Last year, new building volume totaled $12,665,000,000, which constituted only five per cent of the gross national product of $232,000,000,000, estimated as of the third quarter of 1947. And this record is in marked contrast to the average of ten per cent which existed during the 1921-1930 decade."

Mr. Wigton went on to point out that builders have nevertheless made considerable progress since the end of the war in improving their position within the nation's economic framework.

"From the low point in 1944 when new building constituted only 1.9 per cent of the gross product because of the concentration on production of war goods we advanced to 4.8 per cent in 1946 and moved up last year to 5.3 per cent. Most of these gains have resulted from the efforts of private builders working for private owners, whereas during the war years, practically all new construction was undertaken by or for the government in connection with the war effort," he said.

"Since the end of World War II, a more normal ratio between government and private building has been established." He cited government forecasts indicating only a small rise in public building in 1948 and a considerable advance in private work — particularly in the housing and industrial fields.

"Authoritative private surveys indicate that the post-war expansion program of American industry is still uncompleted and that capital budgets of many of our large companies have made provision for substantial new plant and equipment outlays this year," he continued. "In 1948 we can expect that almost two-thirds of all new work will represent private building activity. The removal of war-enforced controls and restrictions has meant that more of our manpower and materials have been channeled into sorely needed building construction."

Much of the lag in building compared with other sections of the economy can be explained, he said, by the shortages of materials and skilled labor.

"Production of building materials has generally expanded at a slower rate than production of many other goods and this has been a factor in accounting for the comparative position of the industry.

"With the national economy operating at peak levels, it has been a difficult task to draw off the labor and materials necessary to bring out the expansion in building activity," Mr. Wigton declared.

In his opinion the industry faces another period of expansion this year which will raise the value of new construction in relation to the gross national product. He emphasized that such an increase will necessitate "the absorption of more of the nation's labor, materials, and capital into the industry" and will make a greater contribution toward the maintenance of high levels of production for the entire economy.

Hellyer With Merrill Lynch

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Arthur B. Hellyer has become associated with Merrill Lynch, Pierce, Fenner & Beane, Board of Trade Building. Mr. Hellyer has recently been with the Bills Realty Company. Prior thereto he was with Shields & Co.

Neuberg Bros. & Sloan

BASIN, MONT.—Neuberg Bros. & Sloan, Inc., is engaging in a securities business.

With Shearson, Hammill

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—John Saris has become associated with Shearson, Hammill & Co., 208 South La Salle Street. He was formerly with A. G. Becker & Co. In the past he was trading manager for City National Bank and Trust Company of Chicago.

Rodgers & Tracy, Inc. Adds

(Special to THE FINANCIAL CHRONICLE)

CHICAGO, ILL.—Rogers & Tracy, Inc., 120 South La Salle Street, has added Walter A. Stringfellow, Jr. to the firm's staff.

Mutual Funds

By HENRY HUNT

"Mr. Jones Buys a Mutual Fund"

Mr. Jones: "I like the looks of the portfolio. I like the conveniences offered by your mutual fund as well as the continuing supervision; but isn't the distribution charge pretty stiff? I could save quite a bit of money through buying the underlying stocks instead, couldn't I?"

Dealer: "Just how much are you prepared to invest at this time, Mr. Jones?"

Mr. Jones: "About $5,000."

Dealer: "O. K. Let's see what you can save, if anything. There are approximately 50 issues in this fund. So, if you could spread your money evenly, that would be $100 in each issue."

Mr. Jones: "Right."

Dealer: "The minimum commission on Stock Exchange transactions totaling $100 or less is 6% for buying plus 6% when you sell. Including taxes and odd lot fees, the round trip would cost you over 13% of your purchase price."

Mr. Jones: "I had no idea commissions ran that high."

Dealer: "However, commissions and taxes on **round lot** purchases of these same stocks, for both buying and selling, amount to less than 1½%. In other words, you save 11½% by letting the management of the fund pool your capital with that of hundreds of other investors, thus enabling it to buy in round lots."

Mr. Jones: "Why, that's more than the entire 'load.'"

Dealer: "That's right. Furthermore, once you invest in a mutual fund, you continue to obtain the benefit of round lot commission rates whenever the fund buys a new stock or eliminates an old one. Over a period of years these savings mount up."

Mr. Jones: "You win. It looks to me as if mutual funds are a pretty economical way to buy stocks after all. Put me down for $5,000 worth of that fund."

(Quoted from a National Securities and Research bulletin written by Henry Ward Abbot.)

Russia's Industrial Strength

The **Selected Investments Company of Chicago** in "These Things Seemed Important" states:

"Even by 1960 . . . Russia's industrial strength is likely to be only about two-fifths that of U. S. . . . Her production per capital in 1960 will be about ½ that of the U. S. in 1915 . . ." As a result of war Russia's "economic potential dropped from 42% to only 25% of U. S. capacity." Russia's difficulties; poor transportation, inadequate agriculture, lack of skilled workers, backward technology faulty accounting. City streets are so bad, an average auto or truck lasts only 8,000 miles.

Leviathan

A merchant seaman was boasting about the size of his ship, "It's so big," said he, "that the cook has to travel in a submarine to go through the lamb stew to see if the potatoes are done."

Origin of Boston Trustees

Frederick A. Adams of Denver, Colo. has recently published a very comprehensive booklet on Investment Trusts. The following two paragraphs are excerpts:

"The trustee profession in this country had its inception in Boston, Mass., in the early part of the 19th century. During the War of 1812, American commerce was driven from the seas by the warships of the enemy. After the war, however, hardy and courageous Boston ship captains began once more to ply the seas. In many cases, they owned their own ships and cargoes. They sailed to the ends of the earth carrying various kinds of merchandise for sale or barter wherever a satisfactory profit might be realized.

"Before long these ship captains began to accumulate considerable wealth in the form of cash, real estate, mortgages, or their equivalent. Since these captains were frequently gone for two or three years on a voyage, the problem soon presented itself of how their property and business affairs might be successfully cared for during their absence. About 1820, half a dozen or so Boston lawyers began to act as agents for these ship captains, and took charge of collecting rents, interest on loans, upkeep of property, etc., while the captain was away. For this service, they were paid a certain percentage of the income which they collected. Eventually these men became known as Boston Trustees, and to this day they bear that title, and manage a large part of all the trustee business conducted in the city of Boston."

Abe Burrows Says

Love can turn a withering weed into a bloming idiot.

'48 Profits to Equal '47?

William A Parker, President of Incorporated Investors, writes in part as follows, in the 22nd Annual Report: "Although, in the judgment of many economists 1947 was to be a year of business recession it has actually turned out to be a banner year in employment, production, profits and dividends. We think that the error of these economists stemmed from their failure to consider the various statistical figures as relatives rather than absolutes. Figures on profits, dividends, bank credit, consumer credit, and inventories that look large when considered by themselves or when compared with similar figures in the past, have a distinctly different appearance when the present figures are related to national income and national product, and when this relationship is compared to the relationship existing in prior years. For example, it does not mean much to say that inventories are higher than this or that year without stating the ratio of inventory to sales and without stating the normal ratio. It does not mean much to assert that expenditure for capital goods is greater than ever before without knowing whether the portion of gross national product represented by such expenditure is greater or less than normal. And so it goes for most of the statistics that are so widely used, and so frequently misused.

"The management of **Incorporated Investors,** by thinking in terms of relatives, has consistently held throughout the last two years that there was no evidence to indicate an imminent recession of substantial proportions and that forecasts of such an occurrence were based on suspicions, fears or attempts to project a postwar pattern that would fit into the pattern after World War I. Your management can find no evidence now to indicate that 1948 will differ much from 1947 in business activity, profits and dividends."

Notes:

Taussig, Day & Company of St. Louis, have compiled a tabulation showing taxability of Mutual Fund Dividends paid in 1947.

Lord Abbett's Affiliated Fund has increased its bank loan from $9 to $10 million, bringing total assets including the bank loan up to approximately $40 million.

Since 1933 the total increase in $10,000 invested in **Fundamental Investors, Inc.,** including dividends, amounts to $25,555.00, an average of 17% annually over the 15 years.

Profit Motive and National Security

(Continued from page 3)

that country to defend itself in time of war.

A more Enlightened Attitude Toward Wealth Accumulation

Along the same lines, our government can afford to take a more enlightened attitude toward accumulations by private individuals. It is an established fact based on the most careful studies that the capital of American industry in the past has been made possible first by surplus corporate earnings and secondly by individual savings. These savings have come predominantly out of the incomes of individuals in the higher brackets. To take the view that such surplus incomes are legitimate prey for the tax-gatherers is to take a view as short-sighted as that which resulted in the slaughter of the goose that laid the golden eggs.

The individual who does not spend all he makes plays a constructive role in our economy. It is a role which wise statesmanship should acclaim and encourage. Specifically, our government at this time could afford tax relief which need not be too onerous in terms of revenue or in terms of political vulnerability, which is admittedly acute in an election year. The assurance of community property privileges to all and the elimination of double taxation of owners of industry would go far to establish an added margin of income which would help to provide the necessary capital for industry.

Monetary Policies

Finally, the time has come when our government should reconsider its monetary policies with a view to promoting the stability and the integrity of the currency. One of the greatest safeguards of private enterprise is its ability to rely upon an honest currency which is free from political tampering and immune to the manipulations of cosmic do-gooders who have grandiose plans of promoting Paradise on earth. Invariably these plans rely upon the expenditure of billions of dollars derived in the last analysis from an abuse of credit or currency. The time has come when the government can and should give careful consideration to a restoration of the gold standard. The mere presence of billions of dollars of gold in a hole in Kentucky does not constitute an authentic standard. This we will not have until every citizen with folding money has the right to go to his bank and demand and get a stated equivalent in precious metal. Only then will we have a sound currency in which all men may have faith.

These three conditions—a broader, more tolerant attitude toward profits, tax relief at points where it will encourage the accumulation of capital and a sound currency, although they may appear to redound in the first instance to the benefit of industry, in fact promote that strength on the home front which is an absolute requirement for effective national defense. They are the conditions that will assure defense in depth and an offensive power capable of discouraging any ambitious aggressor.

Must Have Inducement For Venture Capital: Merrill

Directing partner of Merrill Lynch, Pierce, Fenner & Beane in firm's annual report ascribes difficulty in raising new venture capital to fears of government policies preventing earning or keeping of profits. Denies corporate profits are excessive.

Venture capital must be induced to flow into corporate enterprise if we are to have an expanding industrial future, Charles E. Merrill of Merrill Lynch, Pierce, Fenner & Beane stated in Annual Report of this Stock Exchange firm made public on Feb. 24 by Winthrop H. Smith, Managing Partner.

"During 1947 the investment banking industry raised some $4,750,000,000 of new money, but

Winthrop H. Smith Chas. E. Merrill

$3,500,000,000 represented bonds and notes—in other words, borrowed money," Mr. Charles E. Merrill said in a signed foreword. "The difficulty in raising new equity capital, new venture capital, has been partly the result of the injury to confidence brought about by fears of government policies which may tend to prevent either the earning or the keeping of profits.

"Anything our Government does to dam the flow of capital into business will dam up our future prosperity. If we tax away the incentive to invest, we tax away our hope of an expanding industrial future," he said.

Commenting on the attacks against alleged excessive corporate profits, Mr. Merrill remarked:

"During the past year there have been frequent attacks on the alleged 'excessive' and 'outrageous' profits of American industry. In 1947 these profits after taxes were estimated to be running at an annual rate of $17 billion. It is true that this was at a record level in terms of dollars. But so was the national income, running at an annual rate of $200 billion. So were wages and salaries, and the total compensation of employees, running at an annual rate of $127 billion.

"In 1947 corporate profits after taxes on an overall basis were not at all excessive in comparison with past years of good employment. They were only approximately 8½% of the national income, even before certain necessary deductions were made from them. A few companies did take advantage of the sellers' market to boost prices and hence profits, but they were the exceptions not the rule.

"The wholesale purchasing power of the dollar is today only about 50 cents as compared with the period from 1935 to 1939. Yet two great factors in particular now make even dollar profits seem much higher than they are. Today a large part of corporate dollar profits represent merely profits from the sale of low cost inventory. But when goods are sold inventories must be replaced. It may cost a company twice as much as before the war to replace the same volume of inventories and continue the same volume of physical production or sales.

"Another major item that makes present corporate earnings seem greater than they are is the inadequacy of depreciation charges. A worn out or obsolete machine that cost $1,000 ten years ago may cost $2,000 to replace today. Yet under existing tax laws a company can deduct depreciation charges based only on original cost of plant and equipment and not on the higher cost of replacement.

"If proper inventory and depreciation adjustments were made to allow for the distortions in corporate accounts produced by a falling value for the dollar, corporate profits after taxes in 1947 would emerge as a much smaller figure than $17 billion. After an inventory valuation adjustment of $5 billion as estimated by the Department of Commerce, corporate profits after taxes in 1947 would be in the neighborhood of only $12 billion, or only about 6% of the total national income. If in addition to this there were also an adjustment for inadequate depreciation charges, the total figure of corporate profits would shrink still further.

"Recent corporate profits, moreover, have been the result of unparalleled volume of business rather than of high profit margins. Even with the inadequate deductions made from them, corporate profits in 1947 averaged, in fact, only 5½% of sales. This is far from being abnormally high. In the preceding eight years, corporate profits averaged 4.3% of sales. Incidentally, with corporations as a whole making little more than a nickel on every dollar of sales (and corporations engaged in wholesale and retail trade making only about three cents on every dollar of sales) we can see how mistaken is the popular idea that high living costs are caused by huge corporate profits, or that the cost of living would be cut substantially by price-fixing at the expense of profits.

"Profits are the most mercurial element in our national economy. They are the one major element that can actually become negative. There can hardly be said to be such a thing as a 'normal' profit or a 'normal rate' of profit. Over the whole period from 1930 to 1940 more corporations by number annually reported deficits than reported profits; and even corporations as a whole showed a loss on net balance in 1931, 1932 and 1933. Yet the President's Economic Report published on Jan. 14 of this year declared that in 1947 'profits on the whole were above the levels necessary to furnish incentives and funds for the expansion of business and to promote the sustained health of the economy.' In view of the mercurial nature of profits, how can we know precisely what corporate profits are necessary today to insure the investment of new capital in amounts sufficient to provide the maximum possible increase in national productivity and in wages and welfare? In our history high profits and high wages and full employment have gone together.

"Because of higher wages and payrolls, higher costs of replacing inventories, and higher costs of replacing and expanding machinery and plant, the need of corporations for capital is higher today than ever before. Yet they have been meeting increased difficulties in finding this capital. During 1947 the investment banking industry raised some $4,750,000,000 of new money, but $3½ billion represented bonds and notes—in other words borrowed money. The difficulty in raising new equity capital, new venture capital, has been partly the result of the injury to confidence brought about by fears of government policies which may tend to prevent either the earning or the keeping of profits.

"Yet President Truman insists that we must enlarge our industrial capacity. 'At least $50 billion,' he declares, 'should be invested by industry to improve and expand our productive facilities over the next few years.' Such funds, however, can only be provided out of corporate profits and out of individual savings. And they will only be invested if there is an atmosphere of confidence and an attractive prospect for profits in the future. To make possible that atmosphere of confidence is the greatest contribution that the Federal Government can make to national prosperity.

"Corporation prosperity and individual prosperity are the same. Anything our Government does to dam the flow of capital into business will dam up our future prosperity. If we tax away the incentive to invest, we tax away our hope for an expanding industrial future."

Rukeyser Views Price Slump as Step Toward Normalcy

Speaking at the annual shareholders meeting of the Federal Home Loan Bank of Pittsburgh, Pa., on Feb. 17, Merryle Stanley Rukeyser expressed the view that the recent readjustment in commodity prices disclosed the extent to which the national economy was walking on inflationary stilts, and constituted a step in the direction of normalcy.

Merryle S. Rukeyser

"The magnitude of the price swings in wheat and other staple commodities was influenced by governmental policies growing out of the abnormal war distortions," Mr. Rukeyser said. "Government policy touched these speculative markets in three ways. First, there was the impact on prices of scarce items of direct governmental purchases for foreign relief. Secondly, a narrowing of speculative participation in commodity trading resulted from recent political attacks on commodity speculators. Thirdly, the factor of high income taxation encouraged many prosperous farmers to hold wheat and other commodities off the market until after the end of the calendar year 1947, having already established high taxable gains for the year. With government supporting prices at 90% of parity, farmers assumed that there was restricted risk in holding on.

"The correction in the commodity markets follows earlier less dramatic readjustment in the market for capital. Interest rates, long held in the subnormal zone by policies of money management, have been creeping upward. This was characterized by a downward readjustment in high grade bond prices. The increasing yield on government bonds, which is tantamount to a boost in the wages of capital, will help to promote a fundamentally desirable shift of a growing portion of the total debt of the Federal Government from the portfolios of checking banks to individuals and institutional investors.

"The revision in interest rates is spreading to all categories of borrowing and lending. Even rates on short-term commercial loans by banks to their customers have been creeping out of the cellar of historically extremely low rates. There is no reason to assume that the interest rate on home mortgages will fail to follow the general pattern. The incentive of a higher rate will be a factor to promoting more bonafide savings. Real savings grow out of forebearance on the part of income earners, who are ready and willing to leave unconsumed part of the goods and services currently produced. Such unconsumed goods become available as tools of production and also as durable consumer goods, such as homes.

"Bonafide savings should be contrasted with illusory wartime savings, which are really the liabilities created by vast deficit spending by the central government. In such circumstances, though the liabilities in the hands of citizens are legally savings for the holder of the evidences of debt, the destructive process of war represents the very reverse of net social savings when a consolidated view of our entire economic society is taken."

Mr. Rukeyser called attention to the fact that the U. S. Treasury, like private corporations, had permitted its "break even" point to rise in recent years to an uncomfortably high level. The economist said that the contemplated high level of government spending for the coming fiscal year was predicated on the assumption of record-breaking tax receipts, which in turn is conditional on perpetuation of the inflationary boom, on the one hand, and of confiscatory personal income tax rates in the middle and upper brackets, on the other.

"Unless and until our notions concerning Federal spending are revised downward," Mr. Rukeyser said, "there is a danger of a resumption of Federal budgetary deficits when and if business slides off the shelf of full employment and full capacity operation. It would be the part of national prudence voluntarily to reduce expenditures in order to have some margin of safety in the event of temporary curtailment of volume. The present policy is a vast gamble in national solvency."

Mr. Rukeyser pointed out that it was misleading to try to interpret current events according to the pattern of 1929 and the subsequent events in the early 1930's. "A major difference," Mr. Rukeyser said, "lies in the assurance of reasonable balance in the national economy. The floor under agricultural prices set limits to which maladjustments will be permitted to go."

Whether the recent readjustment in speculative prices proves to be durable or merely a preliminary exploratory effort, it will, nevertheless, alter the climate of opinion, Mr. Rukeyser said. It will be reflected, he went on, in collective bargaining on wage rates, and in Congressional attitude toward inflation, including proposals of selective rationing and price ceilings. "The net effect of the market admonitions," Mr. Rukeyser declared, "will be to encourage all prudent operators who have not yet done so, to put their personal and corporate economic houses in order. The wise will not try to guess whether there will be further economic storms, but will put themselves in position to survive through any vicissitudes."

Canadian Securities

By WILLIAM J. McKAY

Contrary to general belief Canada's great wartime economic sheet-anchor—the Hyde Park Agreement—has not been lost, but it now operates more obscurely in deeper waters. The ramifications and implications of this invaluable means of economic collaboration were never strictly defined by formal treaty, and it was generally understood that the agreement would remain in force only for the war emergency period. Since the termination of hostilities the question of formal abrogation did not arise as there was never any precise commitment on either side. In Washington and Ottawa, moreover, it was realized that the arrangement that contributed so much towards the smooth mobilization of a maximum degree of North American war production, could render similar service during the even more difficult period of transition from war to peacetime conditions.

For this reason consultations between the two countries with this object in view has proceeded constantly since the war. Although these discussions have been shrouded by a high degree of official secrecy, there have been certain leakages from time to time that have led to suppositions that an entirely new U. S.-Canadian economic agreement would be announced. For this reason during the visits of President Truman to Canada and of Prime Minister Mackenzie King to this country it was fully expected that a new "Hyde Park Agreement" would be announced with a flourish of trumpets.

Between two countries, however, that have, in this unsettled world, achieved an almost miraculous degree of neighborly understanding, formal treaties and diplomatic gestures are not essential. Having found a working formula constituted by the 1941 Hyde Park declaration it is both logical and constructive to ensure its continuance. In some quarters here it is felt that the consideration of Canadian requirements might in some instances jeopardize the domestic interest. Similarly on the other side of the border fears have been expressed concerning the threat to Canadian sovereignty inherent in a scheme for full economic collaboration with this country.

Although these views deserve sympathetic consideration the objections raised are of minor import when compared with the great issues now at stake. Economic imperfections are the root causes of all wars and provide fertile soil for the propaganda seeds of agressor nations. In view of the unique relationship between this country and Canada which now represent the only remaining areas of full political and economic freedom, the example set by the Hyde Park declaration should be exploited to the fullest degree.

Also the greater joint development of North American resources which will result from the operation of the agreement will go far to ease the strain occasioned by the European relief plans. Furthermore vital Canadian supplies of food and basic industrial requirements will be able to flow into the relief channels and will not be restricted as a result of Canada's current shortage of U. S dollars.

It is to be hoped therefore that it will not be long before it is made clear to popular opinion on both sides of the border, the paramount importance to both countries of a full implementation of the concepts of this far-reaching agreement. In essence it is now clear that Canada's enormous wealth of natural resources can best be fully exploited only with U. S. cooperation. On the other hand these same resources are indispensable to the maintenance of the American standard of living.

During the week the internal and external sections of the bond market remained dull and inactive. Free funds after earlier weakness in sympathy with the decline in sterling futures registered a moderate recovery as a result of winter tourist demands. Stocks also staged a mild rally led by the golds. It is now felt that this section of the market now has greater possibilities in view of the strength of the gold issues on other world markets and a more favorable interpretation of the government subsidy measures

Our Reporter's Report

Although there will be an ample supply of new corporate issues up for bids next month, March holds promise of being a busy period for banks and municipal dealers with two big veterans bonus bond issues due up for bids.

Whether by accident or prearrangement, state authorities of New York and Ohio are exercising good judgment in the the matter of timing their calls for bids. Such issues naturally do not occur with the same frequency as in the case of corporate undertakings, but piling up of new issues on a given day often tends to tax the capital and handling facilities of underwriters in that field.

The first of the big bonus issues to be sold next month will be that of the State of New York, involving 300 millions, for which bids have been called for March 2. The State Comptroller, some months back, in order to provide for early submission of bonus applications, sold 100 millions of short-term notes.

Action at that time was due to the unsettlement marketwise and a disposition to let things settle. Now, however, the authorities apparently consider the market in a position to take care of the financing.

Two weeks later, on March 16, the State of Ohio will open bids for a similar issue of 200 millions. In this case an additional 75 millions can be sold later if necessary. In both cases the bidders will set the interest rates.

Action of Recent Issues

Among recently marketed new issues a survey shows that new bonds have fared much better in open trading than most of the new preferred stocks which have been brought out.

Taking a list of fourteen new bond issues, it develops that eight of these are now ruling at, or above, the issue price at which they were floated while the other six are being offered at discounts, in some instances quite pronounced.

Among the preferred stocks brought out in recent months a study indicates that of a round dozen such issues nine are selling well-below their issue prices while the other three rule at substantial premiums.

Railroad Issue Shaping

Among the new corporate undertaking which will be up for bids next month is a railroad issue, $37,396,000 of Central Pacific Railway first mortgage bonds.

This issue has been approved by Southern Pacific Co., which will guarantee it as to principal and interest and will run for twenty years or until 1968.

Bids will be opened March 9, and the proceeds will be deposited, with other funds, with the trustee under Central Pacific's first and refunding mortgage to take up $37,524,500 of outstanding 4s due August 1, 1948.

Competition Still Keen

The projected financing of Mountain States Telephone & Telegraph Co., promises to keep alive the keen competition which has developed for such issues between two rival banking groups since competitive bidding for utility financing came into vogue some years back.

The company plans to sell $25,000,000 of new debentures and is expected to call for bids in time to be in a position to open such tenders in the first week of April.

But on this occasion, it appears that the two stoic rivals for such business, Morgan Stanley & Co., on the one hand and Halsey Stuart & Co. Inc., on the other, will have added competition. A third group headed by Harris, Hall & Co., Inc. and Drexel & Co. is believed planning to enter a bid and, in view of the "natural" size of the issue there may be others.

With John G. Perry & Co.

(Special to THE FINANCIAL CHRONICLE)

DENVER, COLO.—Lloyd R. Magneson has become connected with John G. Perry & Co., Equitable Building.

Frank D. Newman Adds

(Special to THE FINANCIAL CHRONICLE)

MIAMI, FLA.—E. Dent Smith is now with Frank D. Newman & Co., Ingraham Building.

With Goldman, Sachs Co.

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Evelyn M. Jukes has been added to the staff of Goldman, Sachs & Co., 75 Federal Street.

E. E. Mathews Co. Adds

(Special to THE FINANCIAL CHRONICLE)

BOSTON, MASS.—Arnold T. Arnold has become connected with Edward E. Mathews & Co., 53 State Street.

The Unsatisfactory Pattern of Exchange Rates

By CAMILLE GUTT*

Chairman of the International Monetary Fund

Mr. Gutt, in stressing international exchange rate difficulties, holds task of International Monetary Fund is to see that necessary changes in rates are made promptly and in orderly manner. Defends "initial parities" as having permitted Western European exports to increase in 1947, but admits if adjustment in parities is to be fully effective, it must be accompanied by measures to halt inflation. Attacks multiple currency practices, and contends so-called "free" exchange markets are unrealistic. Holds not all European currencies need devaluation, and asks support as well as criticism in securing sound exchange rates.

I know I am letting myself in for a difficult time in discussing with you a problem so full of technical intricacies as exchange rates. Many of you are making the study of exchange rates and related problems your professional specialty. There is nothing I can tell you that you do not already know on the theory of exchange rates. I shall not attempt it. But there is one phase of the problem of exchange rates with which some of you are not intimately familiar, that is the practical problem of agreeing on the parity of a currency and the delicate problem of timing a change in parity to secure from it the greatest advantages to the economy of a country and to the world economy.

Camille Gutt

Perhaps I exaggerate in emphasizing these artisan aspects of the problem of exchange rates rather than the scientific problem. But as often happens artisans can be helpful to scientists by urging on them greater consideration of some neglected parts of their theory and by putting to the practical test the conclusions of the scientists. In economics, I believe that exchange rates constitute a field where the policy-makers must take into account practical considerations which the scientist may at times neglect.

Prewar and Postwar Exchange Difficulties

Exchange rates are historical facts. They reflect not only prevailing conditions but conditions that have evolved continuously from the past. From 1930 to 1936 the structure of exchange rates throughout the world underwent violent change. The great depression and its consequences induced every country to change the parity of its currency with relation to gold. By 1939, before the war broke out, the world had adjusted itself to a new pattern of exchange rates. Of course, it was not an ideal pattern. It was supported in many instances by high tariffs, import restrictions and exchange controls. Despite this, in a number of countries the prevailing parity was in a precarious position. If the war had not intervened further adjustments in the pattern of exchange rates would have been necessary in 1940 and 1941. I mention this to make sure that we do not start with the illusion that anything approaching a really satisfactory pattern of exchange rates had been achieved prior to the war.

The war itself created new forces which inevitably weakened the existing pattern of exchange rates. Of first importance is the tremendous war destruction and its immediate consequence, the impairment of production. Closely related to this is the monetary inflation, realized or latent, which impairs the capacity to trade as well as to produce. The countries of Western Europe were cut off from the normal channels of trade for six years or more. The great shipping countries lost about half of their fleets during the war. The commercial and financial services they had provided to customers in all parts of the world were greatly reduced. In the course of the war and after the war they spent much of their accumulated international reserves and wealth and they incurred large foreign debts.

All of these factors act on the international economic position of a country, although some of them will in time be overcome. There has already been a great recovery in production and even in trade. Merchant fleets have now been restored to between 70% and 80% of their prewar levels, so that about one-half of shipping losses has been restored in Europe outside of Germany and Italy. The commercial and financial services that Europe provided to the rest of the world will also be resumed in time, though probably not on the prewar scale. Some of the wartime deterioration is inevitably permanent in its nature. The loss of international investments by Europe will probably never be made good.

One other element I believe must be emphasized. The political upheavals of war and the political uncertainties of the pastwar period have a direct effect on the international economic position of many countries. Particularly important are the changes in Germany which are of far-reaching economic significance. In the Far East equally great changes are taking place, not only in the territories of the Japanese Empire, but even in the territories of allied countries.

We must not overlook the effect of the lack of agreement among the great powers in placing a heavy burden on the economies of a number of countries. Resources must be devoted to continuing a scale of armaments that prevents these countries from putting more resources into investment and consumption. In some cases large overseas expen-

(Continued on page 22)

*An address by Mr. Gutt before the Littauer School of Public Administration, Harvard University, Cambridge, Mass., Feb. 13, 1948.

Holds Truman Budget the Minimum

Secy. Snyder holds any reductions would be false economy and inconsistent with nation's domestic and international responsibilities

Secretary of Treasury John W. Snyder in a Jefferson-Jackson Day address at Newark, N. J., on Feb. 19, in addition to extolling the accomplishments of the Democratic Administration during the last 15 years, struck out against Congressional efforts to pare down President Truman's budget for the fiscal year 1949.

John W. Snyder

According to Sec. Snyder:

"Our fiscal policies have been closely related to those in the economic field. Our purpose is to practice economy in government, and to maintain the revenues at a level sufficient to secure a balanced budget and provide for debt reduction.

"As Secretary of the Treasury, I feel that the financial integrity of our government must always be a first consideration. Particularly so, with a government debt, largely war-created, of $255 billion. Under such circumstances, it is not only the financial integrity of the government which is at stake, but the soundness of the whole economy. This government's fiscal policies are irrevocably wrapped up in the entire financial structure of our country.

"It has been estimated that in the current fiscal year which ends on next June 30, the surplus of Federal receipts over expenditures will amount to $7.5 billion. However, the Senate Foreign Affairs Committee has recommended that $3 billion of this amount should be earmarked for application on the European Recovery Program. If this is done, the amount of surplus remaining to be applied on the debt would be reduced to $4.5 billion. We have been using this surplus, as it accumulates, for debt retirement in the manner in which it would be most effective, and we shall continue to do so.

"The President's budget estimates for the fiscal year 1949 show receipts of $44.5 billion, and a surplus of $4.8 billion in that fiscal year to apply toward further reductions in the debt.

"On the expenditures side, the President has pared the budget to the minimum which he considers consistent with the country's domestic and international responsibilities.

"Expenditures are estimated at $39.7 billion in the fiscal year 1949. Seventy-nine percent of the estimated expenditures for fiscal 1949 are war related—they either reflect the direct costs of war, the aftermath of war, or our efforts to prevent a future war. In this category, we have expenditures for national defense which amount to $11 billion, or 28% of the total budget. It would be possible, of course, to cut this amount but I do not believe that the Congress will want to take this step at the expense of our national security.

"Expenditures for international aid programs also come in this category, and total $7 billion, or 18% of the total budget. This is the amount which has been determined as the necessary requirement for the period ending with the fiscal year on June 30, 1949. Any adjustments made in timing by the Congress would not materially change the end result for the fiscal year.

"Veterans' benefits amount to $6 billion, or 15% of the budget. They represent an obligation which we owe to those persons who made great personal sacrifices for the nationa during the war. It is an obligation for which a Democratic Congress has already provided by legislation, and certainly none of us want to proposed that any of this legislation be repealed.

"The other two items which enter into the 'war cost' category are $5 billion for interest on the public debt and $2 billion for tax refunds. These are financial obligations of the government which it must meet.

"In analyzing the government's peacetime operations, we find that 16%, or $6.2 billion, of the budget covers expenditures to finance the government's programs in many broad areas, such as social welfare, agriculture, natural resources, and transportation and communication. These programs include expenditures for public assistance, for flood control, for soil conservation, for reclamation, for state aid to highways, for development of rivers and harbors, and for atomic energy.

"These programs include activities which the government must perform in order to conserve our natural resources. More importantly, however, they finance functions which the government is obligated to perform in conserving our human resources—for programs which contribute to the health and well-being of the American people and which have long been a part of the Democratic platform.

"Any reduction in these programs would be false economy.

"The remainder of the budget, that which is left for the operational costs of the government, is not relatively large, amounting as it does to only 5%, or $2.1 billion. This amount covers the Congress, and the Executive Office. It includes Treasury activities in collecting taxes, administering the public debt, and keeping the government's books, and the expenditures of various other agencies. To cut large sums out of this group would be a difficult undertaking. As a matter of fact, any cuts in this budget will be difficult if we are not to jeopardize our national defense, ignore our national welfare, or threaten our efforts to attain world peace."

Davison, Loughlin & Co. Formed in N. Y. City

Davison, Loughlin & Co., Inc. has been formed with offices at 120 Broadway, New York City, to act as dealers and brokers in over-the-counter securities. Principals are Henry Davison and C. Wallace Loughlin. Mr. Loughlin was formerly with Mallory, Adee & Co. and Filor, Bullard & Smyth.

Halsey Stuart Group Offers Ohio P. S. Bonds

Halsey, Stuart & Co., Inc. headed and underwriting group that offered to the public Feb. 20, $10,000,000 The Ohio Public Service Co. First Mortgage Bonds, 3⅛% series due Jan. 1, 1978 at 100.75% and accrued interest. The group won award of the bonds at competitive sale on a bid of 100.2599.

Net proceeds from the sale of the bonds will be applied toward the company's 1948 construction program which is expected to call for the expenditure of $14,481,000.

The new bonds will be redeemable at prices ranging from 104.50% to 100% and through operation of the sinking fund beginning in 1958 at prices scaled from 101.15% to 100%.

The company is an operating public utility engaged wholly in the State of Ohio in the production, purchase, transmission, distribution and sale of electric energy. Incidental to its electric business the company sells appliances and cooperates in their sale with appliance dealers and retailers in the territory it serves. This territory is located in north central Ohio covering an area of approximately 3,100 square miles and has a population of approximately 502,000.

N. Y. Curb Exchange Com. Appointments

The New York Curb Exchange announces the appointment of Edward A. O'Brien as vice-chairman of the committee on admissions of the exchange. Mr. O'Brien, who has been a regular member of the Curb since 1920 and a Class A governor for the past two years, is also a member of the committee on floor transactions.

Caspar C. deGersdorff of Harris, Upham & Co., a Class B governor of the exchange since 1945, has been named vice-chairman of the committee on securities. Mr. deGersdorff is also chairman of the committee on arbitration.

Durwood DuBois V.-P. Ohio Citizens Trust

TOLEDO, OHIO. — Durwood DuBois has been elected a vice-president of the Ohio Citizens Ohio Trust Co. and will assume his new duties April 1st. He will be in the commercial banking department.

Mr. DuBois will resign his post as vice-president of Stranahan, Harris & Co., Inc. as of April 1st. He is a former president of the Toledo Bond Club and served for two years as vice-chairman of the northern Ohio group of the Investment Bankers Association.

Securities Salesman's Corner

By JOHN DUTTON

Is business as quiet as some people say it is? For those who are presently complaining that they have never seen conditions more quiet in the investment business than they are today, this is undoubtedly true. The other day some one got up and made a speech that salesmen in his line had forgotten how to sell. It was the soft drink industry I believe. He told how his salesmen had gone out on their jobs day after day for the past eight years, and all they had to do was walk around and tell their customers how much merchandise they were going to allow them. Now that things have slowed down and competition has increased, these same salesmen are so soft they no longer know how to sell. This same condition applies generally—it is true in the securities business too. Remember, in 1945 and 1946 we had a seller's market too—but those days are over.

But you can do business today—good business—profitable business. People are not adverse to discussing investments. If you go to see them you will find that this is true. Most salesmen who are not doing business are the ones who are not trying, or who have lost faith in the thing they are selling. How often have you heard a remark such as this, "Everything I do is wrong, no matter what I sell a customer it goes down." There is a great deal of truth in this statement, but that does not mean that good securities are going down forever. Most salesmen who think this way are more concerned about the market action of the securities they have sold to their customers, than many of the customers are themselves.

Time and again opportunities for averaging present themselves. This is an excellent source of business. It will help your customer to average a good stock at lower levels—someday you will be able to go back to him and take him out at a profit instead of a loss. Of course, judgment should be used. **Switch out if conditions warrant.** Go back, tell your customer that things have changed. Take him out at a loss and give him something that has more merit. Times change —some overpriced securities of two years ago should be disposed of today regardless of losses. But put that money BACK TO WORK where there is a chance of recovery. **Go after new business.** Advertise in your daily paper, use direct mail. See new people. Everybody who owns securities is confused. Go in with an offer to help unravel the knots. But you cannot do this if you don't believe in yourself and the future. How many times have you seen markets go down for a year or two? Bear markets are part of living just the same as bull markets. When can investors buy into the finest corporations at the lowest prices? When can you build the most good will for yourself—when prices are high or when they are lower? What if a good security declines in price after you have sold it to a customer? The thing to do in markets like these is to tell your customer in advance of a possible decline, that if the market declines you are going to suggest that he buy MORE.

No one can pick the bottom of a market, but one thing is sure. THERE ARE PLENTY OF BARGAINS AROUND TODAY IF YOU LOOK AT NET QUICK, BOOK VALUE, MANAGEMENT, INDUSTRY, and OUTLOOK, COMPARED WITH MARKET PRICE. The statistical and research departments can do more to build up sales today than is generally realized. Five common stocks priced from under 10, under 20, and above, showing fantastic yields in good industries, with plenty of equity behind them are all that you need. But dig up some good things. There are plenty of them around. There is money around, but it won't venture WITHOUT URGING. That means going back to selling. Stimulate interest by mail, by newspaper advertisements—then telephone, write and GO OUT AND SEE THE PEOPLE. Make the calls and you can do business!

Here is a sample of how easy it is if you try. A salesman we know had been going into an office for several years. He became friendly with the receptionist. Every time he called they passed the time of day. One day the subject of securities came up. The receptionist had quite a few investments. She would ask this salesman a few questions about some of her holdings. The salesman never tried to do business with her, possibly because he was doing business with her employer. One day he picked up the telephone and told her that there was a security which he thought she might consider if she had some extra cash, also that it might be a good means of recovering a loss on one of the items which he knew she held. He suggested he was going to send a report on it to her home (instead of the office). This was a lucky thought as it had a psychological effect that helped. Several days later the salesman received a telephone call and a nice order. IN ORDER TO DO BUSINESS YOU MUST EXPOSE YOURSELF TO BUSINESS.

H. Stern Co. to Admit Schafer; NYSE Mem.

Herbert E. Stern & Co., 30 Pine Street, members of the New York Curb Exchange, New York City, on March 5, will admit Myron L. Schafer, member of the New York Stock Exchange, to partnership, and will thereby acquire membership on the Exchange. Mr. Schafer is retiring from partnership in W. A. Fine & Co. on Feb. 29. Other partners in Herbert E. Stern & Co. are Herbert E. Stern, Walter A. Maron, and William I. Rosenfeld, Jr.

Britain Losing Her Gold

By PAUL EINZIG

Dr. Einzig, in taking note of Britain's vanishing gold reserve, ascribes it not only to the adverse trade balance, but to uncalled for liberality of British Government in furnishing gold to overseas countries, particularly those holding blocked sterling balances.

LONDON, ENGLAND—The British gold reserve continues to decline at an alarming rate, in spite of export drive, cuts in imports, and the use of the remainder of the dollar credit. This is largely due to the persistently adverse trade balance, but Britain's generosity in sharing out the gold reserve among other countries is also a factor of considerable importance. Every now and again some arrangement is made involving the cession of many millions of dollars' worth of gold to some overseas Government, at a time when British essential imports are drastically curtailed for lack of gold. The recipients are mostly members of the Sterling Area, and the explanation of Britain's generosity with her gold is that during the war these countries contributed towards the British dollar pool. Even though there have been no agreements with most countries about the restoration of their contributions, the British Government feels morally bound to satisfy, within the limits of its reduced means, the gold requirements of Sterling Area countries.

Dr. Paul Einzig

The fact that the war-time contributions of Sterling Area countries towards the dollar pool simply represented contributions to the common war effort appears to be overlooked. Even in the absence of any legal obligation, the British Government is paying out its gold in spite of the unwillingness of the recipient Governments to consider themselves morally bound to scale down their war-time sterling claims against Britain. Apparently, moral considerations only operate in one direction, without any reciprocity by those who benefit by their operation. Nor does the British Government appear to be making any noteworthy effort to press Britain's moral claim for a scaling down of the war-time balances. While Mr. Dalton paid at least lip service to the Government's determination of pressing Britain's counterclaims, Sir Stafford Cripps does not even refer to the subject unless he has to answer some Parliamentary question. Last time the subject was raised he stated that the time for pressing claims for a scaling down of war debts has not arrived yet; he refused to indicate when, in his opinion, it is likely to arrive.

Yet time is far from working in favor of a reasonable solution of this problem. For in the meanwhile the Government is giving away its bargaining counters without receiving anything for them. Holders of sterling balances might have been willing to agree to a scaling down of their claims in return for badly-needed gold or dollars. The unpopularity of granting a concession to Britain would have been mitigated by the satisfaction over receiving gold or dollars, even if the amount received had been but a fraction of the amount of sterling cancelled. Article 10 of the American Loan Agreement lays down the principle of reciprocity in respect of the cession of dollars and the cancellation sterling balances. But the creditors were able, and are still able, to receive gold and dollars without having to concede anything. And once Britain's gold reserve has declined to, say, £300,000,000, there will be no more left to give away. Britain's bargaining position will be thereafter incomparably weaker.

Even though this is only too obvious, the British Government does not appear to see it. Temporary funding agreements are concluded, providing for the release of gold, but not providing for the reduction of the claims. It seems that Sir Stafford Cripps wants to postpone the latter question until the negotiation of a permanent funding agreement. There is every reason to believe, however, that his task in inducing the creditor Governments to agree to a sacrifice will be even more difficult then than it is now. But he wants to postpone the "day of reckoning," instead of facing here and now the difficulties involved.

So far British tentative suggestions to scale down the sterling balances has met with uncompromising refusals. The negotiators of creditor countries replied that to agree to reductions would be equivalent to suicide, not only in the political sense: any Minister giving away any sterling claims would probably be assassinated on his return home. Owing to the lukewarm interest taken in the matter in the British Parliament and the press, and the almost complete absence of interest on the part of the British public, British negotiators are not in a position to argue on similar lines against giving away too much. Since they encounter strong pressure on the part of the creditor Governments, and are subject to practically no pressure on the part of British opinion, they are inclined to take the line of least resistance. Instead of straining every nerve to secure favorable agreements, they employ their skill in defending their bad agreements against such criticisms as they encounter. An Opposition Member of Parliament was heard observing, after an evasive reply with which the Chancellor of the Exchequer foiled an attempt to elicit some information about the Government's policy towards the sterling debt, that if Ministers were only half as smart in dealing with foreign Governments as they are in side-stepping Parliamentary questions they might conclude tolerably good agreements. And a Lobby compared the Government with the proverbial bad lawyer who is a knave when dealing with his own client and a fool when dealing with the opponent!

Nor is there any likelihood of a stiffening of the Government's attitude. The Parliamentary Labor Party is utterly subservient on any issue where working-class interests are not directly involved, and the Conservative Opposition is hopelessly inefficient. When the Payments Agreement with Russia was raised by the Opposition at a late night sitting, nearly half of the Labor Party stayed up to support the terms, which were far too technical for them to understand their meaning, but only one Conservative out of six kept awake to vote against the Government. While negotiators of many countries are in a position to argue that if they gave way their Parliaments would not stand for it, if a British negotiator took that line he would gain the reputation of having made the joke of the year. With its present majority that knows nothing and cares less about international monetary issues, the Government can get away with anything. That is why the gold reserve is given away so generously.

NEWS ABOUT BANKS AND BANKERS

CONSOLIDATIONS
NEW BRANCHES
NEW OFFICERS, ETC.
REVISED CAPITALIZATIONS

John C. Borden was on Feb. 19 elected a member of the Board of Directors of **the Bank of the Manhattan Company of New York** to succeed his uncle, Bertram Borden, who in 1911 had succeeded his father, M. C. D. Borden originally elected a Director in 1877. John C. Borden is President of Borden Mills, Inc.; he is also a member of the Board of Directors of Boorum & Pease Co., a President of the Board of Trustees of the Manhattan School of Music, etc.

John C. Borden

* * *

The Boards of Directors of the **Federal Reserve Banks of Atlanta, Dallas, and St. Louis** have elected R. R. Gilbert, President of the Federal Reserve Bank of Dallas, as a representative of the Federal Reserve banks on the Federal Open Market Committee for the year beginning March 1, 1948 and have elected W. S. McLarin, Jr., President of the Federal Reserve Bank of Atlanta, as an alternate to Mr. Gilbert to serve on the Committee in the absence of Mr. Gilbert from a meeting. Chester C. Davis, President of the Federal Reserve Bank of St. Louis, is serving as a member of the Committee for the year ending Feb. 29, 1948.

The Federal Open Market Committee consists of the seven members of the Board of Governors of the Federal Reserve System and five representatives of the Federal Reserve banks. One of the representatives of the Federal Reserve banks is elected by the Board of Directors of the Federal Reserve Bank of New York. The other 11 Federal Reserve banks are divided into four groups, each containing two or three banks, and each group elects a representative to serve on the Committee. The representatives of the Federal Reserve banks are elected annually and take office on March 1 of each year.

* * *

The Board of Directors of **Bankers Trust Company of New York** has elected Craig de Voux Simpson an Assistant Treasurer, it was announced on Feb. 23 by S. Sloan Colt, President. Mr. Simpson has been with Bankers Trust Company's Bond Department since 1945 in charge of the municipal trading operation. Prior to that he had been in the Municipal Bond Department of Blyth & Company, Inc. for 12 years.

* * *

Newbold Morris, former President of the New York City Council, was on Feb. 19 elected a director of **Fulton Trust Company of New York** to fill a vacancy on the board. Mr. Morris is a member of the law firm of Post, Morris & Lovejoy.

* * *

The fortieth anniversary of the founding of **The Public National Bank and Trust Company of New York** was celebrated on Feb. 14, at a luncheon and dance in the Grand Ballroom of the Waldorf-Astoria Hotel. A birthday cake containing 40 candles was cut by E. Chester Gersten, President of the Bank, who thanked the more than one thousand members of the staff for their contribution to the bank's noteworthy progress.

Harold S. Miner, a Vice-President of **Manufacturers Trust Company, of New York** has been placed in charge of the bank's office at Fifth Avenue and 43rd Street, following the recent death of Elliott Debevoise, a former Vice-President of the Trust Company, it is announced by Harvey D. Gibson, President. Mr. Miner began with the bank as an Assistant Secretary at the Fifth Avenue Office in 1924 and since then has continued at that branch. He was appointed a Vice-President in 1931. Mr. Miner is a native of Taunton, Mass, and a graduate of the Washington, D. C. College of Law. During World War I he was confidential clerk to the late Franklin D. Roosevelt when he was Assistant Secretary of the Navy. Mr. Miner is Treasurer of the Cooperative for American Remittances to Europe, otherwise known as CARE.

* * *

The **First National Bank of Altoona, Pa.** has increased its capital from $150,000 to $400,000 effective Feb. 6. In part the increased capital was brought about through a stock dividend of $100,000, while the further $150,000 addition to the capital of the bank was realized through the sale of new stock.

* * *

The issuance of new stock to the amount of $200,000 by the **First National Bank & Trust Company of Evanston, Ill.** has served to increase the capital of the institution from $300,000 to $500,000. According to the bulletin of the Office of the Comptroller of the Currency the capital was enlarged as of Feb. 9.

* * *

The First National Bank in Grand Forks, Neb. has increased its capital from $300,000 to $400,000 by the sale of $100,000 of new stock.

* * *

John H. Meikle was appointed Assistant Cashier of the Correspondent Banks Department at a Board Meeting of the **Mercantile-Commerce Bank & Trust Company of St. Louis, Mo.** on Feb. 12.

* * *

Under date of Jan. 23 a charter was issued by the Comptroller of the Currency for the **Loop National Bank of Mobile, Ala.** The charter lists the capital as $200,000, and the primary organization is reported as President, E. B. Peebles, and Cashier, Z. H. McKinley. The above information was contained in the Comptroller's bulletin of Feb. 2.

* * *

J. R. Parten, Chairman of the Board of the **Federal Reserve Bank of Dallas** in advices to member banks states that at a meeting of the Board of Directors on Feb. 13, the following changes were made in the official staff, effective as of the dates indicated below:

"C. M. Rowland, an Assistant Cashier of the bank, was elected a Vice-President and was designated to have charge of the El Paso Branch to succeed Vice-President Mac C. Smyth, now in charge of the El Paso Branch, who will be transferred to the Head Office. W. D. Waller, now Cashier of the Houston Branch, was elected an Assistant Cashier of the bank and assigned to the Head Office. H. K. Davis, now Cashier of the San Antonio Branch, was elected Cashier of the Houston Branch. Alfred E. Mundt, now Assistant Cashier of the San Antonio, Branch, was elected Cashier of that branch. F. C. Magee, now Manager of the Loan and Service Department of the San Antonio Branch, was elected Assistant Cashier of that branch.

"The transfer of Mr. Smyth to the Head Office will be made on or about March 8. The election of Mr. Rowland as a Vice-President of the bank will become effective March 1. All other changes will become effective Feb. 16."

* * *

Four important promotions in official ranks of **Bank of America Nat'l Trust & Savings Ass'n of San Francisco** has been announced by L. M. Giannini, President. R. P. A. Everard is advanced to the position of Assistant to the President. He began his career with the bank as a bookkeeper, and has been Vice-President and Cashier of the institution since 1941. Mr. Everard is being succeeded as Vice-President and Cashier by P. C. Read, who has been Chief Inspector and Auditor since 1934. H. A. Leif, heretofore Assistant Chief Inspector in charge of the bank's inspection and auditing force in Southern California, is advanced to succeed Mr. Read as Chief Inspector and Auditor. All will make their headquarters at the San Francisco Head Office of the institution. C. H. Baumhefner, heretofore Assistant Chief Inspector in San Francisco, advances to succeed Mr. Leif, with headquarters in Los Angeles.

Home Insur. Reports Record Business

Premiums written by The Home Insurance Co. in 1947 were the largest ever attained by a fire-marine insurance company, according to the annual report of the company for the year ended Dec. 31, 1947, issued for publication Feb. 25 by Harold V. Smith, President. Aggregating $114,774,675, net premiums written in 1947 increased $19,709,328 over the previous record of $95,065,347 written by The Home in 1946.

Earned premiums for 1947 similarly rose to a new high record, amounting to $100,725,940, an increase of $20,999,805 over the preceding year's total of $79,726,135. The Home is the first American property insurance company to reach the $100,000,000 mark in earned premiums.

The substantial gain in the company's business, Mr. Smith explained, was largely the result of increases in insurance coverage to reflect higher property values, new construction, the high rate of business activity, extensions of insurance coverage and increases in rates in various classifications.

In addition to the record premiums shown, the report disclosed improvement in other important aspects of The Home's operations. Total admitted assets rose to $193,896,658 as of Dec. 31, last, from $177,414,558 a year earlier. For 1947 there was an underwriting gain, after taxes, of $176,477 contrasted with an underwriting loss of $4,236,150 in 1946. Gross income from investments rose in 1947 to $5,921,368 from $5,406,521 in 1946, but due principally to the impact of income taxes net investment income in 1947 decreased to $4,514,824 from $4,925,340 in 1946. Aggregate profit last year from the sale of securities and from securities called for redemption was $551,036, compared with $5,851,632 in 1946.

A proposed merger into The Home of the ten fire insurance companies long affiliated with it was announced in January. It is understood that specific terms of the merger agreements to be proposed soon will be mailed to stockholders.

With John M. Wilmans Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—John M. Wilmans Co., Ltd., Russ Building, has added William A. McKee to their staff.

We Wonder

"President Truman's request for an additional $570,000,000 to go to the corrupt Chiang Kai-shek Government in China is one more phase of our financial and military intervention there. This intervention has already cost the American people four billions in dollars and the friendship of several hundred million Chinese people, victims of a civil war we prolong by our support of the dictator Chiang.

Henry A. Wallace

"The situation in China is tragic proof of the inevitable failure of our present foreign policy, of which the Marshall Plan is a part. Sending money and military supplies to bolster reactionary governments against the will of their people serves the cause of reaction and war, not democracy and peace.

* * *

"There is indeed one group which may stand to benefit from this new grant Truman proposes for China. That is the group of Wall Street interests who seek to penetrate and control large areas of the Chinese economy."—Henry A. Wallace.

We must say frankly that we share Mr. Wallace's doubts about much of this aid program, whether to Europe or Asia — however greatly we may differ with that gentleman as to the reasons for skepticism. At the same time we can not help wonder how Mr. Wallace can feel so sure that he knows what the "will" of the Chinese is — or if they, or many of them, have any "will" in the sense in which Mr. Wallace uses the term.

But most of all we wonder whether Mr. Wallace can possibly be so misinformed and so incredibly naive as really to believe his own words about Wall Street and China!

With Dean Witter & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Lloyd J. Seilset is now with Dean Witter & Co., 632 South Spring Street.

Joins Hannaford & Talbot

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—James W. Selzer has become affiliated with Hannaford & Talbot, 519 California Street. He was formerly with Cruttenden & Co. in Los Angeles.

Harris, Upham & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—G. W. Douglas Carver is now with Harris, Upham & Co., 232 Montgomery Street.

With Raggio, Reed Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—James B. Thompson has been added to the staff of Raggio, Reed & Co., Russ Building, members of the San Francisco Stock Exchange.

With Herrick, Waddell Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Herrick, Waddell & Co., Inc., 1012 Baltimore Avenue, has added Lowell H. Listrom to their staff.

J. G. Kinnard & Co. Adds

(Special to THE FINANCIAL CHRONICLE)

MINNEAPOLIS, MINN. — Carl Burleson has been added to the staff of John G. Kinnard & Co., Baker Arcade.

Says Present Crisis Means No War With Russia

A. A. Berle, Jr., former Assistant Secretary of State, told a group at the New School for Social Research on Feb. 23 that he did not see a war with Russia as a result of the present crisis. Only the Soviet Union can force a war, he declared, and "they have more sense than to do so."

Adolph A. Berle, Jr.

Speaking in the fourth of six monthly lectures on international affairs, Mr. Berle pointed out that the Soviet policy of imperialism has not succeeded anywhere thus far, except in areas which are or were under actual occupation by Russian troops. He added, if a Russian army is used to support the irregular armies, the Soviet Union would be commencing a new war, just as the Germans did when they invaded Poland.

"But I doubt if even the Russian extremists will take this risk," he said, "that is why I do not believe the United States runs great risk in assisting those countries which wish to maintain their independence."

Referring to independent reports which indicate that "the masses in Europe have no confidence in and no use for the international power politicians on either side," Mr. Berle stated that "mainly they want to be let alone." They will undoubtedly make great changes in the social system of their various countries, he said, but they do not, on that account, want to sell out to anybody's empire.

Mr. Berle referred to the Wallace campaign as perhaps "the greatest invitation to war in the world. He is accurately, and no doubt honestly, expressing the fear and hatred which every American has of war—which is all right as far as it goes. But this encourages European aggressors—just now the Soviet Union—to push aggression without taking into account the United States."

The same talk, Mr. Berle asserted, encourage first the Kaiser and then Hitler to write off the United States and to take action they might not have risked had they foreseen the result. "But in fact big pacifist campaigns in the United States—like the campaign in 1916, and the campaign in 1940, often precede a sudden change in American sentiment. After looking for peace without finding it, historically the United States has reached for its guns."

In Mr. Berle's opinion it is absurd to say that the United States with its free system and the Soviet Union with its Socialist system, or Western Europe under a different kind of Socialism cannot co-exist. Clearly they can. "But neither these systems nor any other can co-exist if either is an aggressor, bent on world conquest, whether the aggressor is Communist, capitalist, or Fascist. Here no compromise is possible."

"There is no difficulty so far as the United States is concerned," Mr. Berle concluded. "If the United States were satisfied, for example, that the Russians would not attempt directly through their armies or international brigades, or indirectly through puppet revolutions exported in packages, to seize Greece, Manchuria and other areas, the United States would have less than no interest in maintaining bases or force in the Mediterranean."

Warns Retailers Against Anticipatory Buying

In a "Retail Advisory Service Bulletin," commenting on the outlook for 1948, Arthur Fertig & Company warns retailers against expecting further price rises and urges them to adopt a cautious policy with regard to their purchases and inventories.

"The time has now come when the retailer, as the important factor in the distribution system, may reluctantly purchase merchandise which is over-priced and lacks quality and appeal" is the advice given. "Furthermore," the "Bulletin" adds, "anticipatory buying in view of probable price rises and lack of quantities, should entirely disappear from the thinking of the retailer. Purchasing merchandise for value and on a turnover basis should be the slogan adhered to. Otherwise two things will occur:

(1) "Inventory mark downs or losses will undoubtedly occur.

(2) "Sales volume will be retarded.

"The retailer serves his own useful ends and operates toward stabilizing the economy when he refuses to pass on to the consumer over-priced products. Furthermore, buying such merchandise in quantity prior to seasonal requirements aggravates the condition further. We are inclined to believe that now that it is evident to all as to what is happening, that this approach in merchandising will cease after the extreme practices of the postwar period.

"We are not of the opinion that this commodity deflation will take on the aspects of post World War I. The advantages of a set-back of 15-25% in the general commodity price level will ultimately result in lower costs to the retailer which should be passed on to the consumer. This should occur within the next six months. In the meantime, over-inventoried merchandise will be pressing for sale, thus compelling greater concessions on the part of some retailers in order to maintain volume.

"We are now entering a more competitive era of retailing in which skill, merchandise technique and disciplined tactics will produce more efficient and profitable results than the policy of indifference toward spending dollars as freely as they have been in the past.

"Volume should be satisfactory for the year as a whole, but with a keener fight toward obtaining the satisfactory gross profit margins. On the other side of the ledger, there is need for greater control of operating costs for with rising volume in the past two years, operating costs have gradually risen out of proportion to such increasing volume. Marginal sales volume has resulted in no increase in profits. The fling in retailing of carefree and indifferent expense expansion is at an end.

"The full or total effect of the passing of Regulation W has not altogether been felt. It is unlikely that it will return in any form and, therefore, all home furnishing retailers will experience expanding installment receivables even though volume may not be maintained. In many instances, working capital has been furnished by bank credit. Further expansion on the basis of bank credit is not a sound basis and should not be considered.

"It would appear that a consolidation of the efforts of most retailers toward obtaining a satisfactory and settled sales volume based on more rapid turnover and control of expenses, would be the wiser policy."

The Status of Mortgage Lending

(Continued from page 12)

amendment to the Servicemen's Readjustment Act, or under the guise of slum clearance, as our state and local authorities in some areas are now attempting. While lending on housing facilities is a part of our function, as bankers, we should and must perform that function on a basis of conservatism that will warrant confidence by not only the supervising authorities but the public as well.

Federal Guarantees Needs Simplification

Simplification of the Federal laws relating to the insurance of mortgages would be highly advantageous. If we would extend to veterans and civilians alike the right to insure, with the limitation that the premises are, or will be, owner occupied, we would do much to establish a sound mortgage structure within our economy.

I would exclude the speculative builder, leaving him to conventional financing. Under the provisions of the FHA Law, speculative building, with the funds provided to a professional builder, opens the door to unconscionable profits which are now feeding the forces of inflation that are apparent in the realm of real estate financing.

If a reversal should occur and cause a drop in consumer purchasing power, with a consequent decline in real estate prices, the government may carry through a program involving philosophies incorporated within the original Home Owners Loan Corporation enactment. I have no doubt that if a governmental agency interests itself in this field, a greater leniency and stronger effort to help the borrower work out his problem would be a fundamental philosophy in its activities. The end result, however, no matter how long delayed, will and must conform to the traditional pattern of liquidation for all parties alike, be they lenders, borrowers or insurers. If our conventional lending on real estate mortgages and the operation of Federally insured credit can be rationalized with the basic economic conditions prevailing from time to time, together with reasonable foresight and caution on the part of the lender, all, the borrower and lender alike, and our national economy as well, will have reaped a worthwhile advantage.

Unless great care is used by the lenders in the days ahead, there is a danger that the operation of housing credit as it has been conducted by the government in recent years may become an institutional activity motivated by political expediency and practiced without reference to economic stability. Such a venture may readily carry us into a period during which we will be totally divorced from our present affection for what has been termed riskless Federally insured mortgages.

Gene Mako Joins Staff Of John B. Dunbar Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Gene Mako has become associated with John B. Dunbar & Co., 634 South Spring Street. Mr. Mako was formerly with Bourbeau & Douglass and prior thereto was with the Los Angeles office of Swift, Henke & Co.

William Hitchman Opens

William C. Hitchman is engaging in a securities business from offices at 90 Wall Street.

The World Bank Problem

By E. FLEETWOOD DUNSTAN*

Director of Marketing, International Bank for Reconstruction and Development

Asserting World Bank has not issued invitations to "come and get it," Mr. Dunstan outlines operations and policies of the institution and lists resources securing its bonds. Says Bank insists loans be used for specific projects, and describes means employed to accomplish this objective. Says European Recovery Program will have vitalizing effect on operations of the Bank and urges steps be taken to broaden market for its bonds, by making them legal for investment by trustees, savings institutions and insurance companies.

The International Bank is now ready and qualified to undertake its responsibilities in the field of financing sound reconstruction and development projects. Up to the present it has made an important contribution to the four nations to which we have made loans; and it may logically be expected to assume an increasingly constructive role in the future, as credit is extended to more nations. It should be borne in mind that while the dollars which the bank lends in the course of its operations are earmarked for a specific purpose within a specific country, this does not mean that the spending or sustaining power of these dollars is limited to that country. Actually, the power of such purchasing is diffused over a wide geographic area, reaching into a number of countries, in the search for a variety of raw materials, machinery, and industrial equipment of all kinds.

E. Fleetwood Dunstan

To date our institution has granted loans totaling $497 million, and it has borrowed $250 million. We have stabilized its internal current operations to the point, where, for the year ending June 30, 1948 its activities should result in a surplus sufficient to absorb all of the deficit created through the period of organization. This showing is more commendable when it is realized that the Bank followed the ultra-conservative course of charging against current earnings the entire discount and expense resulting from the issue of its bonds amounting to over $1,275,000. It did not choose to follow the accepted method of amortizing this item over the life of the issues. It should further be noted that there will be a substantial deduction from income for the "Special Reserve Fund" which is set aside as an added protection for the Bank's outstanding bonds. This Fund amounted to $1,104,000 on Dec. 31, 1947 and will of course be materially increased by the end of this fiscal year.

Bank's Loan Policy

The Bank's loan policy will continue to be based on the realization that the major effort must come from within the borrowing nation itself, and that each loan application will receive the most critical investigation of the planned use of the funds. Bankers an businessmen realize fully that the greatest service that any bank can render is to lend in such a way that the borrower will reap sufficient benefit from the loan to assure orderly liquidation of the indebtedness.

By making carefully considered loans we hope to supply, not the whole effort, but merely the vital link welding the resources and manpower into a coordinated plan enabling full utilization of the borrower's national advantages. Loans of this nature are the type than can be repaid and are made with the full expectation that they will be met when due.

One significant feature common to all of our loans is that they are earmarked for definite productive purposes; and this constitutes a new and healthy departure in the record of international financing. Our loan agreements provide for the purchase of specific commodities which the borrowing countries vitally need to get production going. When the Bank makes a contract to grant a loan it sets up on its books a credit in the name of the borrower, and the borrower is permitted to draw against this credit only to meet expenses in connection with projects as they are actually incurred. Withdrawals are made either for reimbursement of purchases for which the borrower has paid or as advances or collateral deposits for purchases not yet completed. In the case of reimbursements, the borrower submits copies of invoices describing the goods purchased, evidence of payment, and evidence of shipment to the borrower's country. In the case of advance payments, the borrower submits pro forma invoices or copies of orders or contracts, followed up on completion of purchases by final invoices, evidences of payment and shipment. In some cases a collateral deposit is made with a commercial bank, which in turn makes payment against prescribed documents which are submitted to the International Bank. All applications for disbursement, together with suporting documents, are carefully checked to see that the merchandise purchased is eligible as to type and is within the available category limits. Further checking is made to ascertain that the price is reasonable, that calculations are correct, and that the transaction has not been previously reimbursed.

Even after these precautions are taken, the Bank goes a step further in meeting the Articles of Agreement which provide that it shall insure "that the proceeds of any loan are used only for the purposes for which the loan was granted." Representatives of the Treasurer's Department have been appointed for all countries to which loans have been made. These representatives ascertain whether the borrower has a system of control of imports and internal distribution adequate to safeguard the requirements of the loan agreement. These representatives check shipments of goods through the various stages to their end-use.

Supervision Element in International Lending

This system established by the Bank for the supervision of end-use of the proceeds of loans is, as stated above, a new element in the relations between international lenders and borrowers. It has been briefly reviewed here to convey to you some idea of the care with which the Bank is administering its responsibilities, both to its members and to the investors who have purchased International Bank bonds.

It should be noted in this process of checking end-use that the

*An address by Mr. Dunstan before the luncheon meeting of the Analysts Society, Providence, R. I., Feb. 18, 1948.

financial aspects of each project financed by the Bank are closely followed. Money is not made available more rapidly than are the required supplies of goods to be purchased.

This latter fact is an explanation of why some borrowing nations draw down the balances of their loans more rapidly than others, which is a subject about which we are frequently questioned. Delay in disbursing the proceeds of a loan usually is due either to slowness in obtaining necessary documents on which the funds are paid out, or to the nature of the project, which may require many months for delivery of necessary equipment or machinery.

It is interesting to see how much more rapidly some of the loans made by the Bank are utilized than are others. The first loan by the Bank was $250 million to the Credit National, of France. The agreement was signed on May 9, 1947. By the end of January, last, this entire sum had been disbursed, in the purchase both of raw materials and equipment.

Of the $12 million Luxembourg loan, signed on Aug. 28, 1947, only $5,692,370 had been disbursed up to Jan. 31, last. Less than half of the total sum has been thus far employed, due to the fact that the entire sum was earmarked for industrial and railroad equipment, and some of it will not be delivered for several months more.

The Kingdom of the Netherlands has drawn down only about $83 million of the commitment for $195 million specified in the agreement of Aug. 7, 1947. The Kingdom of Denmark loan agreement was signed on Aug. 22, 1947 and was for $40 million. Up to the end of January only $1,960,719 had been disbursed on this account, which had been anticipated because the Danes had no intensive program under way. Their need for dollars is not as urgent as is that of some other countries, so there was no necessity for haste. I am informed, however, that this program has been accelerated in the last few weeks and Denmark, too, now is drawing upon her balance at a much more rapid rate.

Thus, of the original loan commitments totaling $497 million, $340,857,903 has been disbursed. There remains $156 million in the "unused balance of commitment"; so, it is apparent that the force of International Bank financing is not spent by any means. The trade which these loans made possible is an economic factor in several directions. The Netherlands Government, for instance, has done substantial primary purchasing in Belgium and Switzerland. All purchases are not made in the United States alone. In fact, the borrower has placed upon him no restrictions as to where his goods shall be bought.

Resources Behind Bank's Bonds

Now in order to make loans, the Bank must obtain the major part of its lending funds by borrowing from private investors. A brief review of the unusual safeguards surrounding our bonds will, therefore, interest you.

In the first place we expect to build up a sound loan portfolio which will provide the means of meeting our obligations as they mature, without resort to other safeguarls. Behind the bonds are, first, the Bank's portfolio of loans, the principal amount of which outstanding at Dec. 31, 1947, was $300,115,648; second, its liquid assets in cash and marketable securities, including demand notes of members, which at Dec. 31, 1947, aggregated approximately $681 million in United States' dollars and gold (not including the equivalent of approximately $909 million in other currencies); and, third, the 80% of the subscribed capital stock of the Bank which is subject to call only to meet the obligations of the Bank and which at the present time aggregates $6,610,480,000, of which $2,540 million is the share of the United States.

During the first 10 years of its operations the Bank is required to charge on all loans guaranteed by it and on all loans made by it out of borrowed funds a commission of not less than 1% and not more than 1½% per annum on the amount of the loan outstanding. That commission is required to be kept in liquid form in a special reserve to meet the Bank's obligations. The present policy of the Bank is to charge a commission of 1% per annum on all loans whether made out of capital or out of borrowed funds.

When the proceeds of the loans approved to date have been entirely withdrawn, the sum of $4,970,000, will accrue annually to the Fund and this figure will increase rapidly as the amount of outstanding loans expands. With operations at this early date on a satisfactory basis, the ordinary reserves and surplus also could within a relatively short time become quite sizable.

Such resources behind the Bank's bonds should assure even the most faint-hearted investor that he will be well protected until both the Bank and the borrowing countries had fair opportunities to prove the soundness and value of the Bank's operations.

The Bank and ERP

There has been a great deal of discussion regarding the effect of the proposed European Recovery Plan on the operations of the International Bank. It has become apparent that economic disruption wrought by the last war is far greater than could have been foreseen when this Bank was created in 1944. A far more extensive program of assistance is necessary than can be undertaken by the Bank, which is not a relief agency, and may make only productive loans. Moreover, the Bank is comprised of 46 member nations. Thus, its potential loan applicants far exceed those 16 countries which form the Committee of European Cooperation. But a European Recovery Program as contemplated under the Marshall Plan, if wisely shaped, would have vitalizing effects on operations of the International Bank. If some of Europe's critical needs—such as food, fuel, and raw materials—are provided under a recovery program, the productive potentialities of Europe as a whole will be increased, and the security of the loans which the Bank makes to the European area thereby improved.

Assistance furnished Europe on a grant rather than a loan basis will serve as an additional equity base for such loans as the Bank may make for capital equipment. Thus, the European Recovery Program and the Bank's operations should complement each other rather than interfere in any manner.

Program of Marketing Bonds

Now, gentlemen, as executives of finance, industry and commerce, you have a direct interest in the policies and program of the International Bank. I should like to think we could interest you also in our program for broadening the market for our bonds, particularly in Rhode Island. As you know, commercial banks and insurance companies in this State may purchase our bonds, but new legislation is required to extend this privilege to savings banks. I understand that a bill to accomplish this will be introduced in your Legislature at the current session.

It is in the interest of the Bank, its present bondholders and its future bondholders that the potential market for International Bank securities be sufficiently broad as to include the great financial institutions in all of our states. Material progress in this direction already has been achieved, as is indicated by the number of states in which the bonds now are legal. For instance, 90% of total bank deposits in the United States are held by commercial banks in the states where the bonds are legal for investment by those banks.

Better than 75% of the country's mutual savings bank deposits lie in those states where official approval has been given our bonds, and there are only seven states remaining on the list where qualification is necessary. Rhode Island, with more than $250 million of savings bank deposits, is one of these. None of the six other states have legislative sessions scheduled for this year.

Turning to the insurance companies, we find that insurance companies and fraternal organizations featuring insurance that have been authorized by their respective states to invest in International Bank bonds hold about 79% of the admitted assets of all insurance companies in the United States. In Massachusetts, a most important investment center among those states not previously acting, the legislature has just passed a Bill which now goes to the Governor for signature, making bonds of the International Bank legal investments for Life Insurance companies and all other domestic insurance companies within the State. Including Massachusetts, the percentage of admitted assets of insurance companies domiciled in those States where necessary qualification has been made would be raised to 88%. Incidently, I understand that in addition to passing new laws, the Legislature of the Commonwealth of Massachusetts also has been busy repealing some of its old laws!

Officials of the International Bank are gratified at the ready recognition accorded our bonds in state after state. We feel that such action reflects confidence in the sound operating policies of the Bank and the conservative lending practice adhered to in all transactions. Naturally we are anxious to add the remaining states as rapidly as practicable.

It should be emphasized that the Bank had not thrown open its doors with an invitation to the world to "come and get it." The Bank is bound by the limits established in its charter and the rules of sound financial practice. We feel that our bonds are entitled to an excellent credit rating, and we therefore earnestly solicit your aid in having them made available to all investors in Rhode Island.

With Dempsey-Tegeler Co.

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Lyra Schroeder has become associated with Dempsey-Tegeler & Co., 407 North Eighth Street, members of the New York and St. Louis Stock Exchanges. He was previously with St. Louis Union Trust Co.

With Pacific Co. of Calif.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—William J. Slinkard has been added to the staff of Pacific Company of California, 623 South Hope Street, members of the Los Angeles Stock Exchange.

Fusz-Schmelzle Adds

(Special to THE FINANCIAL CHRONICLE)

ST. LOUIS, MO.—Fusz-Schmelzle & Co., Boatmen's Bank Building, members of the St. Louis and Chicago Stock Exchanges, have added Homer A. Heid of Mascautauh, Ill., to their staff.

Joins A. E. Weltner & Co.

(Special to THE FINANCIAL CHRONICLE)

KANSAS CITY, MO.—Turner W. Tyson is with A. E. Weltner & Co., Inc., 21 West Tenth Street.

Money and Prices

By ROGER W. BABSON

Mr. Babson, maintaining high prices are largely matter of "supply and demand," points out devaluation of currency does not increase available commodities. Accuses Roosevelt Administration of robbing us of gold and contends if Washington is really serious in reducing amount of money in circulation, it should offer people gold dollars in place of paper dollars.

Since my recent column stating that high prices are largely a matter of "supply and demand," I have received many letters of protest. These letters claim that the "amount of money in circulation" is the main cause. There is about three times as much money in circulation today as there was ten years ago. This doubtless is a factor in the situation, but it makes no difference how much money is in circulation or the rate of circulation if people do not buy goods.

Roger Babson

Ten men may be sitting around a table where each one owes the other a hundred dollars, or a total of $1,000. By presenting one of these men a hundred dollar bill he can pass it to the next man, and the next man to the next man, and so on; then this one hundred dollars can "pay up" the entire debt of $1,000! But this does not effect prices one penny.

Russia's Cure

What Russia has recently done in reducing the amount of money in circulation was done at the suggestion of her economists who, through advance notice, had their savings in land, commodities, and other real things which were not deflated. This program of Russia, however, does not increase the amount of food, clothing and shelter available to the Russian people which are the things in which they are really interested.

President Truman could accomplish the same thing in a gradual way by paying off government debt, increasing bank reserves, raising interest rates, and forbidding instalment sales, but for political or other reasons the Administration shies away from sound recommendations.

Robbing Us of Gold

Readers will remember that during the early part of the Roosevelt Administration when we held more gold than any other nation, President Roosevelt made us turn in all of our gold coins. At that time gold was worth $20.67 per ounce compared with $35 per ounce for gold today. Mr. Roosevelt did this on the advice of the same economists who are now razzing me for saying that "inflation" is 90% a question of supply and demand.

President Roosevelt then robbed the American people of billions of dollars which they had honestly earned. It was as bad as what Russia is doing today. The gold which the citizens of the United States then held was not used for circulation. It was in the bureau drawers of our wives and children; it was carried in our own pockets for luck and emergency; and much of it was in safe deposit boxes throughout the country. When, however, President Roosevelt forced us to turn in all of this gold and exchange it for paper currency, this paper money was spent, and hence, greately inflated the amount of currency outstanding. As the swapping of gold dollars for paper money then increased the amount in circulation, why wouldn't the reverse be true today? If Washington is really serious in reducing the amount of money in circulation, why not offer people their gold dollars back again in place of the paper dollars which they would turn in? The U. S. Treasury certainly has gold enough buried in the ground.

Two With Schwabacher Co.

(Special to THE FINANCIAL CHRONICLE)

SAN FRANCISCO, CALIF.—Edward P. Boss and Francis T. Flint have been added to the staff of Schwabacher & Co., 600 Market Street, members of the New York and San Francisco Stock Exchanges.

E. G. Goldsworthy Opens

(Special to THE FINANCIAL CHRONICLE)

GRAND JUNCTION, COLO.—Elmer G. Goldsworthy is engaging in the securities business from offices at South Redlands, Grand Junction, Colorado.

Observations

(Continued from page 5)

land's problem is to produce as much per actively employed person as in 1938. It is pointed out specifically the productivity of building labor is down 30%; that 25 million tons less coal with the same number of workers is being produced, etc., etc.

And the British Ambassador-designate to Washington himself, Sir Oliver Franks, celebrated our Washington Birthday Holiday by warning that the 16 recipient nations "must not regard the Marshall program as an economic cushion on which to rest, but as a stimulus toward greater productivity and toward internal financial stability."

* * * *

Fantasies of the Pound

Likewise absurd fallacies are being voiced here as well as on "the home grounds" about the value of Britain's currency. These were epitomized at a closed meeting of important personages in New York City last week when a British spokesman unabashedly and at length seriously advanced the credo that the pound is under—and not over—valued. This despite the fact that, consistent with Britain's 1947 gold and dollar loss of £1,023 million (quadruple the previous year) the Black Market's real valuation of the pound has been $2.50 instead of $4.02, per the Britishers' shortlived attempt to engage in dollar-convertibility last summer.

As a matter of fact, in lieu of pandering to England's self-interested objection to France's recent attempt to reform her currency, and to the Socialist-dictated management of sterling with regulations forbidding its citizens from trading their pounds for francs or even the escudos of Portugal, let us vigorously and as a finely constructive step encourage a free and realistic market to strip the fictions from currency valuation!

The Unsatisfactory Pattern of Exchange Rates

(Continued from page 16)

ditures must be incurred to carry out commitments resulting from the failure to conclude peace. In 1946, non-commercial overseas expenditure of the U. K. government amounted to $1.2 billion, in 1947 to $1 billion. And we should not underestimate the internal effects, political and economic, in some European countries of the tension between the United States and the Soviet Union.

The forces that disturb the world economy have been and are very powerful. During and after the war, the parities of the currencies of some countries were changed with a view to making them better suited to the radically altered conditions within these countries and in the world. It would be folly to assume that these haphazard changes undertaken to meet immediate and urgent needs can provide a pattern of exchange rates reflecting a new international economic balance in a greatly changed world. It takes no prophetic insight to see that many changes must still be made before a suitable pattern of exchange rates is established. The great task of the Fund is to find some way to reach this suitable pattern of exchange rate.

Initial Parities

The Fund Agreement provides that members must agree with the Fund on the initial parities of their currencies. In the summer of 1946 the Fund undertook consideration of this problem. A vast amount of data was collected. Many studies were made. Innumerable discussions were held. I would not want to leave with you the impression that all this was done, so to speak, in the mass. On the contrary, in every case a detailed investigation was made of the present and prospective position of each member.

In this work we had in mind both the immediate problem and the ultimate problem. On the ultimate problem we wanted to know what would be the international economic position of a country after the transition period, and what real exchange rate would then be suitable for it. Specifically, we assumed that the country would have completed reconstruction, that the United States would have good but not booming business conditions, that the United Kingdom would have restored its balance of payments without cutting imports below the 1936-38 level, and that convertibility of major currencies would have been reestablished, so that countries would be able to use the proceeds of their exports to every country to pay for their imports from any country. We wanted to know what real exchange rate under these assumptions would enable a country to restore a tolerable balance in its international payments. By a real exchange rate I mean simply the real terms of trade that could restore the balance of payments. To these terms of trade a coefficient of prices would have to be applied to get the nominal exchange rate. Of course all this represented an ideal approach to the problem, based on uncertain hypotheses and even the unknown future.

The immediate problem was of a different order. It was concerned simply with the question of what effect the parity then prevailing in each country would have on its economy and on its trade within the next year or two. In short, we wanted to know whether the prevailing exchange rate would handicap a country in rebuilding its economy and in securing an orderly adjustment to its new international economic position. We wanted to know whether the prevailing exchange rate would enable the country to attain by the end of the transition period that tolerable balance of payments consonant with the real exchange rate.

As you see, this involves a Fund point of view on exchange rates. It is a practical point of view looking to the effectiveness of an exchange rate in doing its work. An exchange rate has two functions. The first function is to enable a country to export the goods which it can spare in order to secure the means to acquire the imports which it needs. In short, the first function of an exchange rate is to let the exports flow. The second function of an exchange rate is to keep the imports of a country within its capacity to pay and to allocate imports according to the needs of the community as measured by broader policy considerations. In brief, the second function is to limit imports.

Under present conditions it is not possible for the exchange rate to perform this second function in some countries. They cannot count on exchange rates to limit imports to the proper level or to apportion them among those various goods which the economy most urgently needs. For example, in a country like the Netherlands, in which the shortage of goods is so great that rationing is necessary to limit the demand for consumer goods and allocation is necessary to limit the demand for investment goods, it is inconceivable that the exchange rate could be expected to bring about an adequate limitation of the demand for imports. To do this a country might have to depreciate the parity of its currency so sharply as to offer exceptional bargains to its customers in the sale of its exports. So great a depreciation might even affect adversely its foreign exchange receipts if its capacity to produce is still limited.

For these reasons it appeared to the Fund that for the present the one practical test that could be applied to determine the suitability of an exchange rate was whether it enables a country to export. In testing the initial parities communicated to the Fund — remember, a number of countries asked to postpone the establishment of parities — it appeared that the proposed parities would not under prevailing conditions seriously handicap exports. That does not mean that there was any general expectation that the initial parities could be continued indefinitely. Obviously, the officials of the Fund were aware that as conditions of world demand change, as latent inflationary forces begin to manifest themselves, a parity which was not then hampering exports might later do so. This was stated very clearly in the first annual report of the Executive Directors of the Fund.

Whether the initial parities actually met the expectations of the Fund can be roughly determined by seeing how export trade behaved in the year or so since the initial par values were established. You will find that for nearly every country in Western Europe exports have increased more rapidly than production. At least until the autumn of 1947 the initial parities do not seem to have been a handicap to members of the Fund in expanding their total exports. I shall have something to say regarding the direction of their exports in connection with another problem.

In the last few months, however, it has become clear that in some countries the initial parity has begun to burden export trade, more particularly exports toward the dollar area. Whether these developing difficulties are proof that an error in judgment was made in accepting the initial par values is a matter of opinion. My view is that if the necessary changes are made promptly it will support the wisdom of our original action. If changes are unnecessarily delayed it appears to me that they will indicate that the members of the Fund are making a serious mistake in continuing the overvaluation of their currencies. Under such conditions the Fund will not hesitate to urge on a member consideration of the desirability of a revision of the parity of its currency.

What alternative was there in fact to accepting the initial parities? There are some people who would have wanted the Fund to make a thorough overhaul of exchange rates adjusting them to what they regard as the real value of the currency, probably something resembling purchasing power parity. Frankly, such a course would have been in practice impossible. In the first place the adjustment of a currency on the basis of purchasing power parity implies that all that is necessary is to restore the prewar balance of payments. In fact, most of our members were faced with the establishment of a new balance of payments suited to their altered international economic position. An adjustment on the basis of purchasing power parity assumes that the whole problem in exchange rates is one of inflation. In fact, for many of our members the inflation problem is secondary to the real deterioration in their international economic position.

What can be the meaning of purchasing power parity in countries with rigid price controls and rationing? Many of our members are suffering from latent rather than realized inflation. Should the new rate have been based on the expected inflation or on the realized inflation? The answer seems to me that any purchasing power parity formula, whether of prices or wage rates, would have been an impossible basis for a general revision of exchange rates. That is not to deny that relative prices and costs are of major importance in considering whether an exchange rate will enable a country to export. Obviously they are, and price and wage data were given careful weight by the Fund.

I might say in passing that to have compelled a country capable of exporting only 30% of its prewar volume to value its currency at a parity suited to exports of 100% of its prewar volume would have forced on that country further inflation. If we assume relative freedom in bidding for international trade goods, then if Czechoslovakia, for instance, is exporting 30% of its prewar volume, if the exchange rate for the crown is set at a level that will result in a world demand for 100% of the prewar volume of exports, and if Czechoslovakia is unable to produce and export this volume, the effect will be to bid up the prices of these goods in Czechoslovak crowns to a higher level than is necessary to make their export remunerative. But this would not have brought more exports at that time. In short such an exchange rate, however suitable for conditions two or three years off, would for the time being only induce additional inflation.

These are among the considerations that led the Fund to accept the initial parities. It was the judgment of the Fund that the accepted parities were then performing reasonably well their function of moving export goods and that they were likely to be effective for a year or two to come. Even in the more extreme cases of doubt, such as France, it was the prospective inflation rather than the realized inflation that would have had to be the basis for a change in parity. In the view of the Fund the proper course was to continue the existing parities until they were shown to be an obstacle to international trade. At such a stage the Fund could consider one by one the necessary changes in parity. I think I violate no confidence when I tell you that this was not alone the opinion of the officials of the Fund, but it was wholeheartedly supported by the best informed central bank opinion in London, Ottawa and New York.

Changes in Parity

The policy of the Fund on initial parities carried with it as a corollary the willingness of the Fund to act promptly and favorably whenever a change in parity should become necessary because it threatened the export position of a country. Again, the first annual report of the Executive Directors of the Fund stated that the Fund expected that changes in parity would be necessary when the export capacity of countries had increased and the buyers' market was superseded by a sellers' market. Even before that stage, in individual cases continuing inflation was expected in time to undermine the parity of the currency in some countries; and here too the Fund was prepared to act promptly.

This raises a difficult question of timing. Suppose that a country is suffering from a continuing inflation that affects the exports of that country. What should the policy of the Fund be? If all that a country does is adjust the exchange rate to the inflated level of prices and costs, it may restore exports for three months or six months. But in a relatively short time the adjustment in parity will be absorbed and the continuing inflation will make the new exchange rate unsuitable. A change in parity is not an ultimate solution to the export (and production) difficulties faced by such a country.

If the adjustment in the parity is to be fully effective it must be accompanied by measures to halt the inflation. That means measures must be taken to see that aggregate demand for consumption, for investment and for government outlay at stable prices will not be in excess of the capacity of the country to produce plus any import surplus that can be financed by loans or grants from abroad. It means that total government expenditure should be reduced and what is spent should be covered by taxes. It means that investment should be limited to those productive needs that will act quickly on the output of the community, and investment funds should not be supplemented by new credit from the banking system. And it means that money incomes cannot be increased unless there is a corresponding increase in output, particularly in that part of output which will be available for consumption. These are the element of the anti-inflation measures that must be taken in conjunction with the change in parity if it is to be effective. Otherwise, we shall only have bloated incomes and currency chasing short supply in a new spurt of inflation.

Unfortunately, it is not always possible to take such measures promptly. In any democratic state it takes time to put through such comprehensive reforms. We have discussed with our members the need for just these policies to make effective a change in parity that was generally recognized as necessary. If we have delayed three or four months in getting an obviously necessary change in the parity of one of the major currencies, it is because political disturbances prevented such measures from being taken early in the autumn and it is only recently that progress has been made in putting such measures into effect. In my opinion, it is better to wait three or four months before adjusting a parity if this delay is necessary in order to have the change in parity accompanied by corrective measures adequate to deal with the underlying cause of the difficulty — inflation.

But suppose a country is not prepared to deal boldly with the inflation problem, what then should the attitude of the Fund be? While the Fund would deeply regret the failure of a country to proceed with strong measures to halt inflation and while it would not hesitate to continue to urge on a member the necessity for such measures, I think it should not on that account refuse to agree to a change in parity. It is one thing to say that a country which is not taking steps to put its exchange policy on a sound and stable basis cannot expect help from the Fund. That is reasonable. It is quite another thing to say that the Fund will object to a proposed change in parity because a country is not taking adequate measures to keep its currency stable. If the Fund were to take such an attitude it would inflict on a country the continuation of a disastrous exchange rate which is choking its export trade and preventing the country from getting imports which it desperately needs.

Free Rates

A number of our members have not brought their inflationary difficulties under control and are not able even to attempt to maintain a stable exchange rate. Greece is one such country, Italy is another. You may have seen the recent criticism in the London "Economist" of the action of the Fund in permitting such countries to continue their system of free rates. In my opinion there is no other course than to permit a country in which prices rise at an annual rate of 50% or more to keep a system of steadily depreciating rates

The system in Italy is not, strictly speaking, a free rate. It should not be confused with the system of free rates in certain Latin American countries where prospective importers bid freely for exchange. The system in Italy is one of a controlled exchange market. In Italy, for example, exporters and other recipients are permitted to sell half of their exchange receipts for whatever rate they can get from authorized importers. The other half of their exchange is sold to the monetary authorities who pay for such exchange the average of the market rates that prevailed during the preceding 30 days. This is not a system in which the exchange authorities can sit back and hopefully say that the market is free to do as it pleases.

In practice the market is far from free. It is true that importers of certain types of goods, List A goods, need no import permit and are free to buy as much as they can of foreign exchange to pay for such goods. But importers of other goods must be licensed and these licenses are limited. The demand for exchange is restricted, therefore, by the small number of commodities of relatively little importance in List A and by the attitude of the authorities in granting import licenses.

It would be a serious mistake to assume that under such a system the sole problem of the monetary authorities is to limit the granting of licenses. Even the licensing policy becomes more complex in a country with continuing inflation. Actually, the monetary authorities must be sure that sufficient licenses are issued to encourage the bidding up of exchange rates to a level that will make exporting remunerative despite inflated demand at home and rising domestic costs and prices. Exchange policy in Italy, therefore, must see that demand for foreign exchange is kept great enough through List A and through import licenses to bring about a free exchange rate adequate to assure the proper level of exports.

So far as this feature of the Italian exchange system goes I can see no objection to its temporary use under present conditions.

Needless to say, the Fund would be very happy if conditions in Italy made it possible to declare a definitive par value and to keep the lira at parity without restricting export opportunities for Italy. Under present conditions, with severe unemployment, with a large budgetary deficit, and with political pressure to provide food subsidies and wage bounties, it is far better to continue for a time the free exchange system in Italy than to force a premature parity of the lira. We have studied the Italian situation and we hope that it will improve. The problem of overpopulation must be met through emigration of Italian workers. If part of the burden of unemployment could be lifted in this way, then good harvests, an adequate inflow of raw material imports, and aid from abroad would make it possible, without too long delay, to halt the inflation in Italy. At such a time the Fund will not be remiss in urging upon the Italian Government the desirability of agreeing on a parity of the lira.

Multiple Currencies

I have mentioned that one of the functions of the exchange rate is to limit imports, and I have stated that under present conditions the exchange rate cannot perform this function in some countries. I have heard doubts whether exchange rates can, in the future, perform this function. In a number of Latin American countries the exchange system even before the war involved the use of multiple currencies with a considerable difference between buying rates and selling rates for foreign exchange. The typical system of this sort involves a buying rate for exchange derived from exports which was presumed to be remunerative to the exporters. This same rate of exchange, or even a more favorable rate, may be available to importers requiring exchange to purchase essential goods. The purchasers of nonessential and luxury goods are required to pay penalty rates considerably in excess of the buying rate.

A penalty rate on imports may be only another device to collect taxes from consumers of non-essential and luxury goods with the tax collected at the time the exchange is sold. But in many cases multiple currency rates are not used simply as a means of collecting revenue. The high selling rates for exchange are used rather as a device for restricting imports without requiring onerous administrative control in import licensing and without giving large windfall profits to the fortunate recipients of import licenses.

What happens in such Latin American countries is that a large inflation of incomes and prices has made importing more attractive. Costs not having risen as much as world market prices for particular exports such as coffee and copper, there is no need to change the export rate. But measures are necessary to restrict excessive imports. And the monetary authorities have made increasing use of the device of charging penalty rates for exchange to pay for imports of nonessential and luxury goods. The fact that in the category of nonessential goods we often find commodities consumed by people of very modest incomes, that at times 50% or more of the aggregate imports are subject to the penalty rates, indicates quite clearly that we are dealing not simply with a tax device but with a system for restricting excessive import demand through high exchange rates.

In my opinion we shall find that in time a system of multiple currencies originating in inflation tends to disappear once the inflation is brought under control. In the later stages of inflation costs continue to rise until they meet prices. Exports become unprofitable at rates of exchange that are too much below the penalty rates for imports. To induce the continued flow of exports there is a tendency gradually to extend to exporters the privilege of disposing of their exchange proceeds at the higher import rate. We see this, for example, in Chile where all exports, except copper and nitrates, are becoming unprofitable except at rates corresponding to free market rates roughly 50% above the official parity.

And as inflation is brought under control, penalty rates to restrict imports no longer remain necessary. When the inflation ends the demand for imports will fall off. More particularly, the excessive demand for luxury imports tends to disappear as inflation profits decline. The monetary authorities will find that the exchange rate suitable to exports will prove in fact to be the exchange rate capable of restricting imports.

For these reasons I believe that as a practical matter multiple currencies, except where they are used for tax purposes, will in the course of time disappear. As a first condition it is important to halt the inflation which makes necessasry the use of penalty rates to restrict imports. When the inflation is halted it will be found that costs soon creep up on prices and that a new exchange rate is necessary to encourage exports. Furthermore, a change in world demand might reduce the exceptionally high prices received by some exporters and necessitate an adjustment in local currency prices of their products to enable them to continue to export.

It is this combination of events, halting inflation and a change in the sellers' market, that offers the most favorable opportunity for eliminating multiple currencies. At that time the establishment of a new parity at the penalty import rate will be helpful. I believe we shall find that some countries will soon reach the point where the elimination of multiple currency practices and the establishment of a new uniform parity, adequate both for encouraging exports and limiting imports, will be possible.

Disorderly Cross-Rates

There is a special aspect of multiple currencies which has again become of importance since the end of the war. I refer to the fact that in some countries the rates of exchange that prevail for different currencies are not in conformity with the cross-rate parities established by the Fund. In Italy, in Greece, in some countries in the Middle East, and now in France, where this was done despite the objection of the Fund, so-called free markets prevail, generally for dollars. In these countries the cross rates of the quotations for such currencies as the dollar and sterling are not within the limits established by the Fund.

It is easy to draw the mistaken conclusion from such exchange quotations that they represent realistic valuation of a currency. The fact is that under present conditions these so-called free quotations are wholly unrealistic. They are the result of an arbitrary determination by the monetary authorities to place a value on a currency in a so-called free market through the licensing system. The disorderly cross rates that emerge are the normal consequence of a system of inconvertible currencies where cooperative action of the type represented by the Fund is not being carried out.

Suppose all currencies are inconvertible in the sense that they cannot be transferred by the exporters of one country to the importers of a third country. Then trade between any pair of countries must be balanced bilaterally except to the extent that one of the trading partners is willing to use gold or U. S. dollars to meet its adverse balance with the other country. In this special case what you have is in fact *ad hoc* convertibility of the currency of the deficit country into that of the creditor country. Without this condition, exchange in each country will be quoted at such a rate as will assure bilateral balance including capital transactions. Of course, import and export controls may act on the supply and demand for exchange in such a way that the rate is kept close to the parity established by the Fund. Failing such controls it would be normal to expect a pattern of exchange rates in which cross-rates do not conform to the parities established by the Fund. Furthermore, the pattern of cross-rates would almost inevitably differ from country to country.

When the Fund was established it was expected that few currencies would be convertible during the transition period. The Fund Agreement was intended as a means of assuring an orderly pattern of exchange rates even under such conditions. This was to be done through cooperative action of member countries in keeping exchange rates at approximately the parities established by the Fund. Where cross-rates differ considerably from the parities of the Fund it is because the countries whose currencies are involved are not cooperating to carry out the provisions of the Fund Agreement. The immediate harm done by disorderly cross-rates is perhaps not very great. But they can cause serious and unwarranted doubt regarding the future value of a currency, making more difficult the task of securing exchange stability with currency convertibility. They distort trade relations so they no longer become suitable for multilateral trade with convertible currencies. What could be more ridiculous than to have a cross rate of $2.60 for sterling in the Italian market and a rate of $4 for sterling in the American market? Such rates are an encouragement to Englishmen to export to Italy and to import from the United States. Furthermore, disorderly cross rates through commodity arbitrage can deprive a country of the dollar proceeds of exports of its own products and drain its limited reserves to pay for re-export of dollar imports to other countries.

There are three means of assuring the continuation of an orderly pattern of exchange rates among inconvertible currencies. The first is to use gold and U. S. dollars to settle adverse balances between countries with inconvertible currencies, at least to the extent that the monetary authorities are prepared to authorize an excess of imports over exports. This is what the United Kingdom does in most of its trade with the Western Hemisphere. The second is to have the creditor country accumulate balances of the currency of the debtor country, at least within moderate limits. This is what happens among most of the European countries with payments agreements. The third is to limit exports and encourage imports by the creditor country and to limit imports and encourage exports by the debtor country until the demand for exchange in the free market will balance the supply at approximately the parities established by the Fund.

As a practical matter this third means of maintaining orderly cross-rates can best be made effective if the two countries whose currencies are involved will agree on an export and import policy as between them which will permit, during the course of a year, a reasonable balance in their payments at approximately the parity of their currencies. Short period fluctuations could then be minimized by accumulating moderate balances of the currencies of the debtor or by utilizing moderate balances of the currency of the creditor. Perhaps such a solution for assuring an orderly pattern of rates among inconvertible currencies will seem unattractive to economists. It is, frankly, a device for assuring bilateral balance. But the fact is that the necessity for bilateral balance does not arise from the obligation to maintain the parities established by the Fund. The necessity for bilateral balance has its origin in the inconvertibility of currencies. The requirement for maintaining parities simply prescribes the exchange rate at which the bilateral balancing should take place. The reason why the Fund insists on the maintenance of orderly cross rates based on these parities is that they are the essential condition to restoring currency convertibility and multilateral trade.

Prices and Exchange Rates in Trade Agreements

I might perhaps mention a technique commonly used in European trade to secure balance at prescribed exchange rates where the relationship of prices and exchange rates is not equally satisfactory in both countries. As you know some countries in Europe enter into agreements under which total trade in specified commodities is set out in detail. The trade in these commodities may be either at world prices (generally dollar prices) or at prices stated in the agreement. When stated in the agreement there is a tendency to relate the prices of the export goods to the prices of the import goods. For example, if Denmark buys woodpulp from Finland at inflated Finnish prices converted into Danish crowns at the overvalued exchange rate for the Finnish mark, Denmark offsets this by quoting to Finland higher prices in Danish crowns for Danish butter. Actually, Denmark does charge Finland, under its trade agreement, a considerable higher price for butter than it does Belgium, Poland, Russia and other counttries with whom it has similar agreements.

The solution to this unsatisfactory situation of multiple prices based on distorted exchange rates is obviously the restoration of a reasonable relationship between prices and exchange rates and the convertibility of currencies. Until that is done, I am afraid we shall have to depend upon such trade agreements, domestic price equalization funds, and quite extensive state control of export and import trade in order to maintain an orderly pattern of exchange rates.

Exchange Rates and Direction Of Exports

I revert now to a question that I raised before. I have said that the exchange rates established by the Fund would, on the whole, meet the practical test of permitting the exports of these countries to flow. In nearly every Western European country exports during 1947 rose steadily, approaching in many instances and exceeding in some instances the 1938 volume of exports, and this was done at a time when a large part of the output of these countries was devoted to reconstruction and investment and when the use of resources by the government was at exceptionally high levels. But the fact that exports have increased is not final proof that these exchange rates are satisfactory. Unfortunately, the increase in exports of European countries has been relatively large in trade with each other. Exports from Europe to the dollar area have not kept pace with the general increase in European exports.

If we look at it from the other point of view, we find that in the United States total imports are considerably below the level that might reasonably be expected on the basis of national income and economic activity. Starting from the American position it is clear that United States imports fall short of what might have been expected on the prewar basis for a number of reasons. First, sources of United States imports have not yet fully restored production. This is true of the Far East; it is also true of Europe. In the case of Europe, even where production might be devoted to goods exported to the United States, relatively more resources are being used for domestic investment rather than export. Second, the war has brought important changes in technology and in the need of the United States for certain imports. Rubber and silk are such imports commodities. Third-price levels within Europe, though not restrictive of trade between them, are still too high to be attractive to American importers. As European export capacity increases there may be a need to adjust either prices or some exchange rates to make European exports attractive to dollar markets.

There is one possible misconception that should be dealt with. There may be a feeling on the part of some people that if European exchange rates and prices were properly adjusted the dollar shortage which these countries are experiencing would be corrected. I think there is no basis for such a view. The shortage of dollars in Europe is very largely a reflection of the exceptionally great need for real resources in these countries. In part, this may be a reflection of the phenomenon of inflation. Much more it is a reflection of the urgency felt by these countries to restore their economies much more quickly than they are capable of doing with their own output. Extremist politicians are prepared to promise the public increased production and a higher level of consumption if only the blessings of a state economy were adopted. Responsible politicians must compete with such impossible promises by pushing as far as they can reconstruction and modernization while maintaining something approaching the prewar standard of living. Added to this, there have been the unfortunate crop failures and the difficulties of maintaining normal supplies of fuel.

The dollar shortage in Europe, therefore, reflects not so much a failure to export to the United States in adequate amount but a general shortage of resources to meet the exceptional demands for investment, for consumption and for government. Of course, if imports from the United States were made expensive enough the demand for such imports would fall off. Alternatively, without aid from the United States the demand for such imports will be restricted. I would not deny that a large and general depreciation of European currencies might increase to some extent their exports to the United States. This would not solve, to a significant degree, the present dollar shortage. It might in some cases aggravate the inflation problem. In any instance in which a worthwhile change in exports to the dollar area would result from an adjustment of parity, the feasibility of such a measure should be considered. At any rate, it is not the present but the future balance of payments of Europe that must be brought into equilibrium through an adjustment of parities as well as other measures.

Conclusions

It will be helpful to summarize the many things I have had to say in preparation for the discussion which we can now have.

First: The Fund accepted the initial parities communicated by its members, with a number of countries withholding the determination of their par values. The main reason the Fund accepted these par values is that it was believed that they would permit exports to flow from these countries during the first year or two.

Second: Exchange rates in a number of countries will have to

(Continued on page 24)

The Unsatisfactory Pattern Of Exchange Rates

(Continued from page 23)

be changed in the near future because they are interfering with the flow of exports. In some instances a change in parity is overdue but has had to be delayed in order to permit other measures to be taken.

Third: When a country is suffering from a progressive inflation a change in parity will not be effective in assuring the continued flow of exports. The proper policy is to have the change in parity preceded by a forceful program to stabilize the domestic economy.

Fourth: In countries in which there is no immediate prospect of bringing a rapid inflation under control a fluctuating exchange rate can be justified as a means of permitting exports to flow until the situation improves. Both the country and the Fund must in the meantime seek means to bring the inflation to a halt and to restore an orderly exchange system.

Fifth: Multiple currency practices involving penalty rates on imports are a reflection of the difficulty in time of inflation of restricting imports through the exchange rate. As inflation is brought under control and costs catch up with prices the establishment of a new parity at approximately the penalty rate for non-essential imports will make it possible to encourage exports and to limit imports adequately with the same rate of exchange.

Sixth: The inconvertibility of currencies has resulted in disorderly cross-rates in some countries in which so-called free exchange markets exist. Such disorderly cross-rates can be overcome through cooperative action of the type contemplated by the Fund. The establishment of orderly cross-rates through cooperation is important for the purpose of maintaining confidence in established parities and facilitating the restoration of convertibility of currencies.

Seventh: Exports to the dollar area have not been as large as might reasonably be expected. A general change in parities is not justified at this time in order to meet the dollar shortage; but where a worthwhile increase in exports to the dollar area would result from adjustment of the parity of a currency, such a measure should be considered.

Finally, in a number of countries the wartime inflation has been kept from manifesting itself in higher prices and costs through such devices as price and wage control, rationing and subsidies. At some time in the future, it will be desirable for countries to abandon these measures in order to give the economy greater freedom in adjusting itself to changed conditions. Obviously, the restoration of a greater degree of economic freedom can best be undertaken when current production is adequate to meet current needs. At such a stage the latent inflation of the past may be consolidated through permitting a rise in prices, through extraordinary taxes, or through the blocking of currencies as has already been done in a number of countries. With the new conditions, reconsideration of the parity of the currency would be desirable. In some cases, no doubt, a change in parity will be necessary to restore the situation created by the consolidation of wartime inflation.

I have said about all that is necessary to indicate that there is no occasion to be complacent about the present pattern of exchange rates. It is far from satisfactory. Considerable help toward meeting future balance of payments problems can be derived from the adjustment of some exchange rates. There is no reason, however, why the Fund should embark on a general adjustment of parities, either now or later.

The adjustment of a parity to the international economic position of a country is a problem that the Fund can best deal with by taking each separate case as it arises. The Fund will not hesitate to urge on countries domestic measures to assure that the parities they now have can be sustained without onerous restrictions on international trade. The Fund will be prepared to discuss with any country a change in parity that may be necessary to permit its trade to develop. The Fund will not insist on the empty shell of exchange stability if this would have the effect of hurting a country's economy and the expansion of world trade.

The Fund has a great responsibility in securing the establishment of a pattern of exchange rates which will permit international trade to be restored and to grow. To perform this duty the Fund must be alert; it must not hesitate to speak frankly and to stand firmly for its ideals. In performing this duty the Fund needs the help of an intelligent public opinion which understands these problems and which will support the Fund in reasonable and realistic policies. Constructive criticism can be very useful in keeping the Fund aware of its duty and in urging the Fund toward a positive policy when it is inclined to let things slide. It is my hope that just such people as you will continue to watch the work of the Fund and that you will not hesitate to let us know what you think of what we are doing.

Douglas Hartshorne Executive Consultant

Douglas R. Hartshorne, former member of the Board of Governors of the New York Stock Exchange, has been appointed general manager of Blackett & Dalby, of New York, executive consultants. Mr. Hartshorne retired from the Stock Exchange in 1938. He served with government war agencies and was with the office of Strategic Services for two years.

Clare M. Torrey Partner In Van Alstyne, Noel

Clare M. Torrey on March 1 will become a partner in Van Alystyne, Noel & Co., 52 Wall Street, New York City, members of the New York Stock Exchange. Mr. Torrey has been a partner in Cohu & Torrey, from which he will retire on Feb. 29.

Harry Ellman Rejoins Cantor, Fitzgerald Co.

Harry Ellman has returned to Cantor, Fitzgerald & Co., Inc., 61 Broadway, New York City, in the capacity of Vice-President. He will be active in the organization's Trading Department.

Bond Club of N. Y. to Hear

Thomas K. Finletter, Chairman of the Air Policy Commission, will be guest of honor and speaker at a luncheon meeting of the Bond Club of New York to be held at The Bankers Club of March 8, T. Jerrold Bryce, Clark, Dodge & Co., president of the club, announced.

Building Cost Trends

(Continued from page 9)

in the next five years, and I'll tell you the future of building costs."

He quickly caught my meaning, and laughingly admitted that he couldn't tell me precisely what the economic future holds.

The point I want to emphasize is that building costs cannot be isolated and kept in a vacuum where they will not be subjected to normal economic forces.

We were told by some of the calamity howlers and viewers-with-alarm early in 1947 that there would be a serious break, of almost depression force, by the end of 1947. You know it didn't happen. Some people even went so far out on the limb as to forecast a 20% drop in building costs before the end of 1947. What happened? Costs increased 15%.

Not Priced Out of Market

Today we are beset with another crop of viewers-with-alarm, who say we have priced ourselves out of a market and forecast a drastic reduction in building costs before the end of 1948. If they keep on predicting calamity each year, it is possible there will come a time when they are right; but we don't know now just which year it will be.

Right now, in view of today's conditions—with high wages, the tremendous unsatisfied demand for housing as well as consumer goods—it seems to me sharply reduced building costs and consequent lowering of realty values on today's property is several years away.

I say this because right here in Metropolitan New York we have a backlog of more than $3,750,000,000 in new construction. This, of course, includes heavy construction as well as light construction, such as houses and apartment developments. But the fact remains, the tremendous demand is there and it will be satisfied once the building industry really gets going, as it should in the near future.

My views, I believe, are corroborated by better qualified observers of the industry, such as Thomas S. Holden, President of the F. W. Dodge Corporation. The other day he said the country is headed toward "great economic expansion" which will "mean larger construction volume than we ever had before."

He added: "When I speak of economic expansion I mean something that goes measurably beyond a mere catching up with deferred demands; even that will probably take another two years. I do not share the fear held by some people that there must be a depression after deferred demands have been taken care of."

A similar view was expressed recently by John Perry, Vice-President of the Turner Construction Company. He pointed out the fact that America has done very little building except for war needs and the conversion of industry from war to peacetime use and noted that the accumulated demand for buildings and housing "is staggering in its immensity."

He went on to make this comment: "Couple this fact with the change in our population trend and one doesn't have to speculate long as to what is going to keep costs of buildings on substantially the plane they are now. There is little likelihood of any substantial or enduring decline."

Mr. Perry concluded: "If one needs a building and can make money with it, he should build now rather than follow the will-of-the-wisp of materially lowered building costs in the next few years."

As I have repeatedly emphasized, today's building costs are not out of line with our general economic structure. Once the various elements of the industry and the public firmly realize that there is no such thing as a return to the prewar price level, then, and then only, can we move ahead with clear thinking and firm confidence that the building industry is equipped and prepared to do the job expected of it.

Tightening Construction Credit

One of the menacing danger signals being flashed in our path today is the tendency to tighten the strings on credit so vital to an expanding construction market. If the banks and other lending institutions which finance large-scale building and housing developments let themselves be led through a maze of unrealistic thinking to the conclusion that building costs are overly inflated and a decline is likely soon, then they must be prepared to accept the major blame if a depression does come. If they continue to sit expectantly on their deposits, anticipating a return to a prewar level of building costs, they may as well prepare now for a rude awakening. If such circumstances do materialize, you can rest assured that we will be in the bottom of a depression and you won't be able to beg someone to take a loan—there won't be any need for one in the building industry.

So far, I have emphasized that in my opinion there is no reason to expect a substantial decline in building costs for several years. More important, I believe, is the effort being made by the building industry in Metropolitan New York, as represented by the Building Congress, the Building Trades Employers Association and the Building and Construction Trades Council, A. F. of L., to bring about real stabilization of costs.

High prices are relative, but based on today's 50-cent dollar and in relation to our postwar economy, we may as well accept the fact that they are here to stay. The all-important consideration now is to stop the rise in prices and get building costs stabilized, even at today's level. That accomplishment alone would be the greatest single contribution to stimulating a high level of building on a sound basis. We must bring about a situation wherein a builder can give an owner a cost estimate on a building operation with a reasonable expectation that it will not be exceeded before the job is completed.

Great progress has been made through the Building Trades Employers Association, working with the Building Trades Council to negotiate a stabilization agreement, under which wages, hours and working conditions of the 250,000 construction workers in Greater New York will be frozen for 30 months, or from Jan. 1, 1948 to June 30, 1950.

This represents six months of long and arduous collective bargaining in which seemingly insurmountable obstacles have been resolved and overcome. Today, 29 of the 40 building trades classifications have accepted the agreement, covering a majority of the workers. Through the influence and prestige of Mayor O'Dwyer, who was instrumental in originating the stabilization program, a five-man committee appointed by the Mayor is working with the unions which have not yet signed in an effort to bring them into line.

Progress has been made in ironing out existing differences and it appears likely that the stabilization program will be formulated in a short time. Even if some of the unions don't actually sign the accord, it is believed they will negotiate parallel agreements with employers incorporating the principle of stabilization.

The idea of wage stabilization grew out of a speech made last May at a Building Congress luncheon by His Eminence, Cardinal Spellman. At that time he issued a challenging appeal to all Americans to unite in the fight to overcome economic defeatism, to abandon the philosophy of fear. He demonstrated his faith in the future of the building industry by announcing that $25,000,000 would be expended in the Archdiocese of New York in the construction of long-needed institutional buildings.

This forthright announcement, made at a time when others were holding back with a "let's-wait-and-see attitude," came as a welcome impetus to a lagging building industry. Management and labor, through this pledge of cooperation, high productivity and a ban on jurisdictional strikes responded admirably.

This small spotlight of hope and faith in the industry, expressed by the Cardinal, soon began to spread its influence and light the way to broader achievements. Mayor O'Dwyer, as I have said, took the lead in urging the wage stabilization agreement.

As a result of this intensive work on the part of leaders in the industry—both labor and management—there already is concrete evidence that building costs are beginning to firm and stabilize. But once wages are frozen, the next imperative step is for building material manufacturers and distributors to get their prices stabilized. Without firm material prices, the effect of stabilized wages will be minimized.

That old bugaboo—the escalator clause—is creeping back into material contracts. As builders and contractors, we are asking that everything possible be done to eliminate it.

There is another disturbing condition which I would like to bring to your attention and solicit your support in eliminating.

The public has been bombarded with reckless propaganda which has pictured the building industry as "monopolistic," "archaic", and refusing to adopt modern methods. These unwarranted accusations, made by misinformed critics, would have the public believe that the industry deliberately maintains extortion prices and is deliberately retarding production of housing. Nothing could be further from the truth. We in the industry know it.

As Tom Holden once said:

"If the American people can be persuaded to appraise the construction industry by the best of its accomplishments, and by the high competence of its average accomplishment, they will learn to be proud of it. They must somehow be brought to realize that you cannot have diversity and flexibility without a large measure of freedom, and that you cannot have freedom without tolerating a fair degree of variations in competence and in business practices. As I see it, the way to improve the industry's efficiency is to liberate it from the little monopolies and the petty restrictive systems that impede its forward progress."

As I summarize my remarks to you tonight, it seems to me that I have not given you too definite a prophecy as to the trend of building costs. In review it seems to add up to this:

(1) I see no prospect for an appreciable reduction in costs in the near future.

(2) The building industry in Metropolitan New York is making every effort to stabilize costs.

(3) When costs are substantially stabilized, I believe that lending institutions will be well advised to cooperate in meeting the tremendous demand for all types of buildings.

Implications of Changing Credit Conditions

(Continued from page 2)

banks would have been out of the lending business completely long before the end of the war, even to the extent of purchasing a single additional government bond. This is a fact which may come as a surprise to many of you, in as much as it has been customary to think of the banks of the country as bulging with money all during this period.

In this kind of a situation, had the borrower been anyone other than Uncle Sam there would have been an almost irresistible tendency for rates to rise substantially. Government bond investments including bank purchases during this period were made largely, however, for patriotic reasons, and therefore it was quite simple for the government to control the interest rates, particularly when the funds by which the banks were enabled to purchase and finance the purchase of these securities were deliberately created through the Federal Reserve System.

The second significant change in this general situation came about not long after the close of the war when the government withdrew large balances from its war loan accounts with the banks and used these funds for debt retirement. Actually what happened was that the government overborrowed as a result of its last Victory Loan drive, and simply used the proceeds of its borrowings for immediate debt retirement. It subsequently retired additional debt through budget surpluses. The effect of such a process as far as the banks are concerned is somewhat equivalent to having a customer request the bank to retire his loan by charging his account. The result is that loans (or in this case government bond holdings) on the asset side go down, and on the liability side deposits decrease correspondingly.

Postwar Increased Demand for Loans

The next step, beginning at the end of the war and climaxing at the end of 1947, was the gradual and unexpected mounting demands of business, individuals and agriculture for borrowed funds. While corporations came out of the war with more working capital than they had ever had in the history of the country, they nevertheless soon found themselves the victims of constantly rising prices, huge unbalanced inventories due to shortages, a premature slowing down of receivables, in many cases reconversion losses, a spiraling of wage costs, and plant renewal and expansion requirements. The combination of these factors at work quickly showed that what had been considered an abundance of working capital was actually substantially inadequate to take care of these contingencies.

Added to this demand was the tremendous increase in consumer credit outstandings as a result of the demand for automobiles, home appliances, and other goods, all on a substantially higher cost level than before the war. To satisfy the general housing demands, including the urgent need of Veterans, real estate loans expanded tremendously—again on a terrifically high cost level.

Drying Up of Capital Markets

During this period there was a considerable drying up of the new capital markets and a serious decline in the price of high-grade securities. The market for corporate securities became sated and as a result, prices went down and yields rose. Capital expenditures by business have been running annually between $20 and $25 billion a year. With only a portion of the funds for such expenditures available to business from depreciation reserves, in the absence of a favorable condition for obtaining the balance in the equity capital market, business generally has been forced to go to the banks for the funds it would otherwise have obtained through the sale of capital stock.

In short, the demand for credit from every direction has been much greater than any of us anticipated, forcing the banks generally to sell a substantial portion of their government bond holdings to take care of private credit requirements. The credit extended by the banks to the government has been replaced by private credit. Their government bond portfolios have gone down and their loan portfolios have increased substantially. There has been little change in the banks' total deposits, but a tremendous increase in loans and a corresponding decline in government bond holdings. Hence, while there has been little, if any, change in the actual amount of bank credit outstandings during the last year, the switch from government to private credit is largely responsible for the change in bank interest rates. Another factor aside from monetary and credit considerations that has forced us in the banking business to raise the price of our product is one that I am sure you gentlemen will readily understand from what has happened in your own business; namely, the tremendously increased costs of doing business today.

Banks No Longer Seeking Borrowers

Briefly, here is the situation: Commercial banks are no longer seeking loans. They are no longer hunting ways to employ their funds. A loan solely as an investment has no appeal. It must generally have an account relationship or other collateral benefits. Banks are screening all loan applications more selectively as to risk and as to purpose, with emphasis on production as against speculation and non-productive purposes, and as I have said before, rates have increased materially. The Federal Reserve System began to use some of its broad powers to influence bank credit in the middle of last year. It first permitted a free market in 90-day Treasury bills, raising the yield from ⅜ of 1% to almost 1%. Rates on other short-term government securities, such as Treasury certificates of indebtedness, were likewise increased. The next step was to lower the Federal Reserve Banks' support price for long-term governments, thereby increasing the yield materially. It wasn't very long ago that it required official selling of long-term treasuries to keep prices from rising. Now, we have to have official support to keep them from falling. During the six weeks' period ended last Dec. 24 the Federal Reserve Banks acquired almost $2 billion of longer term treasury bonds to support the market. This action put money into the banks, making the expansion of private credit easier than the government authorities considered desirable. The climax was reached the day before Christmas when the Federal Reserve Banks lowered their support price for the key Victory 2½s from 101 to 100¼, and for the bank eligible 2½s from 103¼ to 101. The Federal Reserve as well as the Treasury is presently commited to a policy of maintaining a par market for long-term government bonds, thus increasing member bank reserves—making credit easier. Yet, they are in the dilemma of being forced to use every power they have to deflate credit—to make credit tighter—to fight inflation.

Federal Reserve Proposals

In January of this year the Federal Reserve Banks took two additional technical steps: First, in raising the rediscount rate from 1% to 1¼%, and second, in the upping of reserve requirements on demand deposits in the two central Reserve cities of New York and Chicago from 20 to 22%. The Federal Reserve Board is now asking Congress for legislation to require all commercial banks to hold in cash or short-term government securities up to 25% of demand deposits and up to 10% of time deposits, in addition to the present reserves required which for most large city banks are 20% on demand and 6% on time (savings) deposits. This would build up combined reserve requirements to a possible 45% on demand deposits and 16% on time deposits. The effect of such legislation would be to freeze into short-term government bond holdings funds that would otherwise be available to business and individuals. The January National City Bank letter, in discussing inflation pressures and bank credit, made this interesting observation: ". . . The rate at which credit is expanded should be governed by the rate of increase in production. Credit expansion faster than production can be enlarged is inflation. In essence, consumers and industries alike are trying to get through a gate all at once, and at a time when the passage is narrowed to make room for foreign aid. Anti-inflationary action requires standing in line, and easing the congestion."

You might say—"why all this tightening of credit—the banks still have huge government bond holdings and the Federal Reserve Banks are still committed to purchase them; therefore, the banks have available ample funds for additional loans." This is a natural assumption, but fallacious reasoning. Yes, we did look upon our government bond portfolio as safeguarding bank liquidity. Even the longer maturities were looked upon as easily convertible into cash. But the banks generally cannot now sell their governments without taking substantial losses up to as much as 50 to $100,000 per $1 million dollars of bonds sold. Obviously banks cannot afford such losses just to make additional loans regardless of attractive interest rates. For all intents and purposes they might just as well be holding long-term paper such as term loans. Moreover, loans must be kept within a safe ratio to capital and surplus, and banks are reluctant to weaken their liquidity in the face of swollen deposits. All in all, the simple truth is, banks cannot freely make additional loans today.

The Anti-Inflation Program

There is a factor in addition to the banks' outright inability to make loans freely that will also affect the credit situation today, and that is the American Bankers Association's anti-inflation program which is now being launched in cooperation with the government. This is a plan for voluntary action on the part of the nation's 15,000 banks to avoid excessive or inflationary increases in the use of bank credit. By way of explanation, this program is in lieu of the plan proposed by the Federal Reserve Board to compel banks by new legislation to carry the special reserves I mentioned previously. I do not know how successful this program will be, but in any event, it cannot help but result in a further tightening influence on bank credit.

The broad significance of this new credit situation is, in short, **credit is and will be increasingly tighter and will cost more,** unless the change presently taking place in the commodity and security markets heralds the start of a much sharper and prolonged decline or depression than any of us foresee at this time. A continuation of this commodity market decline might well remove the present general preoccupation with inflation controls and credit restrictions, but I doubt very much if it would have the effect of reversing the trend toward tighter money. The situation I have described then will have a particular effect on the distributors of heavy machinery and equipment due to the special financial factors peculiar to this industry. These factors are, first, that your sales generally require longer term credit; that is, financing over periods of one year or more. This results in part from higher prices, particularly when depreciation, taken on old prices, does not create enough funds to buy at new prices. Longer term credit will be under infinitely heavier pressure than short-term credit. Next, your financing is done by both banks and finance companies, and this can give you little comfort because finance companies are just as restricted as the banks from which they borrow. Already they are faced with ceilings on the credit available to them. The balances they are required to maintain against their fixed lines of credit have had to be materially increased, thereby reducing their cash available for equipment financing. And last but not least, their interest costs are definitely up.

There is another special factor peculiar to your business that may cause this credit situation to have special significance to you. It is the increasing tendency to hold equipment for rental or, putting it another way, your customers' preference for rental vs. purchase. A tighter money market might well increase this preference and substantially increase your rental business. In such event, it would require larger dealer inventories and the need for more dealer credit.

In view of the present credit situation your industry is undoubtedly due for some financing problems. With respect to terms most assuredly down-payments and maturities are both certain to be reviewed by bankers and finance companies. A tight money situation works against long-term credit and more and more pressure is bound to be exerted on larger downpayments and shorter maturities. The matter of how your paper is sold might also be affected to the extent that you are more and more likely to have recourse and guarantees required.

For some time you have experienced steadily heavier inventory requirements; these may continue to increase, and in such event the present shortage of credit will certainly be felt. Your sales forces will have to work harder and harder in due time to move products out to customers who can pay. In some lines, notably motor freight equipment, we have seen sales resistance and used equipment price declines because of the credit shortage just as much as a result of good supply.

Some Suggestions

In closing may I venture to make some suggestions, first with respect to the financial management of your businesses in view of our present credit situation, and second, as to what you as citizens can do about inflation. With respect to your financial management, may I first suggest, if you have not already done so, that you form a strong financial connection as soon as you can and use every possible means to build and fortify this connection. Second, this is the time to budget your credit needs tightly and arrange for them as far in advance as humanly possible. May I caution you to budget them to the absolute minimum and limit your volume of business to keep within your budget. Third, put your financial house in the very best possible order—contract and consolidate rather than expand. Do everything possible to improve your working capital position. Last but not least, as I have indicated before, get yourself in a frame of mind to expect to pay more for the loans you will need to carry on your business, and to charge more for credit to finance your sales. And of course, be prepared for a substantial tightening of terms.

Please do not misunderstand these suggestions. I have not intended to indicate any lack of confidence in your industry's future. The present credit situation is not a result of lack of confidence in your industry, or any other business. Certainly the need for construction equipment and machinery continues to be great, and the Marshall Plan will require an additional supply. Moreover, even though many of the postwar public works programs will be temporarily shelved, there will be a sufficient number started or continued to support a healthy and profitable sales volume. May I assure you that the country's credit system is still strong—probably the strongest in its history—and that sound credit requirements of business will be met, particularly if the financial management of business is alert and on its toes.

And now a suggestion or two with respect to what you as citizens can do to fight inflation. As bankers we can encourage loans that will help to increase the supply of needed goods. As borrowers, business and individuals can avoid speculative loans or borrowings for purposes that will increase inflationary demand for goods. As individuals all of us can buy more United States savings bonds, thus relieving inflationary pressure and preserving today's spending power for future opportunities. When you go back home urge each and every associate, employee, neighbor, and acquaintance to adopt the following five ways to fight inflation:

BUY only what you need now.

BORROW only for essential purposes.

SPEND carefully—avoid black markets.

SAVE regularly in a bank account.

INVEST regularly in U. S. Savings Bonds.

In doing so you will be doing a service to yourself, your community, and your country.

N. Y. Stock Exchange Weekly Firm Changes

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

John W. Watling and William G. Lerchen, general partners in Watling, Lerchen & Co., Detroit, also became limited partners, effective Jan 1.

Interest of the late Jerome Hill in Moore, Leonard & Lynch, Pittsburgh, ceased on Dec. 31.

W. A. Fine & Co. to Admit G. P. De Veau as Partner

W. A. Fine & Co., 1 Wall Street, New York City, will admit George P. De Veau, members of the New York Stock Exchange, to partnership on March 1. Mr. De Veau has been active as an individual floor broker for many years.

Francis X. Griffin Dead

Francis X. Griffin, who before his illness was a member of the New York Curb Exchange and a partner in E. W. Clucas & Co., died at his home at the age of 56.

As We See It

(Continued from first page)

such integrity can be sustained is by firm adherence to a sound national financial policy. This policy must rest upon a revenue system that will adequately meet the cost of government and its necessary functions, and provide funds to manage, service, and reduce the public debt.

"In planning our fiscal program, it is not a question of what we should like to have at the moment, nor is it a matter of what might be desirable and proper under different circumstances. Our fiscal decisions must be made with a view to the long term national interest."

So far, so good. It is true of course that a good portion of these sentences could mean any one of several things, and perhaps none of them do more at best than express certain very obvious, rudimentary principles of fiscal management, but it would be picayunish to find serious fault with them were it not for the doubt that is cast upon them by the very next sentence. This sentence reads: "What we seek is to stabilize our present high level of material welfare while, at the same time, encouraging an expanding economy."

Fiscal Policy—What Is It?

We are not very certain that we know how expansion can be encouraged at the same time that stabilization is sought. Stabilization and growth would appear to be rather incompatible — a fact we mention here merely because this apparent contradiction runs through so much of the current politico-economic twaddle. But however all this may be, either a continuation of the current high level of production and trade or a growing economy would appear to be what almost any of us would desire. The question is whether it is a legitimate function of the Government of the United States either to "seek to stabilize" or to "encourage an expanding economy." Certainly such an idea is quite foreign to the American tradition of free enterprise and individual initiative. Americans prior to the New Deal have always supposed it to be the duty of the Federal Treasury, along with Congress, to find the ways and means of financing the absolutely necessary expenditures of the National Government, and of doing so in such a manner as to interfere as little as may be with the processes and practices of legitimate business.

What is more, true American doctrine limited the term "absolutely necessary expenditures" to what it appears to mean. The thousand and one outlets for funds which have been conjured up in recent years, particularly during the long and dreary regime of Franklin D. Roosevelt, would never, never have been allowed as in any sense "necessary" expenditures. But now we hear a different story. If the idea of Professor Hansen that government outlays should be regarded not so much as necessary expenditures for certain services which are indispensable to organized social and economic life and unobtainable elsewhere, but as a means of stimulating or dampening business activity in such manner that the so-called business cycle will be banished forever — if this notion is unacceptable to the present regime it has given no indication of it.

True, of course, it is that presumably the Hansen "grand design" would call for substantial, if not drastic curtailment of expenditures at this time in order to prevent or at least to minimize what is popularly termed inflation; and true it is, too, that no such course is being pursued by the Truman Administration.

But only the dreamer who is unfamiliar with practical politics could ever have for a moment supposed that the contraction phase of the Hansen idea would ever be acceptable to the politician about to appear for reelection. Other means must be sought — or so the "practical politician" is sure to reason—for preventing a boom, if indeed it is good politics for the moment at least to prevent a boom. At most, what must be prevented or eliminated is some of the inconveniences of a boom, some of the inconveniences which bear heavily upon the great rank and file who vote on Election Day.

What Is Needed

And that, of course, is precisely what is now being attempted. What is needed, of course, is a drastic cutting away of needless expenditures, and a concomitant abolition of much of the restrictive legislation placed upon the statute books of the nation during the New Deal years. Such reduction in expenditures should then be employed in a straightforward way to take up and retire a substantial part of the enormous excess supply of "money" brought into being by the faulty methods of financing New Deal and war outlays. We say straightforward for the reason that much of what is being said today about accomplishing such ends by retirement of public debt is definitely open to suspicion either that the authorities do not know what they are talking about or else have their tongue in their cheek.

Of one thing we may be quite certain. That is that so long as the Federal Reserve banks of the country fail to lighten their load of government obligations, the likelihood is not great that any debt retirement program engaged in by the Treasury will have the effect claimed for it. The term "retirement of bank-held debt" appears to have become one to conjure with. The fact is that retirement of debt held by commercial banks would reduce the money supply and thus tend to tighten up the money market only upon the assumption that such banks would not in the future make as full a use of their reserves as they have been doing — that is, of course, unless the Reserve banks reduce the volume of credit outstanding on their books. Thus either the cash surplus operations about which we have been hearing a good deal or the forthcoming savings bond drive will or will not have the effect claimed for it, depending upon what the Reserve banks do.

Government Bond Market

What the Reserve banks do will without much question depend upon the Government bond market. The Treasury is apparently determined that it will continue to have the market rigged in whatever degree is necessary to enable it to borrow at ridiculously low rates. Apparently only if debt retirement puts a good deal of bone into the spine of the Government bond market will the program as outlined work out.

In any event the Administration appears not even to have a glimmering idea of what a really sound fiscal policy is.

Outlook for Business

(Continued from first page)

the right answer to that question is no. An immediate business recession is not threatened. That does not mean that I take any Pollyanna view about the outlook over the next year or two, because no one in his right mind would claim that this kind of business boom is going to last indefinitely.

All I am saying at the moment is that I do not believe that the farm price break means an immediate or near-term change in the pace of general business.

Moreover, when the pace does change, when business does slow down, it will be due to causes having nothing to do with this break in farm prices. It will be due to other causes, to which I shall refer in just a moment.

A Break in Postwar Inflationary Trend

There have been in popular discussion on the radio and in the newspapers certain other questions about this break in farm prices. One has been in terms of inflation. Does this break in farm prices mark a real and definite end of the great inflationary trend of the postwar period? Or is it a mere flutter; a mere temporary interruption?

My answer to the question is, that this is a real break in the great postwar inflationary trend. We have broken that major trend.

I don't mean by that to imply that we are likely to go immediately into a sharp and violent decline in prices. But I do insist that this sky-rocketing, this wild runaway type of inflationary movement in commodity prices has had its great trend broken by what has happened in the last three weeks. And I believe that anyone who fails to recognize that will in the next 12 months get his fingers very badly burned in his inventory operations and in his general business and credit operations.

Another and closely related question is whether this break is merely the beginning. Will it be followed in the relatively near future by a spiraling downward of the type that everybody remembers in connection with 1920-1921, and again in connection with 1929 to 1932?

No Precipitate Price Break

Are we heading into another catastrophic decline in commodity prices of the type that we had in those historical periods? Again I think the answer is definitely no. The conditions are not parallel. I don't say we have had the absolute low point in each and every one of these commodities. I certainly would not believe that to be true. But we are dealing here with a question that is much broader. Are we going into one of those tailspins which in the past have brought disaster to the whole economy?

Definitely, I can see no reason to expect that that will happen in the near future.

Now, any discussion of commodity prices is bound to take into account certain factors that are entirely unpredictable. The most important of these in farm prices is the weather. Last year we had most abnormal weather, both in this country and in other principal crop-growing areas of the world. If we have again extremely abnormal weather conditions, of course, these farm prices will be affected accordingly. But assuming anything like normal or average weather, the prices of wheat and corn and of major grains should not again approach the very high peak that they reached in January.

On the other hand, despite the weather uncertainty, there are certain types of these farm prices that probably will rebound rather sharply, and when they rebound it may look to some people as if that means we are off to another runaway spiral. Any such interpretation would probably be wrong.

The group of commodities that is most likely to have that rebound is meat prices. Those could rebound rather sharply in the spring and the summer. Some of them may even go to new highs. But that is due to peculiar condition of supply in the meat industry. That does not mean that commodities generally or farm prices generally are headed into resumption of a major inflationary trend.

A Third Round of Wage Increases?

Let us consider now some of the possible effects of a constructive nature of this change in farm prices. The first and foremost question is this: Will the break in farm prices prevent a third round of wage increases in industry?

The answer to that question, I approach with some misgiving. I do not want to sound too positive in my answer because, within the next 60 days, some great decisions are going to be made in our leading industries that will set the wage pattern. And no one can be sure just yet what those decisions will be. Nevertheless, I feel warranted in making certain comments on that point.

I feel that before the break in farm prices occurred, the leading industries that tend to set the wage pattern for the whole country had just about made up their minds that they would be forced to give a wage increase of at least 15 cents an hour, and, in addition to that, certain fringe increases.

I believe since the break in farm prices occurred they have been reconsidering their position and I doubt very much if they are going to give in, in the collective bargaining, in anything like the liberal way that they assumed would be inevitable as recently as three weeks ago.

I think the third round of wage increases has come in for a very important re-examination, and although there will doubtless be some increase granted in most industries, the increases will be much less than appeared likely before this break in farm prices occurred.

If we had to have a break in farm prices, the timing was perfect. The hand of Providence could not have given better timing. If the break in farm prices had been delayed 60 days, the third round of wage increases on an exaggerated scale would have been an accomplished fact, and you could not have done anything about it. It came early enough to have a profound influence on the third round of wage increases.

The business outlook for the latter part of this year is going to depend very largely on how big a wage increase is granted in the leading industries such as steel, automobiles, electric equipment and the like. If they grant a big wage increase, they will have to raise prices. Don't let anyone make you think for a moment that a big wage increase will be entirely absorbed out of profits. The profits are not there for the majority of the industries to absorb a big increase. Prices will have to be advanced.

If prices are advanced at this stage in the business cycle, management can make those prices effective for a few months, possibly six months, but not a great deal longer. If there are big wage increases and big price increases, then by the fourth quarter of this year or the first quarter of next year, the companies that have made those big advances will be in trouble.

On the other hand, if the wage increases are moderate and prices are not changed very much then the adjustment that comes in the latter part of this year will be correspondingly moderate and orderly. Everything depends on the third round of wage increases. It is far more important in determining the future outlook than is the recent break in agricultural prices.

What About Buyers' Strike?

In this connection, there are many people who think that we are faced with a buyers' strike. The consumer, they say, is going to quit. Anyone who wants to sit down and listen to the radio commentators on the news for an evening would not buy anything. His psychology would be: Wait—hold back—force these prices

down—resist. And on the part of the merchants these days there is a perfectly natural wonder as to whether the psychology of the consumer is going to play a very vital role here and whether it might stop the whole business procession.

I realize perfectly well that any opinion about what the psychological curves will be is very risky. I do not pretend to be a psychologist. We have seen some very strange things happen that are explained by just saying: "Oh, that was psychological." And maybe those will happen again. But I am impressed with the fact that ever since the end of the war people have spent money in proportion as they have received it. They have not waited around and wondered whether they should spend it. They have not debated much about it. The retail sales have been in very close relationship to the national income. That is the condition as of right now. And in my judgment, it will remain the condition throughout the summer and autumn of this year. I do not believe that all of this psychological uproar is going to affect the sales curve to any material extent. As people get the money through the national income, they are going to spend the money. They may not spend it for the same individual items or in same proportions, on the same items as they have been in the recent past. But if they do not spend it for one thing, they will change their habits and spend it for another thing. The spending will continue as long as the income payments continue.

Is National Income Going Down?

All right. Then the argument shifts to another point. What is going to become of the national income? Is the national income going down in some sharp spiral? Or is it going to be pretty well maintained? Well, I shall give you my estimates. These represent study and analysis, and an attempt to arrive at a carefully considered opinion.

I believe that the national income payments during the first half of this year will average not less than 6% above a year ago, and not more than 9% above. They will be within that range of comparison. That is a pretty good gain over a year ago, especially when you remember that a year ago the level of sales was already high. Things were running along at a very brisk pace.

I think retail sales will follow very closely that comparison and that for all types of stores, retail stores will run between 6% and 9% above a year ago, in the first six months of this year.

Federal Reserve Policy

We go from the national income question to the financial side of our economy. I am not going to deal with the Federal Reserve policy at any great length, because I think that to an audience of this size it might not be a very interesting subject. When people ask me the cause of the break in farm prices, I say, "first and foremost it is the Federal Reserve policy"; and they look at me with a blank expression and say, "What was that?" Most people do not understand it, do not want to pay much attention to it, as a matter of fact, although it is a very vital factor in shaping the course of both prices and the level of business. Therefore, I shall confine my remarks to a very, very few statements and some very brief propositions about this Federal Reserve policy.

The Federal Reserve policy will not be abandoned at this time. It will be made a little milder. It will go a little slower. They will take six months for the retirement of $7 billion of debt, instead of doing it in three months. They will try to soften the impact a little bit on business and prices. But they will not reverse the policy. That is the important thing. They will not reverse the policy, either now or during the summer of this year.

There are some people who say, "Well, their policy is deflationary. They, therefore, for political reasons will reverse it before November." I do not believe it. I do not think the policy is going to be dictated so rigidly by the political factor. They will, at some point, reverse this policy and it will be a great turn in the course of events when they do reverse it. My guess as to the timing of a reversal of Federal Reserve policy is somewhere within the fourth quarter of this year to the middle of next year. Somewhere in that nine months stretch, I think you may see the Federal Reserve policy reversed — reversed—from one of contraction, of anti-inflation, of trying to hold prices down, of trying to kill the boom; reversed from that to a policy of trying to prevent a severe business decline, trying to prevent a business recession from degenerating into a major depression; trying to prevent unemployment from becoming excessive. That reversal is going to come. But it is not going to come now, in the first half of this year, probably not in the first three quarters of this year. It may come in the fourth quarter.

The Capital Expenditure Factor

Now, I say that when the business readjustment does come, it is not going to be caused by agricultural prices. What is it going to be caused by then? It is going to be caused by a decline in capital expenditures by private business. The decline in general business is going to come when capital budgets are cut. They have not been cut as yet. They have not been cut as a result of the break in farm prices. I do not believe the break in farm prices is going to affect the capital program of this year materially.

But by the fourth quarter of this year, I expect to see the capital expenditures by private business began to fall off and I think that by the end of the year, and the first part of next year you will see a decline in these capital expenditures.

When those capital expenditures decline, I believe that general business is bound to feel the repercussions.

That does not spell out anything that is terribly threatening. There is no terror about it. But it means that you cannot continue a boom in general business of the kind we have been having after those capital expenditures begin to come down. And the timing of that is beginning with the fourth quarter of this year. The cause of any general readjustment in business is going to be capital expenditures. It is not going to be commodity prices, not inventory, not consumer resistance.

The International Situation

Now, of course our economy in this country is tied in with the whole world. We are accustomed these days to a great deal of discussion of the international picture. I should like to make two or three comments about that phase of the problem.

First, let us deal with the question of exports. The exports of the United States are being artificially supported, but that artificial support is very effective, certainly, for the balance of 1948. Assuming that the Marshall Plan goes through (I think we may safely assume that), the level of exports of commodities by the United States this year should be in the neighborhood of $13 to $14 billion. It is a very high figure and I see no danger of a serious lapse of our exports as long as the Marshall Plan is in effect.

That condition is very unlike the one which existed in 1920 when one of the factors which was most responsible for breaking down our whole structure was a collapse of American exports. Our exports cannot collapse as long as we have the Marshall Plan in effect this year.

A second phase of this is the Russian situation. Psychologically, people are worried about Russia all the time. Well, I do not know what is going to happen. There are problems of the next few weeks in the Middle East that have a great many people disturbed. Something can strike us out of a blue sky almost any time. But unless there is some unpremeditated incident, I think we shall find no war developing with Russia this year. Neither the Russians nor ourselves are in any mood to start deliberately military activities of the kind that so many people are afraid of.

International Exchange

Perhaps today the question that is most in the people's minds in the international field has to do with international exchange. We have seen the French devalue their currency and that has raised questions about other currencies in Europe, particularly about the British monetary unit, the pound sterling. We have learned that governments act by great surprise when they change the value of currency. They do not advise people ahead of time. They do not pass out a lot of inside information. They do it all of a sudden.

Knowing that, anything I say about the pound may be upset by some maneuver of which I have no knowledge at the present moment. All I can do is to talk about it in terms of what I think is the most logical course of developments.

In that respect, I think it is very unlikely that the British will devalue the pound while the Marshall Plan is hanging fire down in Congress. Until Congress has voted on the Marshall Plan, and presumably approved of it.

After the Marshall Plan is in the bag, so to speak, it is conceivable that sometime later this year or next the pound will be under very great pressure. I do not want to be understood as predicting that the pound will be devalued this year. But I frankly am not as confident that it will not be devalued as I wish I were.

I have mentioned a number of factors which influence the outlook for business. I would like to come to a little closer glimpse of the pattern for the rest of this year.

We have started out the year with a high rate of business for most of our leading lines of business. I think that approximately this same rate of business will prevail during the first six months of the year. I do not feel nearly as sure of it in the third quarter, but on balance, I think the chances are pretty good that the third quarter will be all right. The part of this year that is hard to forecast clearly is the fourth quarter. I shall assume that by the fourth quarter of this year there will be signs of decline in a few lines of business—signs of a decline of a nature that will extend over into the first part of 1949.

I am talking there about timing. When is the boom going to end? My answer to that question is that I think there will not be much doubt in our minds that we have passed the crest of the boom when we come into the fourth quarter of this year. But that does not answer another question: How severe a business readjustment must we then contemplate? Will it be a little recession, a middle-sized one, or a big depression? The depth and duration are dimensions that must be taken into account in measuring a change from boom to something else.

Now, I am not going to give you a lot of figures on this, but I should like to give you a number of considerations which, as much as possible, will indicate a way of sizing up the coming readjustment in business.

I think we should recognize a number of factors in our economy today that have not existed in previous periods of test and trial in this country. There are a number of factors which will tend to cushion a business recession; which will tend to prevent it from degenerating into a major depression.

Very briefly, I should like to enumerate these without going into any discussion of them.

Strong Industries Recession Proof

I would say that first of all we can easily observe certain big industries that are in such a strong position with respect to demand for their products that they are for the time being almost recession-proof. I would mention in this connection two industries: the oil industry and the public utilities. They are in such a strong position that I do not feel it makes any sense to talk about a severe recession in those areas.

Now, there are other industries which have a big backlog of potential demand. They have not worn it out yet. They have not used it up. And as an illustration of this I would mention the automobile. I believe that the automobile industry can sell all the cars that it can get the steel to make during 1948. I believe they can do that, regardless of the question of price. I have never yet seen in this country a major depression when the automobile industry was holding at a very high level.

Another cushioning factor is one I have already mentioned briefly. That is exports. Exports cannot fold up in a grand style as they did in 1920 and 1921. Why? Because the Marshall Plan is a cushion to prevent that.

There are other factors of a cushioning nature.

In every boom there are certain excesses which develop—certain lines of business, certain prices that go to extremes. Those excesses have to be corrected. And when they all build up to one grand moment, and then are corrected simultaneously, you have a major depression. But if they are corrected one at a time, on a staggered scale, the economy gradually develops a certain amount of strength and you do not have a major depression. You still have readjustments, but you do not have major depression.

Which type of cycle are we having at the present time? I think we have many evidences that we are getting this one-by-one correction of our excesses. Let me cite you a couple of illustrations of what I mean.

Will Cheap Money Continue?

One of the greatest excesses built up in the American economy in recent years was cheap money. It was carried to a tremendous extreme. In the past nine months we have seen a very fundamental correction of cheap money. Anybody who has dealings through the bond market knows that the shake-down of the bond market has been very real.

I do not guarantee that we have completed the correction of cheap money. I do not know for sure whether they can hold the government bond market at par. I would not want to guarantee it, but neither do I want to sound alarmist about it. I leave it as one of those questions to which nobody knows the answer. But I do insist that what has happened up to date constitutes a very real and fundamental correction of the excess in this department.

An even greater excess had developed in the area of farm prices and the recent break in the agricultural markets has corrected this excess. Again, I do not say that it has necessarily corrected the excess 100%, but in the main, and substantially, it has corrected the excess in farm prices.

There are many other excesses left in our economy that have not been corrected. Some of them are wage or price excesses. Some of them are profit excesses and so on. But, even better than correcting an excess, is preventing one. If the break in farm prices serves to prevent an excess in the next round of wage increases, that will be a very great help toward keeping the business readjustment, when it comes, orderly and moderate.

Curbs on Bank Credit

In the field of banking, I think we have to recognize another case of preventing an excess. We have had people in the Federal Reserve and in other parts of the government shouting from the house tops for several months that we are faced with a great over-expansion of bank credit. They have been issuing cautions on this subject. Well, the real curb that has been placed on any tendency to over-expansion of bank credit has come voluntarily from the bankers, themselves.

Starting about three months ago, there began a policy of caution in making bank loans, avoiding loans for speculative purposes, avoiding loans to carry inventory where the commodity was overpriced, where there was any question about the quality of the loan.

In the past 30 days this caution on the part of the banks has been intensified and for the first time in American history the voluntary caution has taken hold, has been aggressive, and has been highly effective on the part of the banks. Time and again in the past, there have been efforts to organize moral suasion in the banking system and I do not know of any case where that moral suasion has amounted to much—until now. And now voluntary caution is one of the great forces in American finance. Let us make no mistake about it. That has prevented an excess which has grown up in every previous boom in the history of this country.

There is one other phase of this question of excesses in our economy. In some parts of our economy today I do not think there is any excess. For instance, I do not see that there is any great balloon in speculative credit of the type we had in the stock market in 1929, or in commodities in 1920. There is no excess in speculative credit. Moreover, usually when we have had a test at the end of a great boom, we have had the stock market going through some very violent nose-dives. I do not have any predictions to make about the stock market, but I do say that when I look over the whole panorama of American business today and I try to make a list of the excesses, I find one segment of our economy where there is no excess. That is the stock market and the use of speculative credit.

Cushions to Readjustments

These factors are cushions that will help to lessen a readjustment in business when it comes.

I realize perfectly well that when anybody uses the words "recession" and "readjustment," he is using words that do not sound very happy. I do not expect anybody to feel greatly cheered up by talking about this subject. But if you will bear with me, I was asked to come here tonight to tell you what I think about the business outlook. I have told you. Whether it cheers you up or not is not my concern. But, in all fairness, and in all honesty, I want to make sure that by just using these words "recession" and "readjustment," I have not given you a far more gloomy picture than I intended. I am not gloomy about the outlook, although I am

(Continued on page 28)

Outlook for Business

(Continued from page 27)

confident we are coming into a business readjustment.

The reason I speak this way is because I think that this change in money rates, in the bond market, in farm prices, represents the first steps in a return to sanity and common sense in the way we run our affairs in this country.

What it means is that we are making important strides toward solving our problem by natural forces and by private industry.

The politicians of both parties have been telling us that we cannot solve our problems that way; that we have to have new controls, new powers given to government agencies. But, while they have been talking about it, the natural forces of private industry have been doing a very important part of the job in the last few months.

The Russians are telling us that we cannot save ourselves from major depression, no matter how we go about it. Private industry cannot save us. Our government cannot save us. Why? Because we operate on capitalism.

Now, I do not think there is anything inevitable about a collapse just because we are a capitalistic system. I think the Russians are just as wrong as the politicians are about the forces that are going to make us or break us.

I wonder if it would not be really a grand and glorious joke if this free enterprise system that we have in America should prove that it can survive, after all, without another major depression, by having an orderly and moderate readjustment in its affairs? I think that would be a pretty good joke on the rest of the world and on the people who want to pass new controls and have us all run by the government.

We have been correcting our mistakes, our excesses, one by one. We have been restoring balance within the price structure, and between different segments of our entire economy. We have been avoiding rank speculation in securities and in commodities. We have been operating along lines of some of the old-fashioned virtues, and as a result of that, I submit that we can have an orderly readjustment of business, starting somewhere around the fourth quarter of this year and extending into next year, without having the props fall entirely out, without having a major depression; and, frankly, that is my best judgment as to what the business outlook really is in the United States over the coming year.

To Be Cohu & Company

Effective March 1, after the retirement from the firm of Clare M. Torrey, the firm name of Cohu & Torrey, 1 Wall Street, New York City, members of the New York Stock Exchange, will be changed to Cohu & Co.

Now Stein, Roe & Farnham

CHICAGO, ILL.—Stein & Roe, Investment Counsel, have announced a change in firm name to Stein, Roe & Farnham.

Remington Corporation

CORTLAND, N. Y.—Remington Corporation is engaging in a securities business from offices at 59 East Court Street.

Julius Brasz in New York

Julius Brasz is conducting a securities business from offices at 154 West 70th Street.

The State of Trade and Industry

(Continued from page 5)

ducers. Since the price of semi-finished steel has been low compared with the cost of scrap and pig iron it was obvious that action by the leading producer would be followed by other steel firms.

No secret has been made of the fact that several steel price increases have been put into effect since the first of the year, says "The Iron Age." A summary of these includes tinplate terneplate, blackplate for can manufacture, alloy steel bar extras, nails, wire fencing, railroad car axles and wheels, tie plates, all types of pipe and tubing, all types of semi-finished steel.

A conservative estimate on the basis of 1947 steel shipments, according to the trade paper, indicates that the above referred to increases on an annual basis would amount to more than $170 million to the consumer if 1948 operations are as high as last year's.

The shortage of pig iron has hit the nation's foundries more seriously than it has steel production. Jobbing and production foundries in the East are operating on skeleton schedules because of pig iron shortages.

In the midst of the furore over steel prices, steel scrap prices turned slightly softer this week in one major consuming district and were unchanged in two others.

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 93.6% of capacity for the week beginning Feb. 23, 1948. This compares with 92.5% one week ago. A month ago the indicated rate was 95.2%, while an operatating rate of 94.4% was shown a year ago.

This week's operating rate is equivalent to 1,687,100 tons of steel ingots and castings as against 1,667,300 tons last week, 1,716,000 tons a month ago and 1,651,900 tons one year ago.

BUSINESS FAILURES TURN DOWNWARD IN WEEK

While off slightly from the preceding week's high level, commercial and industrial failures remained heavy in the week ending Feb. 19, reports Dun & Bradstreet, Inc. Numbering 107, concerns failing were lower than the 128 occurring last week, but were about twice as numerous as in the comparable week of 1947 when 58 failed and six times as numerous as in the same week of 1946 when only 18 businesses closed with loss to creditors. Although rising sharply in recent weeks, failures continued far below the prewar level. Only about one-third as many casualties were reported as in the corresponding week of 1939.

Failures with liabilities of $5,000 or more predominated, claiming 89 of the week's total of 107. Businesses failing in this size group fell off from 115 a week ago, but were almost twice as heavy as last year when 47 occurred with losses exceeding $5,000. Twelve of the large failures during the week had losses of $100,000 or more each. Small failures with liabilities under $5,000, although small in number at 18, increased both from the 13 reported in the previous week and the 11 occurring last year.

Most industry and trade groups had a rise in failures with all of the week's decline concentrated in manufacturing and wholesale trade.

Over one-half the week's failures occurred in two regions, the Middle Atlantic States with 32 and the Pacific States with 27. Businesses failing also rose sharply from the 1947 level in two other regions, the New England and East North Central, but failures were still relatively low in these areas, numbering 13 and 11. In five of the major geographic districts, failures were even less numerous, continuing at seven or less.

ELECTRIC OUTPUT EDGES LOWER FOR WEEK

The amount of electrical energy distributed by the electric light and power industry for the week ended Feb. 21, 1948 was 5,254,002,000 kwh., according to the Edison Electric Institute. This was 130,943,000 kwh. below the previous week and 182,428,000 kwh. less than produced in the week ended Jan. 24, 1948 which was a record for all time. It was, however, 476,262,000 kwh., or 10%, in excess of the 4,777,740,000 kwh. turned out in the week ended Feb. 22, 1947. The Feb. 21, 1948 week was the seventh consecutive week that production of electricity exceeded the 5,000,000,000 kwh. mark, and the 15th such week in the history of the industry.

FREIGHT LOADINGS SLIGHTLY LOWER DUE TO BAD WEATHER

Loadings for the week ended Feb. 14, 1948, totaled 734,262 cars, according to the Association of American Railroads. This was a decrease of 13,132 cars, or 1.8% below the preceding week because of adverse weather conditions which interfered with industrial and railroad operations. It represented a decrease of 65.715 cars, or 8.2% below the corresponding week in 1947, but an increase of 27,208 cars, or 3.8% above the same week in 1946.

AUTO OUTPUT MARKED BY SUBSTANTIAL GAINS FOR LATEST WEEK

With the disappearance of industrial gas shortages in Detroit and other manufacturing centers the past week production of cars and trucks in the United States and Canada reflected substantial improvement.

Estimated output of cars and trucks in the United States and Canada the past week amounted to 109,157 units, "Ward's Automotive Report" states. This compared with a revised total of 83,996 units in the preceding week and 127,740 units in the same week in 1941.

Last week's total comprised 75,818 cars and 29,093 trucks built in the United States. Canadian assemblies totaled 4,246 units the past week.

WHOLESALE FOOD PRICE INDEX OFF FOR FIFTH STRAIGHT WEEK

Food price movements were quite irregular in the past week but the general trend continued downward. The Wholesale Food Price Index, compiled by Dun & Bradstreet, Inc., dropped seven cents from $6.83 a week ago to $6.76 on Feb. 17. Marking the lowest level since Sept. 2, 1947 when it stood at $6.71, the latest figure represents a decline of 52 cents, or 7.1%, from the recent record high of $7.28 touched on Jan. 28. At this time a year ago the index registered $6.47.

WHOLESALE COMMODITY PRICE INDEX POINTS UPWARD

The Dun & Bradstreet daily wholesale commodity price index turned upward in the closing days of last week, aided by an upturn in grain, cotton and livestock markets. The index closed at 277.23 on Feb. 17, as compared with 278.92 a week earlier, and with 247.05 on the corresponding date a year ago. At the six-month low of 270.60 touched on Feb. 13, the index registered a drop of 12.4% from the postwar peak of 308.82 recorded on Jan. 16.

Following the unprecedented decline which began on March 4, all grains showed resistance to downward pressures in the closing days of last week.

Although prices finished well below a week ago, substantial advances were scored the past week and the general undertone was firm. Corn was the leader in the late upturn after having declined the permissible limit of eight cents a bushel in seven out of 10 trading days.

Country selling of both cash wheat and corn showed considerable expansion as a result of the lower prices. Volume of trading in grain futures on the Chicago Board of trade was the largest in some months. Sales averaged 51,600,000 bushels daily during the five-day week, as compared with 42 million bushels during the previous week, and 20,500,000 bushels in the like week a year ago. Lard prices were steady at their recent lows.

Heavy market receipts early in the week sent livestock quotations to the lowest levels in months but most of the losses were recovered at the close as the result of curtailed receipts.

There was considerable pressure on cotton prices last week as the result of the break in outside markets. After suffering the first daily limit-break since October, 1946, on last Tuesday, day to day fluctuations became more moderate. Mild advances in spot cotton markets in the closing days of the week held the week's losses to around 1½ cents per pound. Trade and commission house demand was a factor in the late upturn. Buying was stimulated by the recovery movement in grains and the belief that the Army would soon be in the market for sizable quantities of low-grade cotton for shipment to Japan. Sales of gray cotton cloths continued to lag; prices remained fairly steady.

Hides futures prices at New York continued to recede last week, as did quotations of spot big packer hides in the Chicago market.

Current prices, however, were at a higher level than they were a year ago. Sales volume in spot markets touched the second lowest level in more than 16 months. Trading in country hides and small packer hides remained slow throughout the week.

Trading in domestic wools in the Boston market was generally quiet last week, although a fair volume was done in ⅜ and ¼-blood wools, needed by manufacturers to piece out orders. Wool tops in spot markets held firm and futures markets showed moderate declines. Wool prices in foreign primary markets continued firm to stronger, while imports of foreign apparel wools were sustained in good volume.

RETAIL AND WHOLESALE TRADE SHOWS MIXED CHANGES

There was a slight rise in the dollar volume of consumer buying last week. It continued to compare favorably with that of the corresponding week a year ago, Dun & Bradstreet, Inc., reported in its current survey of trade. Pre-Easter promotions of apparel increased with consumer response generally favorable.

Resistance to high prices continued to be considerable and shoppers eagerly sought marked-down and bargain items.

Slight reductions in the prices of some foods stimulated buying in some areas and the total dollar volume of food proved steady and high. The demand for cheaper meat cuts, fish and poultry remained very large, while canned and frozen foods continued to sell well. Confectionery and bakery products were heavily purchased for the St. Valentine's Day holiday. The buying of dairy products and fresh produce showed some increase.

Consumer interest in apparel improved with mild weather in some areas stimulating the demand for Spring clothing.

Promotions of Easter items generally attracted favorable attention with gabardine coats and suits popular. Organdy blouses and lace-trimmed petticoats were also in large demand. The volume of jewelry, however, declined somewhat. Men's suits, shirts and pajamas were steadily purchased, while interest in shoes improved somewhat in some areas.

The St. Valentine's Day holiday stimulated the buying of novelty cards and gifts and volume compared favorably with that of a year ago. There was an increase in the demand for glassware and household articles of good quality continued to be sought. Hardware, paints and building materials were steadily purchased and considerable improvement in the supply of some building materials in some areas was also noted. Volume in automobile accessories remained large.

The growing caution of retailers was reflected in a moderate decline in wholesale volume during the week.

The dollar volume of wholesale trade remained somewhat above the level of the corresponding week a year ago. Buyers generally confined their purchasing to current needs. The volume of new orders diminished considerably. The drop in buyer attendance at some of the wholesale centers was partially attributed to unfavorable weather.

Department store sales on a country-wide basis, as taken from the Federal Reserve Board's index for the week ended Feb. 14, 1948, decreased by 3% from the like period of last year. This compared with an increase of 9% (revised) in the preceding week. For the four weeks ended Feb. 14, 1948, sales increased by 4% and for the year to date increased by 5%.

Retail trade here in New York the past week reflected sharp gains percentage-wise over that of last year. Estimates placed gains in department store trade between 20% and 35% above the similar week in 1947. An advantage was gained this year because of the fact that Washington's Birthday in 1947 was celebrated on Saturday.

According to the Federal Reserve Board's index, department store sales in New York City for the weekly period to Feb. 14, 1948, increased 1% above the same period last year. This compared with an increase of 12% (revised) in the preceding week. For the four weeks ended Feb. 14, 1948, sales increased 6% and for the year to date rose by 5%.

Roundup of Investment Stocks and Their Industries

(Continued from page 4)

had been built up in the lush years but suffered a severe reverse in 1947. Bank balances shifted from cash to film inventory, not more films but more costly inventories. The result of this was a wholesale rush to banks for revolving funds to help bankroll the soaring film production. Also, there has been, quietly, some selling of theater houses, probably as much as $5 million worth by Paramount to add to working capital. Unquestionably the sounder companies—Loew's, selling around 16½, paying $1.50; Twentieth Century-Fox, selling around 19, paying $3; and Paramount, selling around 19 and paying $2—are going to cut dividends. Unquestionably, Paramount, under the management of John Hertz, formerly Vice-President of General Motors, and the sponsorship of Lehman Brothers is the soundest issue. Considering that they have lost more than 60% of their price of a few months ago I do not feel that a holder should sell them now as they should make a bottom somewhere near the present price. I see no real indication to say that they have made bottom that they should be purchased here, whereas one year ago I stated that they should be sold for a considerable decline, which they have had. They certainly do not belong in a purely conservative portfolio.

RKO—"Best Years of Our Lives," $11,500,000;

Selznick—"Duel in the Sun," $10,750,000;

Columbia—"The Jolson Story," $8,000,000;

Twentieth Century-Fox—"Forever Amber," $6,000,000.

This big return from the big pictures shows that the public is shopping and that the mediocre pictures are dying, which did not apply during 1946 and the war years.

Oil Industry

The use of oil has paralleled the civilization of man. Through this development we have saved physical drudgery of olden times both of man and beast. Our use of it more than any other product has caused the United States to out-produce any other nation and thus enjoy the highest standard of living in the world. Our oil securities have long been quoted in the market. The two large fortunes in America, the Rockefellers and the Mellons, have been founded on oil. In this connection it is disturbing to note that India has several large billionaires whereas today, with our tax rate, if one should earn a million a year for 60 years you could only retain about $3 million.

The famous dissolution of Standard Oil in 1907 broke up Standard Oil into S. O. of Ohio, of Kansas, California, N. Y. (now Socony-Vacuum), S. O. of N. J., South Penn Oil, etc. The so-called Standard Oils have much competition from such well-integrated companies as Texas, Gulf Oil (the Mellon company), Phillips, Continental Oil, Cities Service, Sinclair, etc. The companies that have diversified business in the four branches of the industry—production, transportation, refining and retailing—are the best for investment. They have diversified their business so much that they are actually chemical companies through sale of such by-products as chemicals, coal tar products, fertilizers, etc. They branch into many divisions of diversified businesses.

In 1947 we consumed 582 galloans of petroleum products per year for every man, woman and child in the U. S., an increase over 1941 of 25.4% and 12.3% over 1946. The lower-priced of product as related to other fuels is an important consideration. Successive price advances have brought crude oil to about $2.50 per barrel as compared to a war price of about $1.10. Farm use of petroleum products is up 100% since before the war. Last year they used 2,821,000,000 gallons of gasoline. Also, bus and truck use shows a large increase. Vehicles, including passenger cars, increased last year 2,971,000 over 1946.

The Outlook for the Oils

By 1956 consumption is estimated at 6,700,000 barrels per day as against 4,900,000 in 1946. Consumption in the rest of the world will rise to 5,100,000 barrels per day as against 2,900 000 in 1946. The U. S. will be able to supply 5,000,000 barrels a day of this total demand of 12 million so that the outlook for the next ten years would indicate that the companies that are in the Persian Gulf Field would be important. They are estimated to be able to produce 2,500,000 barrels per day in 1956. The industry is in the midst of a $4 billion expansion, half for additional crude development and about $500,000,000 for additional transportation facilities; the balance for refining, etc.

There does not seem to be any possibility of the oil industry developing the difficulties that it had during the 1930s. At that time pro rating production, the legal method by which states control the output of a well, and not yet tested hrough the courts. Also, there had developed an entirely new, efficient method of discovering oil so that there was a sudden loss of control over production. These laws have now been tested through the Supreme Court. There are now more than 120,000 new oil burners being installed each month, not to mention the dieselization of railroads and the growth of population.

It is not my purpose to give you too many statistics but I feel that oil securities are on a plateau for a good many years. They have had a good advance in the last year but the yield on Standard Oil of California, Jersey, Socony-Vacuum and Texas—who together own the large concession in Saudi Arabia—is still attractive, and there is Gulf Oil which, together with the Royal Dutch Shell interests, own the concession in Kuwait, where they have discovered the greatest reserve of oil yet found in the world. Gulf has the largest reserves of any company in the world and without business in the Near East it would still be an excellent stock.

There are two companies, Columbian Carbon Company and United Carbon Company, that manufacture lamp black, by-products of petroleum. They are both sound for income and appreciation. As you know, lamp black is used extensively in the manufacture of paints and automobile tires.

Steel Stocks

The year 1947 was one of the best years in the steel industry. 84 million tons of ingots were produced as compared to 66 million tons in 1946 and 82 million in 1941 and 56 million in 1937. Profits of the 14 leading companies were $394 million compared to $295 million in 1946, $205 million in 1937. Granting that we have gone a long way to rebuild inventories we must watch foreign business to judge the immediate trend. It is estimated that directly and indirectly 13 to 15% of production went abroad in 1947 and abrupt and substantial curtailment of foreign demand would alter the steel output this year. The domestic demand from such important industries as automobiles, oil, railway equipment and many lines of construction is such that the steel companies should do better than average for 1948.

The industry is very important in our national life in this age of machines. Part of its troubles are due to tax laws that do not allow for more rapid depreciation on durable goods actually having a short life because of hard use and because of continued obsolescence of installed machines, tools and heavy production equipment. There is a continued shortage and maldistribution of pig iron which has added to the cost of manufacturing steel. A slump in business would cause the unprecedented demand to fade rather quickly. This demand has been based on, first, the increased mechanization of industry, the lowering of manual or hand-operated operations; secondly, accumulated pent-up demand from worldwide agencies, many of which bought for foreign sources. Third, large demand by new projects for new industries. The production capacity is now 70% above prewar. The cost of replacing plants needed constantly, the increased cost of fuel and wages and now over-production in some lines with large overcapacity for normal production seem to make any but the soundest securities in this field unattractive. The very nature of its business causes it to have huge booms in times of war and business booms, and bad times in times of depression — particularly when railroads are not buying steel rails, etc. The large amount of wages per dollar output makes any wage change important in this business.

Food Companies

Food companies have had no sales problem for 5 or 6 years and with record basic crops and with subsidized feeding of animals they have enjoyed unprecedented volume of sales. Since we are still shipping everything we can spare abroad it is too early to judge what the effect will be when peace is signed. It is well to notice, however, that we have increased our consumption of cheese from 2 lbs. per capita per year to 7 pounds. Americans, like other peoples, are learning to eat cheese. Example: Argentina. In some countries abroad cheese consumption rises above 25 pounds per capita per year. In this connection, therefore, Borden's and National Dairy Products are in a good position to give better than average market performance. These companies, by diversification into numerous by-products have lessened their dependence upon narrow-profit fluid milk operations.

Baking stocks—Ward's making cakes being a luxury product in bad times and the bread companies have plenty of local competition.

Meat companies are now freed from control and the longer-term prospects are unimpressive.

The packaged products companies, including chewing gum manufacturers American Chicle, Beech-Nut, William Wrigley always show better than average market performance. Until last September they have been operating on 60% of 1941 sugar supplies and a shortage of whatever it is they make chewing gum from and should do much better. A basically strong feature is brand names established through years of advertising.

Sugar stocks are inventory situations again. Cane sugar is very easy to grow, requiring only the planting of cane and harvesting—no cultivation. The lowest cost producer and the second largest company is West Indies Sugar. 65% of its production is in Santo Domingo, where labor is much cheaper than in Cuba.

The Corn Products Refining Company, Penick and Ford have extremely stable earnings records and have appeal for income. United Fruit imports bananas and fruits, runs ships, owns plenty of land in Central and South America.

The glass container companies, Hazel-Atlas, Owens-Illinois and the canning companies—American Can and Continental Can—will also improve their earnings as the hampering shortages disappear. The normal output of tin is two years away but soda ash for glass should be in supply sooner.

Paper Industry

In spite of new production records there is no indication of any appreciable accumulation of inventory in distributors or consumers' hands of paper products. The greatest scarcity is in market pulp with no chance that we will receive much from Scandinavian sources in the near future. Paper is literally in short supply the world over and you are justified in maintaining a constructive attitude toward paper stocks until this situation has been changed. The particular situation that is favorable here is that many companies have Canadian production, where wages are much lower than in the United States, and they sell their products in U. S. dollars. The following is a list of the paper stocks—Scott Paper, Container Corporation, National Container, Kimberly-Clark, Union Bag and Paper, International Paper (no strikes in 25 years), Champion Paper, West Virginia Pulp and Paper. Enlarged capacity may force price cutting and anyone in these stocks should keep closely posted. Their shares are not conservative.

Agricultural Equipment

The agricultural equipment stocks enjoyed in 1947 record-breaking earnings. Two companies, J. I. Case and Allis-Chalmers, completely recovered from bad strikes the year before, overcame most of production interferences, completed reconversion and established a price which gave them ample earnings. Everything points to 1948 being a year of these continued peak earnings. The government is committeed to support farm prices through 1948 and farm income is estimated at over $21 billions. Of this amount over $1 billion should be spent on farm equipment. Other companies are Deere and Company, International Harvester, the Oliver Corporation. Of course, the future political action on farm prices will greatly affect the outlook for this industry.

Textile Industry

Textile stocks had their large advance from the lows of 1942 to the high in the market of any industry. Cotton and woollen divisions enjoyed record-breaking earnings and may well be avoided. The Woolen industry normally possess more than ample capacity and this in turn causes fierce competition. Some of the companies in this field are American Wool, J. P. Stevens, Cannon Mills, M. Lowenstein, United Merchants Manufacturing, etc.

Cotton is selling at three times the prewar price and could fall, causing adverse repercussions throughout the textile field. Cluett, Peabody holds the Sanforizing process and has in the last year sold a large preferred issue so that it now has to prove its investment qualities as a company so large. The patents expire shortly on Sanforizing, but there are other developments which may turn out favorably. The rayon companies appear more attractive. For example, the use of rayon cord in tires, a war development, has grown until more than 25% of the companies' poundage is consumed in this manner. Celanese, I believe, is the best of the rayon companies. Their management is not too good, but the products are so good they sell themselves. Other companies in this field are American Viscose, Industrial Rayon, Wyandotte Worsted, etc.

Mail Order Houses

I failed to discuss last week the mail order business when I discussed dry goods and chain store companies. There is no question but that over the years Sears, Roebuck and Montgomery Ward are sound. The question is, can they face a fall in gross sales due to lower farm income and during the period of depressing prices and falling sales how large will the losses be? I think they will be substantial. However, the price, for example, on Montgomery Ward has gone down from a high of 105 to 50, paid $2 in 1946 and $3 in 1947. Sears was split four-for-one in 1946, pays $1.75, sells around 32. They are both selling above their 10-year average price and might be purchased lower if you favored that type of security.

Please allow me to emphasize that in mentioning any stock or group I do not mean to say that they are necessarily suitable for your program of investment. You are going to receive in the next six meetings lectures on special types of businesses and after that we well again discuss the subject with a broader viewpoint.

Railroads

As you probably know, the history of America since the middle of the last century is the history of the railroads. The Dutch people contributed to a large extent to the development of America's transcontinental railroads. Railroads were the chief beneficiary of the war as they had a tax base of invested capital very favorable for retaining war profits under the excess profit taxes. They were able to retain their earnings and retire indebtedness. The railroads are not the same as before the war for several reasons. They are now retiring debt systematically. Also, the shift of population and the growth in the West of population has favored certain railroads, those that have long hauls particularly. Many companies have bought up and cancelled 30, 40 and 50% of their outstanding debt. One railroad—the Atchison, Topeka and Santa Fe—retired all of the callable indebtedness. I will not dwell any more on these as you will have a particular lecture. Best stocks are Union Pacific, with Santa Fe, Great Northern, Southern Pacific, Chesapeake and Ohio not too bad.

Tobacco Industry

The tobacco industry, due to the very nature of the habit, should be classed as a conservative, steady business. Based on estimates of current earnings, most cigarette companies appear very moderately priced with a yield obtainable that is attractive from the five major companies. While the present dividends probably will be increased, the group has long been notable for earnings and dividend security, traceable to the tenacity of the habit and the unusually depression-resistant qualities of the industry. The cost of leaf has more than doubled since 1940, but the two recent record crops caused the price rise to taper off so that the raw material costs seem to be stabilized. With only a drop of 2% at the end of the war due to the lesser use of cigarettes by the Red Cross, UNRRA and the Army, the industry has shown a steady upward trend for the last 14 years.

The companies and their products are:

R. J. Reynolds: Camel, Prince Albert, Brown Mule chewing.

American Tobacco: Corona cigars, Lucky Strike, Bull Durham.

Liggett and Myers: Chesterfield cigarettes.

P. Lorillard: Old Gold.

Philip Morris: Philip Morris cigarettes.

American Snuff Co. and **United States Tobacco Co.** and two others sound for income.

Tomorrow's Markets Walter Whyte Says—

By WALTER WHYTE

Steel increase yet to be reflected in market action. All long positions to be maintained.

The important stock market news of the past week was the increase in steel prices. Whether this increase sticks or not remains to be seen. The important fact is that a basic commodity has once more been advanced and the increase is bound to be felt throughout our economy.

* * *

With the market off on a long weekend vacation there was little in the price action to indicate what the immediate trend would be. But days before the steel increase was announced the action wasn't anything to cause any real concern. Since the break of a few weeks ago most stocks have managed to regain some of their lost ground. It is quite probable that much of this recovery was due to short covering. Evidence of this was seen in the fact that the initial gain didn't have enough power to carry over beyond normal technical levels.

* * *

In a market such as this a concerted movement in any direction must have sufficient ammunition on which to feed itself after the initial burst is exhausted. Failing to get that it will sink back into a lethargy until it get something else to stir it up again.

* * *

The ideal, of course, would be for something to be stirring all the time, particularly something that would be bullish when we're long, bearish when we're not. But the market is seldom so accommodating. It represents at all times the hopes, fears and beliefs of millions of market participants. Some of these are based on precise reasoning. Most of it, however, is built on hopes and fears. The problem is to separate the wheat from the chaff.

* * *

Speculation has been derided time and again as something degrading, ominous and even subversive.

* * *

This is not intended to be a brief for speculation. It has long been an integral part of the American system and no amount of talking or legislating will do more than possibly check it. I maintain that no investment is worth a hoot if it isn't a good speculation at the same time. Return on capital, the theoretical objective of the investor, is to me secondary to capital gain. Obviously the factor of safety is taken care of by this increase in price. In these days of an inflationary economy the return on capital is almost meaningless. It is the increase in the price, even if it only maintains the ratio between the decline in the purchasing power of the dollar, that is important.

* * *

A few weeks ago I recommended a list of stocks at specific prices in the belief that these would increase. Up to this writing none of these has acted in any manner to make any change in position necessary. I therefore suggest that all positions be maintained until other advice appears here. The list follows:

	Bought—		Stop
Amer. Brake Shoe	38	-39	37
Amer. Chain	19½	-20½	18
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	12
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.]

With Bourbeau & Douglass

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Gordon E. Buckhour has been added to the staff of Bourbeau & Douglass, 510 South Spring Street. He was previously with Paine, Webber, Jackson & Curtis.

With Buckley Bros.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Stanley W. Wiedrick has become connected with Buckley Brothers, 530 West Sixth Street. He was formerly with Crowell, Weedon & Co.

Scane With Colvin, Mendenhall

(Special to THE FINANCIAL CHRONICLE)

BEVERLY HILLS, CALIF.—Francis I. Scane has become associated with Colvin, Mendenhall & Co. He was formerly with Dean Witter & Co. and First California Co.

Inflation and Bank Credit

(Continued from first page)

developments. These were partly physical and partly monetary. In the absence of drastic countermeasures, inflation is inevitable in war because resources are diverted from supplying consumers' and producers' goods to supplying the materials of war, and people are paid large amounts for producing goods and providing services which they cannot purchase with their incomes. The shortages of consumer goods, as well as widespread destruction and disarrangement of resources, led to the accumulation of large deferred demands. At the same time the excess of incomes that could not be spent or invested resulted in the building up of savings held in the form of liquid assets, i.e., cash balances and government securities.

The wartime accumulations of liquid assets were the result of war finance. They were the direct outgrowth of the large government expenditures, which had to be met as much as possible through taxation and through borrowing from the savings of the people, and the remainder obtained by selling securities to banks. The Federal Reserve System by buying government securities supplied the commercial banks with needed reserves to meet wartime currency demands and expand their holdings of government securities.

The country's aggregate money supply, as measured by currency in circulation and privately-held demand, time, and savings deposits, is now two and a half times as large as at the beginning of the defense program — about $170 billion, compared with $66 billion in June, 1940. In addition, the general public, outside of banks, insurance companies, and government agencies, has increased its holdings of government securities to about $90 billion, or seven times as much as in June of 1940. These government securities in the hands of the public are practically the equivalent of money because they are readily convertible into cash. In sum total, this stock of purchasing power available to buy the current output of goods and services amounts to about $260 billion, compared with a stock of about $80 billion in 1940—more than a threefold increase. The over-all physical volume of production of goods and services, so far as it can be measured, is probably between a third and a half larger than in 1940. Prices on the average have risen by more than two-thirds. The dollar value of the total national product is nearly two and a half times the prewar maximum.

Current Inflationary Developments Due to Large-Scale Spending

In the war period inflationary forces were prevented from expressing themselves to some extent by the imposition and maintenance of high taxes, but more largely by allocations and price controls. At the end of the war these various restrictive measures were either removed or reduced in effectiveness. This action was premature, because under the conditions existing, it was impossible for demand and supply to be in balance, and the subsequent sharp rise in prices was inevitable But the public clearly wanted restrictions removed.

Offsetting the rapid postwar decline in government expenditures, consumer and business spending increased sharply. The over-all volume of current expenditures by all groups has been in excess of the available supplies of goods and services because individuals and businesses have not only used rising current income but have also drawn on past savings and have borrowed to augment their buying power. In the meantime production has practically reached maximum capacity. The heavy demands and the higher prices do not bring forth more production. Notwithstanding all of the demands, there was little further growth in the physical volume of production during 1947 and not much can be expected in 1948.

The question that faces the country is in a sense a simple one. Do we want to hold down consumption in order to be able to divert resources for the time being to the expansion of productive capacity and to assisting wartorn countries in restoring their productive capacities, not to mention the maintenance of a very large volume of government expenditures for national defense and for aid to veterans? It is not possible to satisfy all of these existing effective demands at once. To attempt to do so can only lead to rising prices. Although the question is simple, to decide what to cut back and how to do it is a very complex and difficult problem. It cannot be solved without many sacrifices.

Rising prices cannot be relied upon to bring about a condition of equilibrium that will end the inflationary development and maintain prosperous conditions. They have only led to the development of a self-generating spiral. Higher prices means higher profits and incomes and pressures for higher wages, which are granted. Thus, the effects of the high prices are broadly distributed among farmers, workers, and entrepreneurs, large and small. Spending can, therefore, be further increased, with resulting greater pressures on available supplies and further price increases. No particular group is to be blamed for this development. High prices and high profits and pressures for wage increases are the normal manifestations of inflationary forces in a free enterprise, competitive price system. Serious distortions in prices and incomes have resulted, but so far persons profiting by inflation have exceeded those suffering by it. Therefore the spiral of rising prices and incomes has continued.

Financial Basis of Current Inflation

Government finance, which was largely responsible for the wartime process of monetary and income expansion, has been completely reversed in its effect during the postwar period. The government is still spending much more than in previous peacetime years but is now collecting in cash more than it is paying out by a margin that is close to $10 billion a year. This excess has been used to retire the public debt—to some extent securities held by businesses and individuals, but mostly those held by banks and more recently almost entirely those held by the Federal Reserve Banks. Thus bank deposits and bank reserves are being contracted. This is in effect a powerful anti-inflationary process, but its effect is being offset by other developments. It may be said that although governmental activities utilize a large part of available manpower and resources of the country and thus contribute to inflationary forces, government receipts are withdrawing funds from the current flow of income, and that governmental transactions on balance are exercising an anti-inflationary influence.

Individual consumers account for the bulk of current expenditures for goods and services. Consumer expenditures are now at an annual rate of about $170 billion a year, two and a half times the prewar maximum. Individuals also hold the bulk of the liquid assets accumulated during the war. These holdings now aggregate $160 billion. Cash balances, in currency and deposits, exceed $100 billion or two and a half times prewar amounts, while government securities are six times prewar holdings. These assets are widely distributed throughout the population; farmers, wage earners, professional people and small businessmen have shown especially large increases. The half of the families with medium-size incomes hold nearly half of the liquid assets; most of these families before the war had little or no such accumulations.

With the growing availability of consumer goods since the end of the war, consumer expenditures have naturally expanded more rapidly than have consumer incomes. As a result, personal savings, which during the war were at the abnormal rate of $35 billion a year, have declined to a net amount of about $10 billion. It should be recognized, however, that this volume of net current savings is not small as compared with prewar standards, either in dollar amount or relative to personal incomes. Moreover, gross savings are much larger, because withdrawals from past savings and borrowings, which are deducted to obtain the figure of net savings, are much greater than in prewar years. In other words, there could be a further decline in the current volume of personal saving and a corresponding increase in consumer spending, even without an increase in personal income.

More of personal savings are going into capital investment and less into liquid assets than during the war, which means that they are being used in a manner that contributes to, rather than works against, inflationary pressures. Individuals are buying more durable goods and investing more in housing than they did in the immediate prewar years, and are borrowing more for these and other purposes, as well as drawing upon past savings. On the basis of data published by the Securities and Exchange Commission, it may be estimated that individuals in the aggregate invested about $5 billion in housing during 1947 and, in the same period increased their mortgage indebtedness by about $4 billion. Consumer borrowing for other purposes increased by approximately $3 billion.

At the same time other individuals have been increasing their savings in more liquid forms. It is estimated that individuals increased their deposits in banks and shares in savings and loan associations by $4 to $5 billion, saved about $6½ billion in 1947 through increases in insurance and pension reserves and added over $3 billion to their holdings of securities, notwithstanding liquidation of about a billion of armed forces leave bonds. These amounts are generally smaller than in the war years, but some of them are double estimates for 1940.

It may be concluded that individuals are freely spending and investing not only their current incomes, but also their past savings and the proceeds of borrowings, but at the same time on balance are still adding to their holdings of liquid assets. Thus they continue to have large amounts to spend and invest. There is no reason to conclude that these holdings are becoming more concentrated to any appreciable extent into the hands of a few large owners. They remain potentially a highly inflationary influence.

Business, which as a group accumulated liquid assets during the war because of an excess of receipts over current disbursements, has been paying out more than it has received in the postwar period. Business has drawn down its wartime accumulations of liquid assets and increased its bor-

rowings. The excess of expenditures reflects large-scale capital expansion, generally needed to fill in wartime deferments and to provide productive capacity to meet expanding postwar demands. The present rate of private domestic investment, including residential construction, is exceptionally large, being about 13% of the gross national product compared with a prewar average of 11%. Current expenditures are probably sufficient for replacement and normal growth and to cover some of the wartime deficiency. To attempt to make up all the wartime deficiency in a period such as this would add to current inflationary pressures, intensify the boom and make more difficult the subsequent readjustment.

According to information compiled by the Department of Commerce and presented by Secretary Harriman to a Congressional committee, corporations in 1947 expended about $14½ billion dollars on plant and equipment, $7 billion on enlarging their inventories and added roughly $5 billion to their trade receivables. This aggregate of over $26 billion was financed by approximately $15 billion of retained profits and additions to depreciation reserves, $4 billion of net new capital issues and $3½ billion of bank loans with some increase in other payables and a small reduction in liquid assets.

The decrease in liquid assets, i.e., bank deposits and Government securities, of about a billion dollars was in contrast to a sharp decline of $6½ billions during 1946, which had reflected reduction in tax liabilities. To some extent the small decline is due to the fact that many of the corporations holding large amounts of liquid assets do not need additional funds, but it no doubt also reflects the need by corporations for larger working balances. Corporate borrowings through new security issues were much larger in 1947 than in 1946 and the increase in bank loans was about the same in both years.

The conclusion that may be drawn from this analysis of the current financial position of the three broad groups in the economy is of particular significance from the standpoint of inflationary forces. Government, although spending heavily, is nevertheless saving by drawing funds from the public and paying off debt. Consumers are saving on balance but many of them are drawing upon past savings and are also borrowing considerably in order to maintain a high level of expenditures and capital investment. Business is borrowing heavily. It may be said that the anti-inflationary effect of the Government surplus is being more than offset by the effect of business and consumer borrowing.

The Role of Bank Credit in Inflation

The preceding analysis of current inflationary forces brings us to the question of the role played by the banking system. It has been pointed out that existing inflationary pressures are due to an excess of over-all expenditures by the various groups in the economy over the available supplies of goods and services. The fact that there is an excess is due in part to ability to draw on past savings and in part to an expansion in borrowing.

Bank credit has played an important part in postwar inflationary developments. Our commercial banking system is fundamentally a mechanism for allowing borrowers to obtain newly-created money, as well as to put to use money that has been saved. As long as production can be expanded on an economically sound basis, this creation of money through the banking system is useful and desirable. When, however, the economy is producing a maximum volume of goods and services, the only effect that further creation of money through the banking system can have is to increase total demand and thereby raise prices.

As our banking system operates, the legal requirement that banks must hold cash reserves in some proportion of their deposits sets a limit on the amount of credit which banks can create. The deposits themselves are largely the result of loans and investments. Reserves are the heart of commercial banking. Control over the total volume of commercial bank credit is accomplished in this country by limitation on the availability of reserves. The Federal Reserve System was created by the Congress as a public agency to administer such limitations and adjust them to the needs of the economy. Before the Federal Reserve System, gold and a rigidly limited note issue privilege were practically the only sources of new reserves. Such a banking mechanism did not provide sufficient flexibility or capacity for expansion and often resulted in serious monetary panics of catastrophic nature. The Federal Reserve System was organized to remedy this situation and was given power to create additional bank reserves. At the same time it was given responsibility for regulating the supply of reserves to the needs of the economy in order to avoid excessive inflationary or deflationary developments.

The Reserve System has available three techniques of regulating the supply of reserves: (1) making loans to member banks and varying the rate of interest, i.e., the rediscount rate, at which these advances may be made; (2) buying or selling Government securities or certain types of bills in the open market; and (3) adjusting the level of member bank reserve requirements within statutory limitation.

Because of wartime developments, these techniques for influencing the availability of bank reserves are not so effective as they once were. During the war the Government had to sell a certain amount of securities to finance the war. As many as possible were sold to nonbank investors but the remainder had to be purchased by banks. The Federal Reserve System by buying securities in the market supplied commercial banks with funds needed to buy the additional Government securities. As a result commercial banks expanded their holdings of Government securities from $16 billion to $90 billion during the war period. After substantial debt retirement during the past two years, these holdings are now about $70 billion. At the same time banks have been able to increase their loans. The Government securities purchased were in effect added to the previously existing volume of bank assets.

Under present conditions banks can readily sell securities if they want funds to expand loans. Since the demand for Government securities is limited, it is likely that the bulk of any sales will be purchased by the Federal Reserve System. This results in an increase in bank reserves, on the basis of which the banking system can expand loans to more than six times the amount of reserves originally created. This, it should be recognized, is a situation that is entirely new in monetary history. It means that new reserves can be created at the initiative of the banks, not in accordance with the decision of the Federal Reserve authorities. In fact insurance companies and other holders of Government securities can also readily create reserves by selling securities on the market in such volume that the Federal Reserve finds it necessary to buy them in order to maintain an orderly and stable market.

Instruments of regulation available to the Federal Reserve authorities are not adequate to deal with this situation. A higher discount rate is not effective when banks do not need to borrow. The power that the System has to raise reserve requirements of member banks is practically exhausted. Finally, the System is not able to absorb reserves by selling Government securities in a market where there are no buyers.

Bank Credit Demand Under Continued Inflation

Continued expansion of bank credit under present conditions would contribute to a further upward spiral of inflation. It is theoretically possible, in view of the large holdings of bank deposits and other liquid assets, for an inflationary spiral to continue even with no expansion in bank credit and perhaps with some contraction of the total volume of bank credit. The danger that restraint in credit expansion will bring on an unwanted recession is much less to be feared than the effects of continued expansion.

Unless there is some marked change in outlook, business, as well as home owners and consumers, will want to continue to expand their borrowings in order to finance current expenditures. Prospective programs for additions to plant and equipment indicate a level of business demands that cannot be financed out of funds available to them. It is also questionable whether business will be willing or able to raise sufficient amounts through the issuance of new securities. Demands for real estate loans also may continue large not only to finance new construction but also to finance the purchase of existing homes at higher prices. Consumer credit will no doubt expand further as increased supplies of durable goods become available, especially if credit terms are relaxed. The abandonment of consumer credit regulation has been followed by some easing of terms, which may proceed further under the pressure of competition among sellers of durable goods and among lending agencies.

It may be roughly estimated that continuation of the present level of activity, with a further rise in prices, may result in the demand for as much as $20 billion of borrowing by businesses, farmers and individuals during 1948. Of this amount not much more than half might be obtained from financial institutions other than banks. Individuals will have funds to lend, but will they lend it, or will they increase their expenditures and thus drive up prices? If banks are called upon to lend the balance needed, new money will be created and further inflation will thus be financed.

Bank lending where soundly based is necessary for the maintenance of production. It is not to be expected that banks should stop making loans. It would be practically impossible for maturing loans to be paid off without some new loans being made to other borrowers. It should be recognized, however, that over-all expansion in the total volume of bank credit, especially when production cannot be increased, only enables the new borrowers to bid against someone else for a limited supply of goods. It results in rising prices and not in increased output. It adds to the total supply of money and continues to be an inflationary factor.

Banks can readily obtain funds to increase their loans. The inflow of gold from other countries, which amounted to about $3 billion last year and is currently at a rate of about $2 billion a year, will supply enough reserves to permit an expansion of $10 billion or more in bank credit. In addition, banks can obtain additional funds by selling Government securities.

What Can Be Done to Check Inflationary Credit Expansion?

It is not the purpose of this paper to present a comprehensive program for stopping inflation. There are many measures that may be adopted in many fields. Inflationary forces may sooner or later lead to the development of their own correctives. The danger, however, is that the longer the spiral of inflation continues, the more severe the subsequent and inevitable collapse is likely to be. A downturn following a period of expanding loans to businesses and individuals can be particularly disastrous, because credit liquidation will accelerate the rapidity of the decline. This will also endanger the safety of banks and other financial institutions.

Limiting the discussion of anti-inflationary measures to the field of credit, there are various lines of action that may be followed.

Permit Government Securities Prices to Decline.—The first possibility that has been suggested by a number of people is for the Federal Reserve System to stop buying Government securities and endeavor to sell securities where necessary to restrict the supply of reserves. This would mean abandonment by the System of its policy of stabilizing the Government securities market and a return to the earlier policy of regulating the supply of bank reserves. This would mean that the System would buy only such Government securities as are needed to maintain reserves at some desired level and would sell securities if necessary to contract reserves or to offset other factors that may be added to reserves, such as the gold inflow. It would mean that prices of Government bonds and therefore the level of interest rates would be determined by the elements of supply and demand that operate outside of the Federal Reserve System. The resulting changes in interest rates would be counted upon to exercise an influence toward restricting demand when it is in excess of the available supply of funds in the market and perhaps encourage borrowing when the supply of savings exceeds the demands of investors.

One of the principal difficulties of following this line of action is that in view of the present great magnitude of the public debt there can be no orderly Government security market without active Federal Reserve participation. The normal shifting of funds among banks and other investors involves a tremendous volume of transactions almost every day. Large-scale and continuous Federal Reserve open market operations are essential for the maintenance of an orderly and stable market for Government securities and are a necessary adjunct of the Treasury program for managing the huge public debt. The Federal Reserve System has been buying securities amounting to hundreds of millions of dollars a week and purchases and sales in a single day often exceed a hundred millions. The Federal Reserve System is the only agency with the power and resources sufficient to provide the support that this vast market requires.

It is sometimes suggested that complete abandonment of market support is unnecessary but that a gradual decline in bond prices and rise in interest rates might be permitted. Some moves in this direction have already been taken. One has to face the question, however, as to whether any moderate movement can be sufficiently effective. Would a small rise in interest rates, with a decline in bond prices of one or two points below par, stop banks from selling securities if they wanted funds to make loans? Or, would it simply bring about a similar rise in other interest rates and a continuation of lending? A danger of attempting such a policy is that holders of government bonds in anticipation of further declines in prices would sell large amounts which the System would have to purchase. In this event more reserves would be created than if confidence in the stability of government bond prices was maintained.

With respect to the view that the bond market should be permitted to find its own level without support from the Federal Reserve System, I should like to quote from the recent statement by Allan Sproul, President of the Federal Reserve Bank of New York:

"It might still be argued, I suppose, that abandoning our support of the government security market could be encompassed within our modest program and that only moderate declines in security prices would occur, that government securities would reach a 'natural' level, and that everything would then be much better, with markets as delicately balanced as our contacts and experience indicate the present markets to be, I cannot agree with this opinion or judgment. Without our support, under present conditions, almost any sale of government bonds undertaken for whatever purpose (laudable or otherwise) would be likely to find an almost 'bottomless market' on the first day support was withdrawn. A rapid descent in prices going far beyond any question of the government's credit (which is high) or relative interest rates would be most likely. Uncertainty would almost surely persist for a considerable time after such a development, the government's necessary refunding operations would be made very difficult and private security markets would be seriously affected. In such circumstances, there could easily be a flight of 'cash' out of both markets, and price changes so erratic as to make new financing almost impossible for some time, with what ramifications I do not like to contemplate. In the face of a Federal debt of over $250 billion, in all sorts of forms held by all sorts of holders, and with a high consumption high employment economy, in which there are already severe stresses and strains, we can't treat the government security market as we might a $50 million issue of XYZ corporation. I am not a believer in more and more government controls, certainly, but this is one control which I would not want to try to let go, voluntarily, under present circumstances."

Modest Use of Existing Powers—The second possible line of action in the present situation is for the System authorities to exercise such modest restraints as they can with existing powers and within the limits of their responsibility for maintaining an orderly and stable government bond market. Policies have been directed toward this end. Interest rates on short-term government securities have been permitted to rise and this has, for the present at any rate, effectively stopped the practice of selling short-term government securities to the Federal Reserve and purchasing long-term securities. It may also have encouraged banks and others to invest available funds in short-term government securities rather than seek other loans or investments. As a result, the Federal Reserve System has been able to reduce some of its holdings of Treasury bills and certificates and thereby absorb availabe reserves.

The most effective instrument for reducing bank deposits and reserves has been the Treasury cash surpus. For several months now the Treasury has used all of its available surplus to retire securities held by the Federal Reserve Banks. In this manner not only are deposits withdrawn from commercial banks but bank reserves are eliminated through the reduction of the total amount of

(Continued on page 32)

Inflation and Bank Credit

(Continued from page 31)

Reserve Bank credit. It is true that the reserves absorbed have been to a considerable extent replaced by Federal Reserve purchases of securities sold by banks needing to maintain their reserve positions, but the fact that banks have been forced to sell securities for this purpose puts them under some pressure and discourages their seeking new loans.

These pressures are particularly heavy at present. During the first quarter of this year the Treasury is obtaining a surplus of something like $5 or $6 billion of cash receipts in excess of disbursements. These funds reduce bank deposits and, since most of them go directly into the Reserve Banks, they also reduce bank reserves. The Treasury is using a large part of this surplus to retire maturing bills and certificates held by the Federal Reserve Banks and thus the funds are not paid back into the market. Banks, in order to maintain their reserve positions, will find it necessary to liquidate a considerable amount of government securities which will be largely bought by the Federal Reserve System. This pressure on banks, however, is offset by many factors, including gold imports, return flow of currency and use of excess reserves. It is also being considerably alleviated by large-scale sales of government securities by insurance companies and other investors. In the absence of other buyers these securities are purchased by the Federal Reserve System.

Continued use of this instrument depends upon the existence of surplus in the Federal Government budget. For seasonal reasons, even when there is a surplus in the total budget, most of it comes in the first quarter of the calendar year. During the second quarter of this year the Treasury is likely to be paying out a billion and a half to $2 billion more than it will be receiving. This will draw funds from the Treasury deposits with Federal Reserve Banks and return them to the reserves of commercial banks. These reserves could be absorbed if the Federal Reserve System were able to sell government securities in the market, but its ability to do this will depend upon the willingness of banks to buy government securities rather than to make loans with the additional funds they will have available.

During the last half of the year the Treasury will probably have little, if any, cash surplus and should there be a reduction in tax rates there will be no surplus and perhaps some deficit. The System will, therefore, have little ammunition with which to offset a gold inflow or otherwise prevent continued inflationary credit expansion.

Increase in Reserve Requirements—The third possible line of action is to obtain from Congress additional authority to increase the reserve requirements of commercial banks. The grant of authority of this nature has been recommended by the Federal Reserve Board to Congress and the President has suggested to Congress that it give careful consideration to the Board's proposal. In requesting additional authority to increase reserve requirements, the Board endeavored to sweeten the pill somewhat for the banks by suggesting that they be permitted to hold short-term government securities as reserves. The purpose of this particular proposal is to permit banks to retain a large part of the government securities which they purchased during the war, but to prevent them from disposing of such securities in order to obtain reserves for further expansion in bank credit.

Restraint by Banks—The fourth possible line of action is the exercise of restraint by individual banks in making loans. The bank supervisory agencies have issued a statement urging "that banks curtail all loans either to individuals or to businesses for speculation in real estate, commodities or securities. They should guard against the over-extension of consumer credit and should not relax the terms of instalment financing. As far as possible extension of bank credit under existing conditions should be confined to financing that will help production rather than merely increase consumer demand."

These authorities also strongly urged "directors to see that their banks follow these policies and maintain adequate capital in relation to risk assets."

The program of the American Bankers Association to encourage self-restraint by banks is a constructive step in the right direction. To the extent that banks refrain from expanding their loans or are able to bring about some contraction, potential inflationary forces will be reduced. Under any measure of credit restraint, whether it be by limiting the supply of reserves available to banks in general or by voluntary action on the part of the banks, the individual bank will have to decide what loans are made and what are refused. The problem may be somewhat simpler for a banker when he has no funds to lend and knows he will have trouble liquidating some other asset in order to expand loans than is the case when he has a large volume of government securities, any part of which he can readily sell to acquire another asset which is more profitable or otherwise desirable. The latter is the position of most banks today. If they do exercise restraint they will have to set up some sort of standards to guide them in their loan policies.

These standards may be the customary ones relating to credit standing of the individual borrower. The banks may decide to exercise greater selectivity in making loans. Such a course is highly desirable from many standpoints; it would reduce somewhat the total volume of loans being made and would also leave banks in a strong position in case of an eventual business recession. If, however, the demand for good loans of high quality is great enough there could still be overall credit expansion under such a policy. This expansion would add to inflationary pressures.

Another set of standards which might be adopted by banks would relate to the maintenance of a high degree of liquidity. If a bank finds that in order to expand its loans it has to reduce its liquid assets below some desired level, then it may decide to restrict further loan expansion. This would be sound policy for banks which have had rapid increases in deposits and wish to be in a position to meet large withdrawals. Maintenance of a substantial amount of cash assets or short-term government securities would also be desirable in the case of those banks with bond portfolios valued on their books at above current market prices.

A third set of standards which banks might watch would be the ratios of bank capital to assets. The ratio of capital to total assets has declined sharply in the past two decades but this has been occompanied by an increase in cash and government securities. To the extent that further loan expansion is offset by a decrease in government securities, there would be little change in this particular ratio and thus it would not be a check on loan expansion. The more significant ratio is that of capital to risk assets, excluding cash and all government securities. That ratio rose from between 15 and 20% in the 1920's to around 25% or more from 1934 to 1946. It has declined sharply in the past two years and is now close to 21% for all member banks. Any further increase in risk assets will bring the ratio back down to the level of the 1920's. This is a situation which might give banks some concern.

Summary

In summary, it may be said that continuation of the current inflationary spiral can be facilitated by further expansion in bank loans or might be checked by restraint on bank lending. In the event of further inflation there will continue to be a growing demand for bank loans. Banks are obtaining additional funds through the gold inflow or they can readily create reserves as a basis for further credit expansion by selling some of their large holdings of government securities to the Federal Reserve System.

All existing powers are being used by the Federal Reserve and Treasury authorities to limit the supply of available reserves, short of abandoning support of the government bond market. Under existing powers, however, definitive limitations could be effected only by abandoning support of the government bond market. This would probably have results far more disastrous than would be necessary if the end were reached by some other means. The Board has proposed to Congress the grant of additional powers that would permit the adoption of somewhat more restrictive policies without completely abandoning support of government bonds. In any event, and particularly in the absence of effective general restrictions, responsibility rests with individual banks as to further credit expansion and the nature of loans that will be granted or refused.

Further credit expansion will augment the difficulties of the subsequent inevitable adjustment both for the economy as a whole and for the banks. If there is a large volume of credit to be liquidated at declining prices, the decline will be accentuated. If credits do not need to be liquidated, then the recession can be limited. In view of the still substantial unsatisfied demands and uninvested savings, an early downturn might correct the situation without disastrous consequences.

Joins First California Staff

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—Rudolph J. Jaeger has joined the staff of First California Company, 510 South Spring Street.

With E. F. Hutton & Co.

(Special to THE FINANCIAL CHRONICLE)

LOS ANGELES, CALIF.—George B. Hanson, Jr., has become connected with E. F. Hutton & Company, 623 South Spring Street.

Frajon Trading Co. Formed

Francis J. Falvey has formed the Frajon Trading Co. with offices at 62 William Street, New York City to engage in a securities business.

Don. S. Farrington in N. Y.

Donald S. Farrington is engaging in a securities business from offices at 1775 Broadway, New York City.

A. C. Brisk Opens

SYRACUSE, N. Y.—Antoinette C. Brisk is engaging in a securities business from offices at 220 Breakspear Road.

Our Reporter on Governments

By JOHN T. CHIPPENDALE, JR.

A fairly steady tone continues in the government securities markets with certain institutions that oversold their long eligible Treasury positions, repurchasing some of these bonds in order to restore the balance between their holdings of shorts and longs. . . . At the same time income is improved by the operation. . . . There appears to be less fear now among institutional buyers that prices of government bonds will break "pegged levels" and this has resulted in minor commitments being made in the more distant maturities of the bank eligible obligations. . . . Dealers as well as traders are coming into the market for the bank issues, believing that a turn can be made in these securities. . . . Liquidation also has slowed somewhat in the tap bonds. . . .

THIN MARKET

The market for the longer taxable eligible bonds is almost as thin as that of the partially exempts. . . . There is, however, this difference, that the monetary authorities have sizable positions in the former obligations which will be used to keep quotations stable if an important upturn should eventually develop in these securities. . . .

Although demand for the taxable bank issues of longer maturities has not been too sizable yet, it has been sufficient to not only relieve the pressure of supporting the market by the authorities, but also to move quotations up to levels that could bring in more buying, since the opinion seems to be spreading that the powers that be are not fooling when they state that the more distant maturities of Treasuries will not be allowed to break 100. . . .

If a buoyant market should develop in longer eligible taxables, in the not to distant future, as is believed in some quarters of the money markets, it would most likely be pretty well contained within narrow limits because the authorities would no doubt supply needed issues in order to keep the market orderly. . . .

HOLDINGS INCREASED

New York City member banks, for the week ended Feb. 18, reported an increase in their holdings of government securities, with a maturity of more than five years, for the first time since Nov. 5, 1947. . . . Although it could not be definitely substantiated, reports which are making the rounds of the financial district indicate that these commitments were made principally in the taxable 2¼s due 1956/59 and the 2½s due Sept. 15, 1967/72. . . . The partially exempts were also among the issues taken on, with the 2⅞% due 1955/60 and the 2¾% due 1960/65, reportedly the most important purchases made in this classification by these banks. . . .

IMPROVED SENTIMENT

Apparently the less timid holders of the longer taxable eligibles have been encouraged by the market action of these issues, since it has resulted in many of these bonds being withdrawn, that were about to be sold. . . . At the present time, it would probably not take too much encouragement from the market itself to bring fairly sizable commitments into the taxable eligible bonds, especially from the smaller commercial banks which do not relish the decrease in income that goes with holdings of short-term Treasury issues. . . .

The over-liquid position that some commercial banks appear to have, evidently will not be carried too long, because even now there have been some rather substantial switches from shorts into middle, and longer-term taxables, as well as the partially exempts. . . . Confidence seems to be gradually creeping back into the money markets although it is still too early to forecast the end of uncertainties that would result in a quickening of the demand for the longer maturities of the eligible Treasuries. . . .

N. Y. STATE ISSUE

The coming issue of New York State bonds, due from one to 10 years, appears to be competing with the intermediate maturities of the taxable bonds, since it is reported that the tax-free yield on the State obligations, particularly in the middle brackets, will be quite attractive. . . . This has brought minor selling into comparable maturities of Treasuries, which have given some ground. . . .

WORLD BANK BONDS

World Bank bonds have had a better tone, with indications that the greater part of the weakly held issues have been taken over by institutional owners that have bought them for income. . . . Commercial banks have been buyers in good sized amounts of the 2¼s while savings banks have been purchasers of the 3s. . . .

These institutions, according to information that is being passed out in the "Street," believe that the World Bank bonds are much more attractive than AAA corporate bonds. . . . Smaller commercial banks, especially the out-of-town ones, are also buyers of these bonds, with the 3s being more favored than the 2¼s. . . .

TAXES AND ERP

The proposal to apply $3,000,000,000 of this year's Treasury surplus, toward defraying the cost of European Relief, need not result in an ease in the money markets. . . . Government surpluses must come out of taxes, and it is the collection of these taxes that tightens the money markets. . . . Individual deposits are transferred to the government and if they are kept with Federal, have a very restricting effect upon the money markets. . . . If these funds are used to retire Federal-held debt, they eliminate bank deposits and reserve balances. . . .

Under the proposal of Senator Milliken, $3,000,000,000 of government surplus would be used to finance the Marshall Plan and these funds would not be available for redemption of debt owned by the Central Banks. . . . However, if they should be deposited in a "special fund" with Federal until used, it would still keep the money markets tight. . . . As the monies were used, these deposits would return to the member banks, and this would ease the money markets. . . .

The collection of taxes by the Treasury is, however, the deflationary part of the program, whether the funds be used for debt retirement or the Marshall Plan. . . . Also it could be that by the time the Treasury surplus would be used for European Relief, some easing in the money markets might be desirable.

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. 29	93.6	92.5	95.2	94.4
Equivalent to—					
Steel ingots and castings produced (net tons)	Feb. 29	1,687,100	1,667,300	1,716,000	1,651,900
AMERICAN PETROLEUM INSTITUTE:					
Crude oil output—daily average (bbls. of 42 gallons each)	Feb. 14	5,347,175	5,332,575	5,326,137	4,757,650
Crude runs to stills—daily average (bbls.)	Feb. 14	5,378,000	5,348,000	5,344,000	4,738,000
Gasoline output (bbls.)	Feb. 14	15,429,000	15,476,000	16,236,000	13,976,000
Kerosine output (bbls.)	Feb. 14	2,508,000	2,468,000	2,489,000	2,293,000
Gas oil and distillate fuel oil output (bbls.)	Feb. 14	7,694,000	7,870,000	7,496,000	5,253,000
Residual fuel oil output (bbls.)	Feb. 14	8,792,000	9,154,000	8,880,000	8,386,000
Stocks at refineries, at bulk terminals, in transit and in pipe lines—					
Finished and unfinished gasoline (bbls.) at	Feb. 14	107,763,000	105,100,000	98,751,000	101,039,000
Kerosine (bbls.) at	Feb. 14	10,408,000	11,119,000	12,975,000	12,833,000
Gas oil and distillate fuel oil (bbls.) at	Feb. 14	36,195,000	38,538,000	44,482,000	42,275,000
Residual fuel oil (bbls.) at	Feb. 14	50,038,000	50,257,000	51,601,000	45,656,000
ASSOCIATION OF AMERICAN RAILROADS:					
Revenue freight loaded (number of cars)	Feb. 14	734,262	747,394	811,286	799,977
Revenue freight rec'd from connections (number of cars)	Feb. 14	669,647	668,783	690,251	686,349
CIVIL ENGINEERING CONSTRUCTION, ENGINEERING NEWS RECORD:					
Total U. S. construction	Feb. 19	$88,555,000	$133,534,000	$118,949,000	$98,463,000
Private construction	Feb. 19	42,912,000	68,319,000	67,823,000	71,722,000
Public construction	Feb. 19	45,643,000	65,215,000	51,126,000	26,741,000
State and municipal	Feb. 19	30,751,000	33,185,000	40,171,000	15,714,000
Federal	Feb. 19	14,892,000	32,030,000	10,955,000	11,027,000
COAL OUTPUT (U. S. BUREAU OF MINES):					
Bituminous coal and lignite (tons)	Feb. 14	11,230,000	11,350,000	13,080,000	12,350,000
Pennsylvania anthracite (tons)	Feb. 14	1,038,000	1,170,000	1,210,000	970,000
Beehive coke (tons)	Feb. 14	134,900	*131,200	140,500	124,800
DEPARTMENT STORE SALES INDEX—FEDERAL RESERVE SYSTEM—1935-39 AVERAGE=100	Feb. 14	238	240	232	246
EDISON ELECTRIC INSTITUTE:					
Electric output (in 000 kwh.)	Feb. 21	5,254,002	5,384,945	5,436,430	4,777,740
FAILURES (COMMERCIAL AND INDUSTRIAL)—DUN & BRADSTREET, INC.	Feb. 19	107	128	109	58
IRON AGE COMPOSITE PRICES:					
Finished steel (per lb.)	Feb. 17	3.23940c	*3.19411c	*3.19411c	2.87255c
Pig iron (per gross ton)	Feb. 17	$40.37	$40.17	$40.08	$30.15
Scrap steel (per gross ton)	Feb. 17	$40.08	$40.50	$41.83	$33.75
METAL PRICES (E. & M. J. QUOTATIONS):					
Electrolytic copper—					
Domestic refinery at	Feb. 18	21.200c	21.200c	21.200c	19.400c
Export refinery at	Feb. 18	21.600c	21.425c	21.525c	20.450c
Straits tin (New York) at	Feb. 18	94.000c	94.000c	94.000c	70.000c
Lead (New York) at	Feb. 18	15.000c	15.000c	15.000c	13.000c
Lead (St. Louis) at	Feb. 18	14.800c	14.800c	14.800c	12.800c
Zinc (East St. Louis) at	Feb. 18	12.000c	12.000c	10.500c	10.500c
MOODY'S BOND PRICES DAILY AVERAGES:					
U. S. Govt. Bonds	Feb. 24	100.70	100.72	100.69	104.33
Average corporate	Feb. 24	111.25	110.88	110.70	117.40
Aaa	Feb. 24	116.41	116.02	115.82	122.09
Aa	Feb. 24	114.85	114.46	114.27	120.22
A	Feb. 24	110.34	109.97	109.97	117.20
Baa	Feb. 24	103.80	103.47	103.64	110.70
Railroad Group	Feb. 24	105.52	105.34	105.17	112.92
Public Utilities Group	Feb. 24	112.93	112.37	112.56	118.40
Industrials Group	Feb. 24	115.24	114.85	114.85	121.04
MOODY'S BOND YIELD DAILY AVERAGES:					
U. S. Govt. Bonds	Feb. 24	2.45	2.45	2.45	2.21
Average corporate	Feb. 24	3.10	3.12	3.13	2.78
Aaa	Feb. 24	2.83	2.85	2.86	2.55
Aa	Feb. 24	2.91	2.93	2.94	2.64
A	Feb. 24	3.15	3.17	3.17	2.79
Baa	Feb. 24	3.52	3.54	3.53	3.13
Railroad Group	Feb. 24	3.42	3.43	3.44	3.01
Public Utilities Group	Feb. 24	3.01	3.04	3.03	2.73
Industrials Group	Feb. 24	2.89	2.91	2.91	2.60
MOODY'S COMMODITY INDEX	Feb. 24	407.1	406.2	449.0	408.3
NATIONAL FERTILIZER ASSOCIATION—WHOLESALE COMMODITY INDEX BY GROUPS—1935-39=100:					
Foods	Feb. 14	229.9	235.5	244.6	218.1
Fats and oils	Feb. 14	231.5	242.0	300.5	286.6
Farm products	Feb. 14	245.1	260.8	279.9	238.8
Cotton	Feb. 14	300.6	318.3	337.8	313.2
Grains	Feb. 14	256.4	282.6	323.4	210.1
Livestock	Feb. 14	238.3	252.1	266.8	239.9
Fuels	Feb. 14	220.8	220.8	216.0	158.5
Miscellaneous commodities	Feb. 14	173.4	178.4	180.7	154.5
Textiles	Feb. 14	211.7	217.3	220.2	215.2
Metals	Feb. 14	162.2	162.2	161.3	[illegible]
Building materials	Feb. 14	233.5	*233.4	233.2	215.5
Chemicals and drugs	Feb. 14	155.1	*155.1	155.3	155.0
Fertilizer materials	Feb. 14	137.7	137.9	136.7	125.5
Fertilizers	Feb. 14	142.9	*142.9	*142.9	133.6
Farm machinery	Feb. 14	137.2	137.2	134.5	124.3
All groups combined	Feb. 14	214.7	220.7	226.6	193.8
NATIONAL PAPERBOARD ASSOCIATION:					
Orders received (tons)	Feb. 14	158,637	222,730	162,359	169,624
Production (tons)	Feb. 14	183,376	177,884	193,150	178,458
Percentage of activity	Feb. 14	101	100	104	102
Unfilled orders (tons) at	Feb. 14	450,393	477,216	431,880	589,544
OIL, PAINT AND DRUG REPORTER PRICE INDEX—1926-36 AVERAGE=100	Feb. 20	146.9	147.3	147.4	151.3
WHOLESALE PRICES—U. S. DEPT. OF LABOR—1926=100:					
All commodities	Feb. 14	159.7	163.8	165.5	143.1
Farm products	Feb. 14	180.9	195.5	201.5	168.9
Foods	Feb. 14	173.3	177.9	181.2	160.8
Hides and leather products	Feb. 14	196.2	198.0	201.4	173.6
Textile products	Feb. 14	146.7	147.0	145.7	135.5
Fuel and lighting materials	Feb. 14	131.6	131.4	130.0	98.6
Metal and metal products	Feb. 14	154.8	154.2	153.2	138.4
Building materials	Feb. 14	192.0	192.1	191.1	172.8
Chemicals and allied products	Feb. 14	134.0	134.3	140.8	128.3
Housefurnishings goods	Feb. 14	137.7	137.7	136.9	123.0
Miscellaneous commodities	Feb. 14	120.2	122.6	123.0	110.0
Special groups—					
Raw materials	Feb. 14	173.4	182.3	186.0	154.3
Semi-manufactured articles	Feb. 14	155.6	156.6	157.1	141.7
Manufactured products	Feb. 14	154.5	156.7	157.6	139.1
All commodities other than farm products	Feb. 14	154.9	156.7	157.5	137.6
All commodities other than farm products and foods	Feb. 14	147.5	147.8	147.4	128.1

*Revised figure.

	Latest Month	Previous Month	Year Ago
BANK DEBITS — BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—			
Month of January (in thousands)	$105,190,000	$118,384,000	$93,488,000
BUILDING CONSTRUCTION—U. S. DEPT. OF LABOR—Month of January (in millions):			
Total construction	$1,261	*$1,352	$966
New construction	1,106	*1,176	839
Private construction	899	*962	666
Residential building (nonfarm)	510	*555	300
Nonresidential building (nonfarm)	276	*285	275
Industrial	130	*133	159
Commercial	89	93	69
All other	57	*59	47
Farm construction	13	15	10
Public utilities	100	107	81
Public construction	207	*214	173
Residential building	4	*4	39
Nonresidential building (except military naval facilities)	56	*54	33
Industrial	------	------	5
All other	56	*54	28
Military and naval facilities	15	*17	12
Highways	55	*60	37
Sewer and water	28	28	21
Conservation and development	34	*36	20
All other public	15	15	11
Minor building repairs	155	*176	127
Residential building (nonfarm)	50	*56	32
Nonresidential building (nonfarm)	55	60	55
Farm	50	60	40
BUSINESS FAILURES—DUN & BRADSTREET INC.—Month of January.			
Manufacturing number	108	112	67
Wholesale number	43	33	27
Retail number	153	123	76
Construction number	23	26	15
Commercial service number	29	23	17
Total number	356	317	202
Manufacturing liabilities	$6,892,000	$20,937,000	$11,020,000
Wholesale liabilities	1,705,000	967,000	1,342,000
Retail liabilities	2,837,000	1,908,000	1,674,000
Construction liabilities	820,000	455,000	575,000
Commercial service liabilities	711,000	1,232,000	582,000
Total liabilities	$12,965,000	$25,499,000	$15,193,000
COAL OUTPUT (BUREAU OF MINES)—			
Bituminous coal and lignite (net tons)—Month of January	54,980,000	55,368,000	58,970,000
Pennsylvania anthracite (net tons)—Month of January	4,921,000	4,863,000	5,155,000
Beehive coke (net tons)—Month of Jan.	600,000	*603,063	583,374
CONSUMER CREDIT OUTSTANDING BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM—Estimated short-term credit in millions as of December 31:			
Total consumer credit	$13,368	$12,945	$10,166
Instalment sale credit—			
Automobile	1,159	1,099	544
Other	1,684	1,453	1,014
Instalment loans	3,309	3,177	2,418
Charge accounts	3,598	3,303	3,054
Single-payment loans	2,697	2,677	2,262
FACTORY EARNINGS AND HOURS—WEEKLY AVERAGE ESTIMATE — U. S. DEPT. OF LABOR—Month of December:			
Earnings—			
All manufacturing	$52.51	*$51.31	------
Durable goods	56.17	*54.99	------
Non-durable goods	48.67	*47.47	------
Hours—			
All manufacturing	41.1	*40.5	------
Durable goods	41.5	40.8	------
Non-durable goods	40.8	*40.1	------
Hourly Earnings—			
All manufacturing	$1,277	*$1,268	------
Durable goods	1,355	*1,347	------
Non-durable goods	1,193	*1,183	------
MOODY'S WEIGHTED AVERAGE YIELD OF 200 COMMON STOCKS—Month of Jan.:			
Industrials (125)	5.6	5.3	4.4
Railroads (25)	6.5	6.5	6.6
Utilities (25)	5.4	5.5	4.6
Banks (15)	4.6	4.7	4.2
Insurance (10)	3.4	3.4	3.3
Average yield (200)	5.5	5.4	4.5
NON-FERROUS CASTINGS (DEPT. OF COMMERCE)—Shipments Month of November:			
Aluminum (thousands of pounds)	34,683	40,532	38,229
Copper (thousands of pounds)	81,803	92,119	92,706
Magnesium (thousands of pounds)	602	619	777
Zinc (thousands of pounds)	33,617	38,612	37,291
Lead die (thousands of pounds)	1,205	1,393	1,020
PORTLAND CEMENT (BUREAU OF MINES)—Month of October:			
Production (bbls.)	18,300,000	17,319,000	16,410,000
Shipments from mills (bbls.)	20,562,000	19,840,000	17,721,000
Stocks (at end of month) (bbls.)	5,659,000	*7,921,000	7,298,000
Capacity used	90%	88%	81%
SOFTWOOD PLYWOOD (DEPT. OF COMMERCE)—Month of December:			
Production (M sq. ft. 3/8-in. equivalent)	149,999	*144,637	121,816
Shipments and consumption (M sq. ft., (3/8-in. equivalent)	159,959	*148,494	129,727
Stocks (M sq. ft., 3/8-in. equivalent) at end of month	31,199	*40,340	26,882
Consumption of logs (M ft., log scale)	64,453	*62,488	55,329
Log scale (M ft., log scale) at Nov. 30	213,523	*217,815	168,553
TREASURY MARKET TRANSACTIONS IN DIRECT AND GUARANTEED SECURITIES OF U. S. A.—Month of January:			
Net sales	$200,000	------	------
Net purchases	------	$696,391,000	$121,000
U. S. GOVT. STATUTORY DEBT LIMITATION—As of Jan. 31 (000's omitted):			
Total face amount that may be outstanding at any one time	$275,000,000	$275,000,000	$275,000,000
Outstanding—			
Total gross public debt	256,573,665	256,899,845	259,776,476
Guaranteed obligations not owned by the Treasury	76,948,338	81,409	269,919
Total gross public debt and guaranteed obligations	$256,650,614	$256,981,254	$260,046,395
Deduct—Other outstanding public debt obligations not subject to debt limitation	848,532	854,280	915,136
Grand total outstanding	$255,802,082	$256,126,974	$259,131,259
Balance face amount of obilgations issuable under above authority	$19,197,918	$18,873,026	$15,868,740

*Revised figure.

Credit Problems in Foreign Trade

(Continued from page 6)

mumbo-jumbo. We simply get as much information as we can; we add it up and then we season it with suitable precautions. The only intangibles in this concoction are the precautions, because they are drawn from the experience and resourcefulness of our own treasury people.

We gather our information from many and varied sources, but the most constant and timely is that received from our own treasury people who are spotted around the world. A few years ago we brought all these men to the U. S. for a conference. Basically, it was our purpose to reorient them on new policies and plans of the company, but many other benefits developed from this get-together. We in New York, were quite familiar with the effects of world actions on our market; our men in the field were more familiar with the beginnings of these actions, or the causes. By exchanging our ideas we were able to bridge these differences in our thinking. Incidentally, with today's problem being more one of getting paid for goods rather than of selling them, we never hesitate to move our treasury men around and place them in position where big sales are in the offing. One of our men was recently put in charge of a sales project abroad.

Need for Collecting Information

The need for collecting information is obvious. It is necessary for management today to have answers not alone for the present but for six months ahead and six months after that. And when the answers are needed there is usually a time element involved. Much of the information we collect is analyzed by our forecasters who have the job of delving into this daily mass of facts and coming up with enough pieces to chart tendencies. Not long ago one of our forecasters supplied me with the information that a certain country had lost $300 million in exchange holdings during a period of 12 months. The same day one of our credit men explained that we were negotiating with the same country for an 18-month letter of credit but that it would only permit a 12-month letter of credit. As far as our customer was concerned, it was a matter of simple arithmetic. We were willing to take a small advance payment on the letter of credit or, lacking that, a 50% payment on the job. This brings out another important point to remember in doing business abroad on the basis of today's conditions. It is necessary that traders accustom themselves to the loss of ineffective business which only clutters up the books and affects the judgment.

Private Capital As International Stabilizer

I know that our forecasters are convinced that life will not get any simpler as they go along. Each day they are faced with a full set of vital issues which may breed equally vital issues. One holds the clue to another, and they must follow every lead. The only single element that could make their jobs easier at the moment would be the full-fledged entry of private capital into the global picture. Private capital could do much in stabilizing the international economic structure. Unfortunately, lack of confidence between various countries and potential investors stands in the way. Private capital is timid, looking for assurances that the old days of default are over; foreign governments, as a rule, are not in a position to give any such assurances. When money is invested abroad in construction of plants for assembly, partial manufacture or complete processing, the ultimate is reached in foreign trade regarding possible achievement and risk. It is true that such ventures have suffered ghastly losses due to wars, bad management, excessive legislation and outright confiscation. But it is also true that moderate capital investments, under favorable conditions, have often expanded operations and resulted in dividends sufficient to amortize the original investment before the entrance of unfavorable conditions.

If we are going to build any kind of worthwhile barometer to give us the latest reading on our potential of risk we must keep our information on claims accurate and up-to-date. Essentially, there are a few different classes of claims possible in most foreign trade transactions. There are the claims of banks which have loaned dollars against gold. These are fairly good because the banks will collect whether or not the loans are paid. Then there are claims of the International Bank and the Export-Import Bank. These may be rated as having No. 1 priority. They have guarantees by high government institutions on local currency, and the highest possible guarantees on the exchange of local currency into dollars. It is believed that private firms having these same guarantees are likewise No. 1 in priority. Claims against merchandise where money is deposited should be preferred. However, common drafts are subordinate to prior claims. The seller gets paid if and when a country can borrow dollars or sell sufficient goods to pay. The seller gets what is left after the settlement of prior claims, and that elusive illegal claim drawn off by the black market. Unless such phases are carefully watched a seller may suddenly find that he is depending on what his market is exporting. Obviously, no trader would knowingly accept terms contingent on his customer exporting enough to pay. This is too much like taking payment in kind and, figuratively at least, puts the exporter in the importing business.

Export Delays and Losses

In 1946 and 1947 licenses were issued for hundreds of millions of dollars worth of American goods sold on credits. But no dollars were available when the goods arrived. Long delays and heavy losses resulted. If the exporter had secured 25% in cash before drawing a sight draft he might have been able to bring back his goods and sell without loss. This action, on the other hand, might greatly disappoint the user or the importer who might also be subject to heavy losses. Cases still exist where goods are frozen at foreign ports. They cannot be returned until all cash payments are refunded. They cannot be delivered until dollars are available. It is apparent that more adequate financing might have insured delivery.

If you must take chances today, charge for the chances you take. Credit on foreign work is directly allotted to prices and often has an admitted value. Some traders have shipped non-essential goods to Brazil on sight draft, after adding 5 to 10%. (In view of new regulations, this might have been a mistake.) On the other hand, Shanghai importers have been given 5 to 10% reductions in U.S. prices if payments is made F.A.S. New York, instead of C.I.F. Shanghai, the difference being in the trouble and risk of passing Chinese controls. The estimated cost of financing a refrigerator in Brazil for one year is 25%. Certainly a 20% reduction for cash would be in order in this case.

As money becomes tighter in the U. S. and more pressure for money and goods is exerted abroad, such tendencies will probably increase. For example, it is now difficult to borrow on receivables in Mexico. The Government of Brazil is finding it difficult to borrow even in its own country to cover its 20% annual deficit. In less affluent countries conditions amount to a moratorium.

Principles of Safe Export Business

Where risks have as many breeding places as they have in foreign trade today it is wise to live with a set of rules regarding the securing and the processing of orders. I think a healthy export business can be conducted on the basis of three principles: (1) the planned proposal; (2) the progressive payment, and (3) the well-executed order, which is really a product of the first two. A thoughtful and even expensive proposal generates confidence and makes it easier to secure payment at definite times during the contract. Progressive payments, even if limited to a down payment, prevent duplication of orders. Argentina recognizes this by imposing a penalty of 20% if an import license is not used. The down payment gives added protection in the renewal of the letter of credit, by making continuance of other payments more probable, and by assuring that the order is serious and deserving of priority.

Of course, it is more necessary to secure advance payments when the exporter's position is weak. This might be done by having money put in escrow payable on warehouse receipts or shipping documents. The deposit of money is also an incentive toward renewal. Under most conditions, an even better system is to secure money by giving a bond that goods will be delivered according to contract. The common objective of these plans is to have dollars in New York earmarked for coming invoices. As things are today little provision is being made for payment of future obligations.

In countries where sight drafts still produce dollar payments a form of protection can be secured if local currency can be borrowed at reasonable rates. This provides exchange protection and secures the assistance of a local bank in collection. Briefly, this involves a contract being made with a U. S. bank to which the supplier will guarantee reimbursement for the currency of some foreign country which has been advanced to the buyer.

Import Risks

Summing up these risks of exporting it must be admitted that while they are considerable, those involved in importing are even greater. The trader who is selling abroad is at least dealing with goods of known quality, selling them under well-understood contracts which are usually subject to interpretation under U. S. law. The trader who imports is buying with insufficient protection; he has no way of controlling quality and is dealing with a number of hopes instead of facts. He hopes that goods will be according to sample; he hopes the contract will be executed and, incidentally, he hopes that his own customer has not changed his mind too much while the goods are in transit. Importing is a business that needs to be tied firmly at both ends. But, even then, trouble can break out in the middle, because the importer always has a storage problem in trying to balance his sales contracts and purchase contracts. Furthermore, in order to coax foreign production, he often accepts contracts out of accord with the credit stability of a supplier or a country. This takes lots of cash and, in many cases, leaves the importer at the mercy of the seller. It is easy to see that the average importer has a latent connection with export trade which would tend to make him sympathetic toward his client in the event that he does export.

There are enough common points in exporting and importing to interest traders of both classifications in joining together for a discussion of mutual problems. Each can learn much from the other. Such meetings would give U. S. foreign trade the living quality it needs, to do the job the world expects it to do. So complex are the problems of today's trading that the solutions nearest right are never the result of individual investigation. They are the accumulation of trial and error, the considered opinions of many who are engaged in all phases of exporting and importing.

While today's trading problems are varied they follow general lines. In other words, I think we can perceive in the investigation of a few countries some of the causes that are creating universal uncertainty. But I don't want any of the examples I relate to be misconstrued as criticism.

During a recent trip to Latin America I was given an illustration of how trading conditions may not only differ from country to country but also within a country itself. In Brazil, I found dollar exchange to be plentiful in the Bahia district because shipments of cocoa had been good. But exchange in southern Brazil was quite scarce. Non-essential goods could be shipped to northern Brazil with a good chance of collection on sight drafts, while payment of even No. 1 class essential goods, in southern Brazil could be unduly delayed.

Goods imported by Argentina must not only be landed but also cleared through customs before exchange is available. Sometimes a lapse of several months takes place. In Brazil, on the other hand, payment would be due on sight draft before the goods were passed by customs. Incidentally, dollar shortages in Brazil are causing long delays in payment. Recent rulings make it obligatory that 75% of export bills be sold to the Bank of Brazil as against the previous practice of selling 30%. This has created additional dollar exchange under control of the Bank but it is still much too early to predict an improvement in the general dollar situation in Brazil.

Another specific example of why trading conditions are so unsettled is presented by the industrial evolutions taking place in countries such as Argentina and Brazil. Both countries are changing from low-cost agricultural communities to high-cost industrial communities. A rapid increase in the cost of living is causing problems in the labor markets of both countries. Many products have been made non-competitive with American products due to high profits of recent years, plus the added cost of manufacture. However, the shortage of exchange is acting as a regulatory valve on U. S. imports and profitable business can still be done by high-cost local factories. The City of Sao Paulo, which has always been a big producer of foreign exchange through shipments of coffee and cotton, is rapidly industrializing because of the growing inadequacy of Brazilian exports to balance imports. Evidence of this industrial growth is contained in figures of the Sao Paulo Light Company which show that kilowatt hours have almost quadrupled within the past 10 years. Aided by low-cost power and exceptional demand, industrial plants are enabled to make enormous profits. Gross profits have often been in excess of 100% but this undoubtedly is being scaled down by increases in wages and other costs.

In view of such rapid expansion, it is not surprising that the first business recession in Brazil took place in Sao Paulo. This happened in the early part of 1947 when industrial production declined due to lack of sales. Substantial price reductions were effected and another upward swing was started which is still continuing. In a very short period deflation, inflation and now inflationary influences have been felt.

Labor costs are the dominating factor governing the cost of government, transportation and industry in general. When I visited Brazil three years ago labor was getting about 17 cents an hour. During my recent visit, labor was getting at least 40 cents an hour. Rates in Sao Paulo had reached 50 to 60 cents an hour. But even these figures do not express the real difference in costs. Social security laws have marched far ahead of industrial development. It is now necessary to add increments of 22%, 8% and 25% to cover retirement, social service, paid holidays and paid Sundays —a total of 55%. Another booster of costs is the so-called 10-year law which provides that after 10 years, employment is permanent. This has resulted in an alarming slow-down of production not only among 10-year men but also among those yet to reach that enviable status but who, nevertheless, receive handsome bonuses if they are discharged. A recent labor ruling forced one concern to pay a commission salesman a minimum of $200 per month even though he had no goods to sell.

It is difficult to describe the Brazilian exchange situation in a few words except that the country is trying to overcome a modern crisis with outmoded methods. Like most of the world, Brazil is having trouble finding dollars. But it has the added difficulty of finding enough cruzeiros with which to purchase scarce dollars. Many banks have been ingenious in securing foreign exchange by bidding up rates many points. Other banks with a good supply of dollars have been flooded with requests for collection from U. S. banks. The bank in Brazil that has money today may be in arrears two days from now when the news of its fortunate position gets into circulation. Additionally, there is a well-organized outside market which takes care of most dollar receipts not resulting from the sale of goods. This market, naturally, drains off the regular market.

Within every country in the world there are conditions or sets of conditions which either parallel those I have just described or which cause the same type of trade barriers and restrictions. Seeing how basic are the problems of these countries, how far can we look into the future with an expectancy of change for the better?

The best information at the moment indicates that the licensing systems and concessions of exchange will become more adapted to the needs of each country by the end of 1948. At least we will be more certain of the elements we are dealing with by that time, which will help us to plan our selling more constructively. Some countries will continue to prohibit everything excepting certain foods and drugs, metal supplies, equipment and raw materials—particularly cotton and its derivatives—all of which are essential to their internal economies. Others will encourage the importation of essential parts for making products in local factories. Still others, with sufficient exchange, will buy luxury goods. Many countries today recognize that restrictions on such items as radios, for example, may well be doing more harm than good. Such restrictions have put radios beyond the reach of the workman who might find the possession of one an incentive toward production.

From present indications money will continue to flow for aid, loan or investment, which should be beneficial to export and import trade. However, it should not be the responsibility of traders to finance this renaissance any more than it would be their job to conduct a lend-lease program. Traders can help by maintaining a

wise credit policy and promoting orderly marketing. In these ways the purchasing company or country will be reminded of its cash position in the most positive terms. Too many countries have been forced into stern if not panicky measures as a result of buying on the basis of what ledgers showed their cash positions to be, instead of on what their commitments were.

Whether we have a Marshall Plan or a compromise plan known as a Marshall-Taft Plan, countries abroad will offer more inducements for trading when U. S. dollars start rolling in. Aid to Europe, incidentally, will also aid the exchange situation in many Latin American countries. When this loose money starts flowing through the world's commercial arteries we must remember not to over-encourage our customers into loose credit thinking which can get them into bad credit habits.

Future Not Discouraging

The future looks far from discouraging. It is estimated that there are $16 billion under the control of foreign citizens and their governments. Further, the danger of the U. S. exhausting its resources is shaping a national policy of importing vital materials. This is opening up a new dollar market. The world's need of goods will continue to create laws favorable to trade. As an example, we note that Peru has just passed laws offering new investors exemption from taxation for 20 years. This action will enlarge the area of export business in Peru not only through the application of investment money to industrial machinery but also through increased shipments to the U. S. of metals, oil and agricultural products, which will provide additional dollar exchange.

The need for an international exchange of goods will force a readjustment of foreign exchange values with or without the sanction of the Bretton Woods agreements. Other countries may follow the example of France and devalue currencies to subsidize exports and curtail imports. At least this will have the effect of facilitating payment for such goods as are able to clear the hurdles of export-import licensing, financing, rising dollar prices, and the jumping user price, created by the scarcity of everything but restrictions.

Undoubtedly there are many ways of operating successfully in such a market. It might involve a combination of approaches. It could very well indicate a complete reshuffling of our thinking. We might even return to the basic principle of our friend Dale Carnegie and start out to make friends and influence people. Certainly, it seems that we should not only support but also take a more active interest in foreign trade advisory bodies.

If the State Department continues to be the dominating influence in matters of international trade perhaps we should make our organizations more available for consultation; make more trips to Washington ourselves for the mutual exchange of ideas. And, if universities continue to be the source of supply for State and Commerce Department career men, what is wrong with the idea of first offering these young men opportunities to learn our business and our problems?

In this talk it has been far from my intention to give you a cure-all for the trading ills of the world. You know as well as, or better than I do, that there is no such cure. All we can hope to do is minimize our risks by an intelligent and profound estimation of our market from day to day; retreating here, advancing there. To our three C's of credit—character, capacity and capital—we might add three more C's—caution, candor and cooperation. If these do not solve our problems they should at least give us a better chance of grasping the real meaning of our problems. They should give us the patience to investigate causes as well as effects. And they should continually remind us that in order to export successfully today we must have vision, we must have persistence—and we must have cash!

Stocks Cheaper Than Prewar

(Continued from page 2)

ered to $69, after the production rate of the industry had improved to 53% of capacity. However, today's price is only a little above the level prevailing at the end of 1938, although U. S. Steel had lost $3.78 per share in 1938 whereas it earned $11.66 per share in 1947. At the end of 1938, cash and government bonds amounted to $138 million and were balanced out by a funded debt of $243 million. At the end of 1946, "Big Steel" had no less than $701 million in cash and government bonds as compared with a funded debt of only $81 million. Net liquid assets, after deducting funded debt and preferred shares at par, showed a deficit of $173 million in 1938; in 1946, the same calculation showed an excess of liquid assets of $356 million. Related to the common shares, the *liquidity of U. S. Steel has improved by $61 per share between 1938 and 1946, but the shares are selling today at almost the same price as at the end of 1938.*

Year Ended Dec. 31—	(000 Omitted) 1937	1938	1946
Plants, etc.	$2,558,672	$2,344,316	$2,568,247
Less Depletion, Depreciation	1,148,239	1,177,797	1,741,374
Plants, net	$1,410,432	$1,166,519	$ 826,873
Cash and Government Bonds	85,958	138,145	*701,368
Total Current Assets	480,737	510,338	1,122,639
Total Current Liabilities	$ 117,331	$ 79,261	$ 325,560
Net Liquid Assets	363,406	431,077	797,079
Bonds, Mortgages, etc.	120,571	243,713	81,197
Net Liquid Assets Available for Preferred Shares	$ 242,835	$ 187,365	$ 715,882
Preferred Shares (at $100)	360,281	360,281	360,281
Net Liquid Assets Available for Common Shares	†$ 117,446	†$ 172,916	$ 355,601
Net Liquid Assets Available in Dollars Per Common Share	†$13.49	†$19.86	$40.85
Liquidity Improvement from 1938-46 (in $ per common share)			$60.71
Price of Common Shares	$54	$69	71¾
Earnings per Common Share	8.01	†3.78	7.28

*Including $168,000,000 government bonds set aside for property addition. †Deficit.

A brief glance at the valuation of plants yields interesting results. It requires more than $300 today to install one ton of new steel capacity, three times as much as it cost before the war. At the end of 1946, "Big Steel" had an ingot capacity of almost 30 million tons; at today's costs, it would therefore take more than $9 billion to replace U. S. Steel's present ingot capacity. However, in the balance sheet of 1946, all plants and equipment were valued at a total of $827 million (as compared with $1,410 million at the end of 1937). The plants include, of course, such "minor items" as coal mines producing 25 million tons annually, etc.

Anaconda Copper

At the end of 1938, Anaconda shares sold at $35; earnings in that year amounted to $1.10. Today's price is a few dollars below that of 1938 with last year's earnings estimated at over $5 per share. From 1938 until the end of 1946, Anaconda has written down its mines and plants from $426 million to $350 million; at the same time it completely paid off its funded debt of $41 million and raised its holdings of cash and government bonds from $17 million to $131 million and its net liquid assets from $38 million to $180 million. *Anaconda's liquidity has improved by $24½ per common share between 1938 and 1946 (and probably considerably more since then) but the shares sell today below their price at the end of 1938.*

Year Ended Dec. 31—	(000 Omitted) 1937	1938	1946
Mines, etc.	$290,153	$290,230	$[illegible]
Plants, (gross)	289,344	291,625	316,934
Reserve for Depreciation, Deplet'n	148,389	155,157	227,612
Plants (net)	$140,954	$136,467	$ 89,321
Cash and Government Bonds	13,691	16,732	130,982
Total Current Assets	99,859	93,980	224,009
Current Liabilities	$ 20,074	$ 15,038	$ 43,484
Net Liquid Assets	79,784	78,942	180,525
Funded Debt	47,589	40,686	------
Net Liquid Assets Available for Common Shares	$ 32,195	$ 38,256	$180,525
Net Liquid Assets Available in Dollars Per Common Share	$3.66	$4.41	$20.81
Liquidity Improvement from 1937 to 1946 (in $ per common sh.)			$24.47
Price	$29 ½	$35 ⅛	*40 ¾
Earnings per Share	3.62	1.10	2.75

*Price at present, $31.

Montgomery Ward

Montgomery Ward's liquidity has improved by about $12 per share between Jan. 31, 1938 and July 31, 1947. Today's price is approximately $18 above the price of Jan. 31, 1938. Last year's earnings are estimated at $8-$9 as compared with $3.62 earned in the year ending Jan. 31, 1938. Net liquid assets now amount to approximately $49 per common share; they are almost equal to today's price of the common shares. Today's buyer of shares pays, therefore, next to nothing for the plants and the highly efficient organization with its enormous earning power.

Montgomery Ward & Co.	(000 Omitted) Jan. 31 '38	Jul. 31, '47
Plants, etc.	$ 58,397	$ 69,944
Reserves for Depreciation, Depletion, etc.	22,412	37,541
Plants (net)	$ 35,984	$ 30,690
Cash and Government Bonds	18,515	30,259
Total Current Assets	153,230	403,100
Current Liabilities	$ 27,675	$ 68,174
Net Liquid Assets	213,188	337,925
"A" Stock (at par)	20,155	20,155
Net Liquid Assets Avail. for Common Shs.	$193,033	$317,770
Net Liquid Assets Available in Dollars per Common Share	$37	$48.86
Liquidity Improvement from 1938 to 1947 (in dollars per common share)		$11.86
Price	$32 ½	62.00
Recent Price		51.00
Earnings Per Share	3.62	*est. $8-$9

*For year ending Jan. 31, 1948.

Wilson & Company

Wilson shares are selling today at about $14 compared with a price of $5¼ in 1938; the liquidity of this company has improved by $21½ per share since then. Here again, *the stock is today actually cheaper than in 1938 when the company's operations resulted in a loss of almost $1 per share, whereas those of 1947 resulted in profits of $6.82 per share.*

The "bears" frequently point to the great risks involved for companies of this kind by the high and vulnerable level of commodities, i.e., in this case, of meat. As inventories are included in the liquid assets, a serious decline in their value would obviously reduce the liquidity. However, most companies with such inventory risks are thoroughly aware of this fact and have made all kinds of preparations. The big meat packers apply the "Lifo" method to a large part of their inventories and have, therefore, a considerable cushion against price declines. In some cases, they carry this part of their inventories at about one-quarter of today's prices. At the same time, they have built up large reserves against that part of their inventories to which "Lifo" is not applicable.

	(000 Omitted) Oct. 29, '38	Nov. 1, '47
Plants, etc.	$57,857	$63,594
Reserves for Depreciation, Depletion	17,524	26,756
Plants (net)	$40,333	$36,838
Cash and Government Bonds	3,181	11,962
Total Current Assets	44,672	90,732
Current Liabilities	$ 8,966	$28,137
Net Liquid Assets	35,705	62,595
Bonds, etc.	24,265	14,441
Net Liquid Assets Available for Pfd. Shares	$11,440	$48,154
Preferred Shares (at par)	32,324	24,500
Net Liquid Assets Avail. for Common Shs.	†$20,884	$33,654
Net Liquid Assets Available (in $ per share)	†$10.38	$11.17
Liquidity Improvement from 1938 to 1946 (in dollars per share)		$21.55
Price	$5¼	16½
Earnings Per Share	†.94	6.82

†Deficit.

Atchison, Topeka & Santa Fe

This railroad has built up its net liquid assets from $37 million in 1938 to $126 million in 1946; at the same time, it has reduced its funded debt from $325 million to $229 million. Related to the common shares, the liquidity has improved by $76 per share since 1938. Today's price is about $87 as compared with a price of $41 at the end of 1938. Here again, the shares are considerably cheaper than at the end of 1938, if one considers the improvement in liquidity achieved since then. Yet Atchison earned $17.11 per share in 1947 against 83 cents in 1938. A similar analysis of other railroads would show still more amazing figures.

Year Ended Dec. 31—	(000 Omitted) 1938	1946
Cash and Government Bonds	$ 30,174	$135,931
Total Current Assets	59,806	212,054
Total Current Liabiltiies	$ 22,374	$ 86,087
Net Liquid Assets	37,431	125,966
Bonds	325,447	229,131
Preferred Shares	124,172	124,172
Liquidity Improvement from 1938 to 1946 (in dollars per share)		$76.16
Price	$41¼	*98
Earnings Per Share	.83	13.52

*Recent price, $87.

Conclusions

What are the conclusions to be drawn from the foregoing? One fact stands out: today's buyers get good value for their money in many stocks. With regard to earnings, many stocks discount not only a moderate decline of profits as it would occur in a "recession" but they actually discount a complete eclipse of profits as it could happen only in a severe depression; with regard to *assets*, many leading stocks sell to day far below the prices of 1937-38 considering the improvement in liquidity achieved since then. *The mere fear of a depression has depressed stocks to depression levels.*

Let us conclude with a few data illustrating the present situation of our economy as compared with 1937-38. The Federal Reserve Board Index of industrial production was at 87 in December, 1937 and averaged 89 during 1938; in December, 1947, it stood at 191. Steel production was down to 25.3% of capacity in December, 1937 and averaged 40% in 1938; today, the steel industry works practically at full capacity and is unable to satisfy the demand. National income payments were at a level of $205 billion in November, 1947, against $66 billion in 1938.

Gold Versus Inflation

(Continued from page 6)

hand, the protection that this gives to the owner of a gold mine is seriously reduced by the arbitrary restrictions on freedom to hold or use the gold that are imposed by most governments in their efforts to conceal the inevitable results of excessive extensions of their credit.

Progress of Inflation

From the beginning of the New Deal to the outbreak of the war the increase in paper obligations far outstripped the growth of tangible real assets of the nation that were in final analysis the security behind the promise to pay. And then on top of these serious burdens created by the naive policies of the Roosevelt administration, the war had to be financed by still more extreme promises in bonds and currency, made far more difficult to fulfill by the appalling losses of the great conflict. And now, even though the fighting is over, the restoration of some measure of economic order requires a continuation of expenditures at almost comparable levels which will inevitably result in still further claims that must eventually be met in some way or another.

This sequence of disasters—for even a victorious war is inherently a disaster when its cost to the victors is so great—was necessarily financed with credit—or with promises. No gold standard as simple as that which was so effective an instrument in the well-ordered world prior to 1914 could survive such extremes. With urgent demands of a magnitude far beyond amounts that could be met by taxation, government debts reached a peak that would surely have seemed fantastic to even the most liberal of bankers or economists in prewar years.

Such conditions create particularly difficult times for those engaged in gold mining, and yet at the same time they make gold seem to be the only form in which monetary values are likely to be preserved. Faced with this rather paradoxical situation, the gold producers must indulge in some hard thinking about their immediate future.

Stability of Gold

Surely a dollar tied to gold would be a very desirable thing. Gold is one of the most stable of commodities, as well as of elements. The available stock is large, but not excessive for its proper function. The annual increment is substantial but not disproportionate to the yearly increase in the world's wealth. And its scarcity and the cost of obtaining the metal from the small amounts distributed through well-concealed deposits make it impossible for any government or company or individual abruptly to bring about a significant change in output. Consequently, gold possesses a strength and a resistance to manipulation that no paper currency without its backing has ever had. Even the dollar can be fixed in terms of gold only if its integrity is maintained by avoiding the creation of extreme obligations. The commitments and promises that have been made are already excessive in terms of gold priced at $35 per ounce. If credits are still further extended, with a national budget still out of balance, the discrepancy may become so great that the present gold price will be as unrealistic as the prices of commodities in certain foreign currencies at the so-called official rates of exchange.

A government which abuses its power to create debts and to issue paper money can no more hold gold to a fixed price in its depreciating currency than can it maintain the fiction of fixed prices for foods and other essentials as its paper weakens. Even under the totalitarian governments, black markets result, and the recent depreciation of the ruble—or virtual confiscation of the savings of the workers who had trusted the promise of the government to honor their paper—indicates that the Russians themselves cannot disregard these principles with immunity.

Fixing the Price of Gold

The price of $35 an ounce for gold was set in 1934 by a group of lighthearted and excited experimenters in a cavalier way that seems almost without precedent in serious economic history. The price selected may well have been too high at the time, but by 1939 the excesses of the New Deal had so depreciated the dollar that I am inclined to think that most of us would have preferred to receive an ounce of gold in place of 35 paper dollars if we had been given the privilege.

What the prevailing price would be, if we had a free coinage today, is difficult to say. In my own opinion, an ounce of gold—which when coined would be about the size of the old $20 piece—would command more than could be purchased for 35 paper dollars—and if the attempt were made to issue such coins, stamped $35 and legally exchangeable only for this amount of currency or its equivalent in goods, they would go out of circulation, as might be expected under Gresham's law. It would be most interesting to know at what price per ounce gold would circulate freely with today's paper dollar. If such a price could be established by some practical and empirical means, the stabilization of the dollar at that level with complete interchangeability of gold and paper would undoubtedly be a most beneficial step. With this accomplished, the adjustment of the various currencies of the world to gold and the dollar would be a relatively easy way of correcting the fractions that are solemnly agreed upon in today's official exchange rates.

If an increase in the price of gold in paper dollars resulted from such free interchange, as I feel confident it would, such action would not in itself be inflationary. On the contrary, it would be one of the most effective means of checking further inflation—of holding the dollar from becoming weaker, provided the strict discipline of gold at the price agreed upon was accepted completely and honestly. The new price would merely be recognition of the degree of inflation (or depreciation) of the paper dollar that has already taken place. A higher price of gold would no more influence domestic prices in dollars than did the increase from $20.67 to $35 per ounce in 1934. But it would be an admission of the weakness of the dollar, and of the present degree of inflation, and this probably is too much to expect the government, or the Treasury, or the dominant banking authorities to face.

A course of disastrous events, which one in a cynical frame of mind might anticipate with some logical justification, could well be as follows: (1) Further provision of large credits to Europe, thereby providing a mechanism for payment for the heavy excess of exports over imports for a time with our own money; (2) maintenance of tariff barriers or other restrictions that would prevent repayment of credits or foreign loans in goods; (3) exhaustion of credits and drastic decline of exports, leading (4) to depression and probably an increase in the price of gold in a desperate effort to preserve our foreign markets (i.e., selling our goods for a relatively smaller quantity of gold than at present). By that time the next war would probably be upon us, and the problem of dollars and gold would be of only academic interest. Of course, such a sequence doesn't make any sense whatever, but this road was followed once before and we seem again to be setting out on it.

Prerequisites of Well-Ordered World

A much better program for all concerned, however—gold miners included—would be one that progressed toward a stable economic world, with well-balanced multilateral trade, without barriers of tariffs, subsidies or premiums.

To achieve a well-ordered economic world again and to reduce the burden of debt to a level that might be tolerated by future generations will probably in the end require the acceptance of some measure of inflation or depreciation of the dollar. A well-ordered economic world, however, may not be possible of achievement as long as the financial systems of practically all nations are dominated by debts and obligations of such overwhelming magnitude as now exist. It seems futile to expect that future generations will tolerate the taxation that would be necessary to reduce them to any significant degree. Outright repudiation at least of domestic debts is unlikely except as the result of national catastrophes, though it has been approached even in victorious nations, as a Frenchman whose insurance policy dates from 1914 undoubtedly realizes. A third mechanism is inflation, if prevented from going to the extreme that is indistinguishable from confiscation and if held strictly to some thoughtfully determined limit.

If the inflation of the dollar is no worse than the present, we could consider ourselves lucky. The hardships of inflation are not to be minimized and it is recognized that they are particularly unfair to the most thrifty members of the community. But, in view of the extravagances of the New Deal, the losses of the war, and the responsibilities of the peace, can anyone expect that the debts will be repaid in the units in which they were incurred? "Financing" a war or government extravagances with paper is a different thing from paying for them. The settlement is merely postponed. In one form or other the destruction and wastes must still be paid for.

Amend Gold Reserve Act!

An immediate procedure that would permit gold to become effective again as a basis of reference not only for the dollar but for the paper currency of the rest of the world would be to amend our existing acts of regulations: (1) to permit citizens to own gold and buy and sell it in the domestic and foreign markets and (2) to authorize the Treasury not only to continue to buy all gold offered at $35 per ounce, but to return all gold currently received from domestic mines to the owners in suitable coins, with gold content stated, but not value in dollars, with a proper charge to cover such service.

With gold again in circulation under these conditions, its relation to the current paper dollar should eventually become clear, and sufficient stability perhaps attained to permit gold coins in dollars to be again issued at a price which would keep them in circulation.

If some degree of inflation is unavoidable, as I am afraid it is, it must be held at some tolerable level if it is not to become the most painful of the unpleasant alternatives. This could most decisively be accomplished by redefining the dollar in terms of gold, with provision of the right to exchange the currency for gold at the stated rate. It would involve selling gold at the fixed price and not merely buying it as is done at present. If this were done with the firm intention of holding the price of gold at the agreed-upon level and accepting the restrictions on further expansion of debts, currency and other obligations that this would imply, a long step toward monetary stabilization would have been taken.

With a balanced budget, reasonable economics, and European aid restricted to the minimum that humanitarian relief required, with further credits limited to specific transactions for which settlement in goods would be expected as they became available, such a policy with regard to gold would in my judgment be most helpful in promoting and holding inflation at a tolerable monetary stability.

Without removal of tariff barriers, however, even these steps would be futile, for as long as trade remains grossly unbalanced with exports in great excess, gold would again be the only means of making payment and would again flow into the United States at a disturbing rate. With a common sense recognition of our great need for imports and a realization that no other means of payment for exports in the long run is of any benefit to us, we could certainly preserve a dollar backed openly by gold, prevent inflation from reaching an excessive degree and provide a sound base of reference for the currencies of the world.

Inflation Control in a Democracy

(Continued from first page)

brought on the existing troublesome condition, and to repudiate and reverse so far as practical past inflationary influences.

This latter task is the more difficult and serious one, especially as it involves political considerations. Nevertheless the search for a solution constitutes the primary challenge to us. I fear that the decisions to be made are not now clear to many people. Then too, it is difficult to prophesy with complete accuracy what may be the outcome of such affirmative action as is taken. The psychological consequences thereof are not subject to exact advance measurement.

I have a distinct impression that people in general think of inflation as a widespread rise in wages and prices, though not necessarily a uniform advance. Accordingly, the way most frequently proposed to deal with inflation is to pass a law which would purport to freeze prices, and maybe also wages, at some arbitrary ceilings, determined not by the competition of the market place, but rather by bureacratic direction. To my mind, this would be a superficial and ineffective approach. Under such a procedure, individuals would be fined or imprisoned if they did business with each other at prices mutually satisfactory to the parties to the transaction, but higher than the prices prescribed by governmental edict or regulation. In my judgment, such legislation would not control inflation. Even if I am in error in this conclusion, I am certain that it would not be a control of inflation within our concept of a democracy. On the contrary, such a program of governmental controls would be destructive of individual liberty under the established American system.

Competitive Free Markets

Voluntary and competitive markets contribute substantially to the attainment of economic justice, national progress, and individual liberty. The existence of such markets enables the value of each man's services or goods to be constantly and competitively evaluated by those having a use therefor. In such a free and unrestricted market, no man receives more in exchange for his goods or services than the value competitively established by the market. Those who perform the greater or more valuable service receive the larger reward. This results in encouragement to the more efficient to expand their services. Others, influenced by the possibility of a better return, are attracted to a similar activity. Progress is thus promoted in a democratic way for the good of the community. Those who are not properly serving the community's interest will eventually be pressed out of the market through loss of customers and thus directed toward some other enterprise which may yield a greater benefit to the public. Competitive markets are the guarantors of efficiency, as well as the guardians of progress. Something other than the destruction of beneficial, competitive markets must be sought as a means for controlling inflation.

It is difficult for me to understand how prices in general can advance and remain on a higher level for any continued period, unless there is more money coming into the market for the purchase of goods than there are goods entering the market for sale. That is the only way by which prices in general can be bid up and maintained on an advanced level. By that broad statement, I do not mean to imply that prices of particular commodities in short supply, or in the presence of unusual demand, will not advance for the time being. But if the prices of a number of commodities do advance for such special reasons, and there is no substantial increase in the available money supply, then the buyers of these particular commodities have less money left over with which to buy other things which they desire. As a consequence, the prices of these other things will decline, thus soon averaging out for the most part the price situation as a whole. It seems to me that it is only when there is an overall over-abundance of money coming into the market relative to the quantity of goods entering the market that we can have a growth of the phenomenon known as inflation. This, I should say, is a fundamental consideration in any serious study of inflation.

This may strike some of you as reducing the problem to too simple a structure. However, if this analysis be true, it is important. Our investigation of inflation then can be focused on locating the circumstances under which substantially more dollars are coming to the market than do goods to match them.

Production Generates Purchasing Power

This leads to consideration of an economic law, which I regard as also simple and important. Perhaps its nature can best be shown by citing some figures of the United States Steel Corp., with which I am familiar. In the year 1946, that company produced and offered for sale goods and services for which customers paid approximately $1½ billion. At the beginning of the year, United States Steel had $232 million in cash and at the end of the year very close to the same amount. This means that about as many dollars were paid out by United States Steel in that year as were received. These expenditures were incurred as employment costs, as payments for purchased goods and services (including new equipment), as taxes, as interest on indebtedness, and as dividends. The funds so paid out became spendable money in the hands of those in receipt thereof for the purchase of such goods and services as they wanted. In short, by the very act of producing prod-

ucts for sale, United States Steel released dollar purchasing power to others equivalent to the dollars required to buy what it produced. If we should take all business units throughout the country and add up their financial figures, I believe we would come out with a definite conclusion that the production of commodities of one kind and another generates in itself enough purchasing power to clear the markets at the given price level. If more goods are produced, equivalent additional purchasing power is simultaneously released and any net surplus of money entering the market is not significantly reduced. So increased production, beneficial though it may be, does not appear to be the cure for inflation. Furthermore, production in this country is now virtually at full capacity.

The existence of such an economic law narrows the search for the cause of inflation. By such a process of elimination, I believe the root will be found more to lie in whatever contrivances there may be for enabling additional amounts of money to enter the market, that is, money over and above that derived from the process of production which simultaneously provides goods and services for sale in the markets.

Artificially Increasing Money Supply

Everyone should agree, I feel confident, that counterfeiting would amount to such a contrivance. Counterfeiter, with his printing press, is able to provide himself with currency (supposing he is undetected) with which to enter markets without having concurrently provided equivalent goods and services to be sold in those markets. If counterfeiters were sufficiently numerous and diligent and successful in their illegal efforts, we would experience that disruption of balance between goods going to market and money entering the market, which we know as inflation. Perhaps from the simple economics of such an exaggerated assumption of widespread counterfeiting, we can get one additional key in our search for the root cause of inflation. It might be phrased this way: Whenever people as a whole are enabled to get money with which to buy things other than through concurrent and competitive sale of goods and services, then the balance between goods going to market and money entering the market will be subjected to that disruption.

Most of you probably have had occasion to give thought to a realistic consideration of the influence of money and credit upon the situation. The money which we use to pay our bills consists of the coin and currency carried in our pockets, plus deposits in banks subject to check. The special feature of interest to us in looking for the real cause of inflation is that it is entirely possible for people to come into the possession of money without concurrently merchandizing goods or services of equivalent value.

Effect of Bank Borrowing

Borrowing from a commercial bank consists of trading one promise to pay for another. The borrower promises to pay the bank in the future; while the bank promises to pay on demand through writing up its deposit liability to the borrower. New deposits thus come into existence which can be used as money. New deposits may also be created through the sale of bonds to banks. When more deposits are thus created than are offset by the reverse process of paying off loans or by sales of securities by the banks, an expansion of commercial bank credit results. This means an increase in the money supply without a concurrent and equivalent flow of goods into the markets. Limitation or prevention of such an expansion of bank credit lies, under present law, wholly within the discretion of the Federal Reserve Board and the Treasury Department. Exercise of such discretion has, however, been notable by its absence over the past 15 years.

I should like to point out that in 1939 the United States had approximately $33 billion in demand deposits and currency outside of banks. Since that time, and largely by reason of the sale of government bonds to commercial banks, an additional $79 billion of money and credit have been created without goods simultaneously being produced for market to match such a sum. Thus by processes which in economic effect are not unlike those of a currency printing press, the money supply of the country has been multiplied three-fold. When such an extraordinary monetary inflation can occur in less than ten years, the surprising thing to me is that we do not have more price inflation than has actually been experienced up to now.

Bank Holdings of Government Bonds

Sufficient time is not available today to do more than diagnose briefly the nature of the challenge and task that is presented to all of us, if my analysis be correct, and if inflation is to be controlled in a democracy. What is needed is a broader comprehension of the fundamental causes of inflation. For one thing, our people should come to understand that present inflationary forces will not be halted if our banking institutions continue to be utilized as a means of multiplying the nation's money supply by maintaining or augmenting their great holdings of government bonds when extension of productive loans is needed.

What worries me most is whether in a year of Presidential elections, the leaders of any political party will have the courage and wisdom to face this problem squarely and take the necessary measures to prevent further extension of our money and credit supply. They may, for political reasons, shrink away from the possible psychological effects of stopping, or at least stopping too abruptly, what has been gaining momentum for too long. Politically it may seem more expedient to talk about monopolies, excessive corporate profits and the like, and to seek to convince our people of the virtues of the re-imposition of wartime controls over production, distribution and prices. A non-political and realistic approach to the problem along statesmanship lines is essential. If we can have such an atmosphere surrounding our effort to cope with the difficulty, it is my judgment that inflation is capable of being controlled within the framework of a democracy.

Securities Now in Registration

● INDICATES ADDITIONS SINCE PREVIOUS ISSUE

All American Industries, Inc., New York
Oct. 30 filed 100,000 shares ($1 par) common (name to be changed to American Steel & Pump Corp.) **Underwriter**—Herrick, Waddell & Co., New York. Price by amendment. **Proceeds**—To pay off indebtedness incurred in the acquisition of the capital stock of A. D. Cook, Inc., Lawrenceburg, Ind.

American Broadcasting Co., Inc., New York
Feb. 13, filed 250,000 shares common ($1 par) at proposed maximum offering price of $12.50 per share. **Underwriters**—None. **Proceeds**—For corporate purposes. Company now has plans to spend about $5,325,000 for television facilities in New York, Los Angeles, Chicago San Francisco and Detroit. Shares will be sold to "the persons with which the company had network affiliation agreements at Jan. 31, 1948, and to such other persons as may be selected from time to time by the company."

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.

● **Barbarol Co., Indianapolis, Ind.**
Feb. 17 (letter of notification) 5,000 shares of preferred stock ($50 par). Price, par. No underwriting. For working capital.

Bardwell & McAlister, Inc., Burbank, Calif.
Feb. 9 (letter of notification) 29,500 shares of 6% cumulative convertible stock ($10 par) and 88,500 shares common stock ($1 par) issuable upon conversion of preferred stock. **Underwriters** — John B. Dunbar & Co., Los Angeles. **Proceeds**—$100,000 for working capital with balance for construction and development of new items to be added to the company's line of photographic equipment.

● **Boston Repertory Association, Inc., Boston**
Feb. 19 (letter of notification) 2,000 shares of 6% non-cumulative pfd. stock ($25 par). **Price**—Par. No underwriting. For working capital and expenses of organization.

Cameron Aero Engine Corp. (2/27)
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.

● **Cleveland (Ohio) Co-operative Stove Co.**
Feb. 16 (letter of notification) 21,278 shares ($9 par) common stock. **Price**—$13.50 each. **Underwriters**—Prescott & Co. and First Cleveland Corp., both of Cleveland. For working capital.

● **Columbia Gas & Electric Corp. (3/23)**
Feb. 20 filed $45,000,000 of debentures, due 1973. **Underwriters**—To be determined under competitive bidding. **Probable Bidders**—Morgan Stanley & Co.; The First Boston Corp.; Halsey, Stuart & Co. Inc. **Proceeds**—To finance a construction program. **Bids**—Company plans to invite bids to be opened March 23.

● **Commercial Benefit Insurance Co., Phoenix, Ariz.**
Feb. 16 (letter of notification) $100,000 of capital stock, to be issued each holder of a conversion and foundation life insurance policy as his 1947 policy dividend, unless he chooses cash instead. Any proceeds from sales will be placed in surplus. No underwriting.

Commercial Finance Co., Mount Rainier, Md.
Jan. 16 (letter of notification) $68,000 of 6% debenture bonds. **Underwriter**—Emory S. Warren & Co., Washington, D. C.

● **Consolidated Title Corp., Washington, D. C.**
Feb. 17 (letter of notification) 7,089 shares of Class B common stock ($1 par). **Price**—$15 each. No underwriting. To pay indebtedness and for corporate purposes.

Crampton Manufacturing Co. (3/1-5)
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.

● **Dallas (Texas) Power & Light Co., Dallas**
Feb. 20 filed 68,250 shares of common stock and $4,000,000 25-year sinking fund debentures, due 1973. **Underwriting**—Debentures to be offered competitively. Probable bidders: Halsey, Stuart & Co. Inc.; The First Boston Corp., and Blyth & Co., Inc. (jointly). **Offering**—Debentures will be offered publicly. Stock will be offered present stockholders on basis of one new share for each four held. **Price**—Common stock, $60 a share. **Proceeds**—Construction program. **Business**—Utility.

Domestic Credit Corp., Chicago
Dec. 29 filed 150,000 shares ($1 par) Class A Common. **Underwriters**—None. **Offering**—To be offered to employees, executives and management personnel. **Price**—$3.49 a share. **Proceeds**—Company did not state how proceeds will be used.

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.

● **Eversharp, Inc., Chicago**
Feb. 16 (letter of notification) 10,000 shares ($1 par) common stock. **Price**—$10 per share. No underwriting. To be sold by Martin L. Straus II, New York City, President of the company.

● **Federal Industries, Inc., Detroit**
Feb. 18 (letter of notification) 300,000 shares ($1 par) common. **Price**—Par. **Underwriter**—C. G. McDonald & Co., Detroit. For working capital.

● **Hacienda Manana Hotels, Inc., Denver**
Feb. 18 (letter of notification) 10,000 shares ($1 par) common stock. **Price**—$5. No underwriting. To build hotel.

● **Industrial Credit Co., Cleveland, Ohio**
Feb. 16 (letter of notification) 11,180 shares of Class A common stock, to be exchanged for preferred and participating cumulative preference shares on the basis of 10 common for each preferred and five common for each participating share.

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, Ia. (3/1-5)
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.

(Continued on page 38)

NEW ISSUE CALENDAR

February 27, 1948
Cameron Aero Engine Corp._____Common
Wisconsin Power & Light Co._____Bonds

March 1, 1948
Crampton Mfg. Co._____Bonds
Interstate Power Co._____Bonds, Debs., Common

March 2, 1948
New York (State of) 11 a.m. (EST)_____Bonds

March 4, 1948
Pet Milk Co._____Preferred

March 9, 1948
Central Pacific Ry., Noon (EST)_____Bonds
Parkview Drugs, Inc._____Preferred Stock

March 10, 1948
Public Service Co. of N. H._____Common

March 11, 1948
Chesapeake & Ohio Ry., Noon (EST)__Eq. Tr. Ctfs.

March 16, 1948
Ohio (State of)_____Bonds

March 19, 1948
Wilson-Jones Co._____Common

March 23, 1948
Columbia Gas & Electric Corp._____Debentures

March 29, 1948
Texas Electric & Service Co._____Bonds and Debs.

(Continued from page 37)

Kansas Gas & Electric Co., Wichita, Kan.
Feb. 11 filed $5,000,000 first mortgage bonds due 1978. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; the First Boston Corp., and Blyth & Co., Inc. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers, Bear, Stearns & Co., and Stern Bros. & Co. (jointly); Shields & Co., and E. H. Rollins & Sons (jointly); Kidder, Peabody & Co. **Proceeds**—For construction and other corporate purposes.

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 of record Feb. 24 on basis of $100 of debentures for each 40 shares held. Unsubscribed publicly by underwriters. **Price**—By amendment. **Proceeds**—Payment of outstanding 3½% installment notes.

● **La Vida Trout Club, Inc., Puente, Calif.**
Feb. 19 (letter of notification) 1,480 shares ($100 par) common stock. **Price**—Par. **Underwriter**—Fewel & Co., Long Beach, Calif. For accounts payable.

Louisiana Power & Light Co., New Orleans, La.
Feb. 12, filed $10,000,000 first mortgage bonds, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Blyth & Co., Inc.; W. C. Langley & Co., the First Boston Corp. and Glore, Forgan & Co. (jointly); Shields & Co., White Weld & Co. (jointly); Harriman, Ripley & Co.; Merrill Lynch, Pierce, Fenner & Beane and Kidder Peabody & Co. (jointly); Kuhn Loeb & Co. and Lehman Brothers (jointly); Salomon Bros. & Hutzler. **Proceeds**—Approximately $5,500,000 will be added to company's general cash funds on the basis of unfunded property additions, and the balance will be used for construction purposes.

Louisville (Ky.) Gas and Electric Co.
Feb. 12 filed $8,000,000 first and refunding mortgage bonds, due March 1, 1978. **Underwriters**—To be determined through competitive bidding. Probable bidders: Halsey, Stuart & Co. Inc.; Lehman Brothers and Blyth & Co., Inc. (jointly); the First Boston Corp.; Harriman, Ripley & Co.; Glore, Forgan & Co. and W. C. Langley & Co. and Equitable Securities Corp. (jointly); Kidder, Peabody & Co. **Proceeds**—To pay $2,450,000 of short-term bank loans and to reimburse treasury for expense of property extensions and improvements. **Business**—A utility company.

● **Metro Tool & Manufacturing Co., Verona, N. J.**
Feb. 18 (letter of notification) 1,000 shares of 7% non-convertible preferred stock (par $10). **Price**—$10 per share. No underwriting. Working capital.

● **Michigan Consolidated Gas Co., Detroit, Mich.**
Feb. 18 filed $7,000,000 first mortgage bonds, due 1969. **Underwriters**—To be determined by competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; Lehman Brothers; Dillon, Read & Co. Inc.; Glore, Forgan & Co.; White, Weld & Co. **Proceeds** — Construction program. **Business**—Utility.

Minnesota Power & Light Co., Duluth
Feb. 3 filed 100,000 shares (no par) common stock. **Underwriter**—Kidder, Peabody & Co. **Price**—By amendment. **Proceeds**—Toward financing a $6,000,000 construction program. Expected in March.

● **Mississippi Shipping Co., New Orleans, La.**
Feb. 18 (letter of notification) 4,500 shares of common stock, owned by Theodore Brent, President of the company. To be sold from time to time during the next year for not more than $100,000. No underwriting.

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.

Nevada-Stewart Mining Co., Spokane, Wash.
Jan. 28 (letter of notification) 100,000 shares of non-assessable capital stock. **Price**—32 cents each. **Underwriters**—H. M. Herrin & Co., Seattle, and Pennaluna & Co., Wallace, Idaho. For developing mining claims.

Northeast Airlines, Inc., Boston, Mass.
Dec. 24 filed 83,333 shares (no par) $1 cumulative convertible preferred. **Underwriter**—Atlas Corp., owner of 100,000 shares of the registrant's common stock, has agreed to purchase all shares not subscribed for by other stockholders. **Offering**—Offered for subscription by common stockholders of record Feb. 2 at $20 on the basis of one share for each six common shares held. Rights expire March 1. **Proceeds**—To pay off indebtedness.

Ocean Downs Racing Association, Inc., Berlin, Md.
Nov. 28 filed 34,900 shares ($10 par) common. No underwriting. **Price** — $10 a share. **Proceeds**—To build trotting and pacing race track near Ocean City, Md.

● **Oklahoma Gas & Electric Co., Oklahoma City, Oklahoma**
Feb. 20 filed 65,000 shares of cumulative preferred stock, ($100 par). **Underwriters**—To be determined under competitive bidding. **Probable Bidders**—The First Boston Corp.; Smith, Barney & Co. and Harriman, Ripley & Co. (jointly); Merrill Lynch, Pierce, Fenner & Beane; Lehman Brothers; Blyth & Co., Inc. **Proceeds**—To be applied toward construction program. **Business**—Utility.

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.

Pacific Telephone & Telegraph Co.
Feb. 13 filed $75,000,000 30-year debentures, due March 1, 1978. **Underwriters**—Names to be determined by competitive bidding. Probable bidders: Morgan Stanley & Co., and Halsey, Stuart & Co. Inc. **Proceeds**—To reimburse treasury for costs of extensions, additions and improvements to telephone plant and repay outstanding advances to parent, American Telephone & Telegraph Co. Expected about March 16.

Parkview Drugs, Inc., Kansas City, Mo. (3/9)
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.

Pet Milk Co., St. Louis, Mo. (3/4)
Feb. 13, filed 100,000 shares of preferred. **Underwriters**—Kidder, Peabody & Co.; G. H. Walker & Co., and Julien Collins & Co. **Offering**—To be offered initially to stockholders on basis of one new share for either one share of 4¼% cumulative preferred stock or one share of 4¼% cumulative second preferred stock. Price by amendment. **Proceeds**—To redeem all outstanding preferred with the balance to be applied to working capital.

● **Petersham Industrial Research Corp., Springfield, Mass.**
Feb. 19 (letter of notification) 3,500 shares ($25 par) preferred stock, to be sold at par; 2,700 shares (no par) common to be issued to original incorporators, and 3,500 shares of common to be authorized but unissued until the preferred can be converted. No underwriting. For working capital.

● **Pioneer Arms Co., San Francisco**
Feb. 18 (letter of notification) J. Barth & Co., San Francisco, which plans to organize Pioneer Arms, will issue 1,000 shares ($100 par) preferred and 1,000 shares ($1 par) common. Proceeds will be used to pay J. Barth & Co. $1,500 in expenses for patent investigation and legal work.

Pittsburgh Steel Co.
Nov. 20 filed $6,500,000 of first mortgage bonds, due 1967. **Underwriters**—Kuhn, Loeb & Co.; A. G. Becker & Co., Inc. and Hemphill, Noyes & Co. Price by amendment. **Proceeds** — To refund outstanding first mortgage bonds. Temporarily deferred.

Playboy Motor Car Corp., Tonawanda, N. Y.
Feb. 13 filed 20,000,000 shares common (1c par). **Price**—$1 per share. Not more than 100,000 shares will be offered to employees and officers at 87½ cents per share. **Underwriter**—Tellier & Co., New York. **Proceeds**—For capital equipment and working funds. **Business**—Company will manufacture small car in $1,000 price class.

Public Service Co. of New Hampshire (3/10)
Feb. 6 filed 199,627 shares ($10 par) common stock. **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. New England Public Service Co. will waive its rights to subscribe to 141,101 shares. **Price**—By amendment. **Proceeds**—Construction program and retire short-term loans.

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.

● **Rittenhouse Fund, Philadelphia, Pa.**
Feb. 18 filed 20,000 participating units, with an initial net asset value of $100 each. **Price**—$100. Of the total, 1,456 units are to be sold to six buyers and the remainder will be held for future use.

● **Rox Enterprises, Inc., McKees Rocks, Pa.**
Feb. 17 (letter of notification) 500 shares of common stock (par $100) and 500 shares of preferred ($100 par) **Price**—Par. No underwriting. To build and operate a bowling alley.

● **San Diego Gas & Electric Co.**
Feb. 17 filed $10,000,000 first mortgage bonds, series C, due 1978. **Underwriters**—Names to be determined through competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc; Blyth & Co., Inc.; Harriman Ripley & Co.; Kidder, Peabody & Co., and Dean Witter & Co. (jointly); The First Boston Corp.; Salomon Bros & Hutzler; Lehman Brothers; Merrill Lynch, Pierce, Fenner & Beane. **Proceeds**—To reimburse company's treasury for expenditures and for purchase of new facilities.

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 Accident Insurance Co., Detroit, Mich.**
Feb. 19 filed 140,750 shares ($10 par) common stock. **Underwriter**—The First Boston Corp. **Price**—By amendment. **Proceeds**—Additional capital funds. **Business**—Insurance.

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.

Terminal Refrigerating & Warehousing Corp., Washington, D. C.
Feb. 17 filed $700,000 4% 10-year first mortgage bonds due 1958. **Underwriter**—Alex. Brown & Sons, Baltimore. **Price**—Par. **Proceeds**—To retire $635,000 of 4½% first mortgage bonds due April 1, 1948. **Business**—Market operators. Expected early in March.

● **Texas Electric Service Co., Fort Worth, Texas (3/29)**
Feb. 20 filed $5,000,000 first mortgage bonds, due 1978, and $5,000,000 of sinking fund debentures, due 1973. **Underwriters**—To be determined by competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc.; The First Boston Corp.; Harriman, Ripley & Co.; Blyth & Co., Inc., Kidder, Peabody & Co., and Smith, Barney & Co. (jointly); Glore, Forgan & Co., and W. C. Langley & Co. (jointly); White, Weld & Co.; Hemphill, Noyes & Co., and Drexel & Co. (jointly). **Proceeds**—Finance construction program. **Business** — Utility. Expected about March 29.

● **Utah Power & Light Co., Salt Lake City**
Feb. 19 filed $3,000,000 first mortgage bonds, due 1973, and $3,000,000 of sinking fund debentures, due 1973. **Underwriting**—To be determined by competitive bidding. Probable bidders include: Halsey, Stuart & Co. Inc.; the First Boston Corp. and Blyth & Co., Inc. (jointly); Kidder, Peabody & Co., Merrill Lynch, Pierce, Fenner & Beane, R. W. Pressprich & Co. and Equitable Securities Corp. (jointly); Smith, Barney & Co. and Union Securities Corp. (jointly); White, Weld & Co.; Harriman Ripley & Co. **Proceeds**—For corporate purposes, including construction.

Virginia Electric & Power Co., Richmond, Va.
Feb. 17 filed $10,000,000 first and refunding mortgage bonds due 1978, and $11,753,800 convertible debentures due 1963. **Underwriters**—Bonds to be offered under competitive bidding. Probable bidders: Stone & Webster Securities Corp.; The First Boston Corp.; Glore, Forgan & Co., and W. C. Langley & Co. (jointly); Halsey, Stuart & Co. Inc.; White, Weld & Co.; Merrill Lynch, Pierce, Fenner & Beane, and Hallgarten & Co. (jointly). Debentures will be underwritten by Stone & Webster Securities Corp., Boston. **Offering**—Debentures to be offered to common stockholders of record March 15 at rate of $100 of debentures for each 25 shares held. Price of debentures, 100. **Proceeds**—To pay for construction expenditures, including $11,000,000 of bank notes issued to finance construction.

Warren Petroleum Corp.
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 75% interest in the capital stock of Devonian Oil Co., the other 25% being acquired by Gulf Oil Corp. Issue to be withdrawn.

● **West Penn Power Co., New York City**
Feb. 20 filed $20,000,000 Series M first mortgage bonds

due March 1, 1978; 50,000 shares of Series B preferred stock ($100 par) and about 2,000,000 shares (no par) common stock. **Underwriters**—To be determined under competitive bidding. **Probable Bidders**—Halsey, Stuart & Co. Inc. (bonds only); W. C. Langley & Co. and The First Boston Corp. (jointly); Lehman Brothers; Kidder, Peabody & Co.; Smith Barney & Co. (preferred only). Common stock will be offered under a subscription plan, with details to be filed by amendment. **Proceeds**—To be applied toward the payment of $4,000,000 of bank loans and toward construction expenses. **Business**—Utility.

● **Wilson-Jones Co. (3/19)**
Feb. 25 filed 32,937 shares of common stock (par $10). **Underwriters**—None. **Offering**—To be offered for subscription by stockholders of record March 19 in ratio of one new share for each eight shares held. Rights will expire on or before April 30. **Price**—$12 per share. **Proceeds**—Plant additions and purchase of securities and assets of other companies. **Business**—Printing house.

Wisconsin Power & Light Co. (2/27)
Dec. 29 filed $3,000,000 30-year first mortgage bonds Series B, and 30,000 shares ($100 par) 4.80% cumulative preferred stock. **Underwriter**—Bonds awarded to Halsey, Stuart & Co. Inc. on Feb. 25 on bid of 102.01 for 3⅛% coupon. Offering expected at 102.46. Stock will be offered to holders of record Feb. 16 of 4½% preferred stock at $100 per share (flat). Rights will expire Mar. 1. **Proceeds**—To pay bank indebtedness and for construction costs.

Prospective Offerings

● **Botany Worsted Mills**
Feb. 18 rumored company plans issue of preferred and class A with Kuhn, Loeb & Co. as underwriters.

● **Central Pacific Ry. (3/9)**
Bids for the purchase of $37,396,000 first mortgage bonds, series B, due Feb. 1, 1968, will be received up to noon (EST) March 9 at Room 2117, 165 Broadway, New York. Probable bidders: Kuhn, Loeb & Co.; Halsey, Stuart & Co. Inc.

● **Chesapeake & Ohio Ry. (3/11)**
The company will receive bids up to noon (EST) March 11 for the sale of $4,750,000 of serial equipment trust certificates maturing annually from March 15, 1949 to March 15, 1958. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman, Ripley & Co. Inc., and Lehman Brothers (jointly); Harris, Hall & Co. (Inc.); The First Boston Corp.; R. L. Day & Co.

● **Chicago Burlington & Quincy RR.**
Feb. 24 reported company plans issuance of $7,260,000 15-year equipment trust certificates, series E. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.); The First Boston Corp.; Harriman, Ripley & Co.; Kidder, Peabody & Co.; Blyth & Co., Inc.; Kuhn, Loeb & Co.

● **Chicago, Indianapolis & Louisville Ry.**
Feb. 18 company applied to ICC for authority to issue $1,800,000 equipment trust certificates. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harris, Hall & Co. (Inc.).

● **Columbia Brewing Co.**
March 8 stockholders will vote on creating an issue of 10,000 shares of preferred stock (par $100), issuable in series. Proceeds for corporate purposes.

● **Florida Power Corp.**
Feb. 19 directors approved a financing program calling for issuance of a series of 40,000 preferred and 110,000 common shares. The new preferred is to be sold to underwriters on terms still to be determined. Common stock will be offered to present common stockholders in the ratio of one new share for each ten shares held. The record date for the common stock subscription rights is expected to be on or about March 30. Part of proceeds from the sale will be used to repay short-term bank loans incurred for construction. The balance, together with corporate funds, will be applied to financing the $6,000,000 construction program scheduled for the current year.

● **Hotelevision, Inc.**
Feb. 24 reported registration expected at early date of 160,000 class A shares, with Cantor, Fitzgerald & Co. as underwriters.

● **Illinois Bell Telephone Co.**
Feb. 24 reported company may be in market at early date with some new financing. Probable bidders: Morgan Stanley & Co.; Halsey, Stuart & Co. Inc.; Glore, Forgan & Co.

Kaiser-Frazer Corp.
Feb. 19 company announced it plans to offer stock for subscription by stockholders. Number of shares not announced. Allen & Co. will be manager underwriter.

● **New York Central RR.**
Feb. 24 reported company plans sale of about $12,600,000 equipment trust certificates early in March. Probable bidders: Halsey, Stuart & Co. Inc.; Salomon Bros. & Hutzler; Harriman Ripley & Co., and Lehman Brothers (jointly); The First Boston Corp.; Kidder, Peabody & Co.; Kuhn, Loeb & Co., and Blyth & Co., Inc. (jointly).

● **New York, State of (3/2)**
The Comptroller of the State of New York will sell at his office at Albany, N. Y., March 2, at 11 a.m. (EST), $300,000,000 War Bonus (serial) bonds due 1949-1958.

● **Ohio, State of (3/16)**
On March 16 the State of Ohio will open bids for the sale of $200,000,000 Veterans' Bonus bonds due 1949-1963.

● **Southern Natural Gas Co.**
Feb. 10 reported company contemplates sale of $35,000,000 25-year bonds and $12,000,000 15-year debentures in near future. Probable bidders include Blyth & Co. Inc. and Kidder, Peabody & Co. (jointly); Halsey, Stuart & Co. Inc.; The First Boston Corp.

Washington . . . And You

Behind-the-Scene Interpretations from the Nation's Capital

If you could tune in on a little of the conversation at luncheon tables and in the galleries of Congress these days, you would learn that they have got poor old Harry's political goose. He's a goner. He can't be re-elected. A Republican is sure to get the Presidency this fall.

Harry Truman, they say, is trapped. The suddenness with which almost everybody has come to assume that the President is going to be whipped, is a little breath taking. It all started with the Bronx by-election. Then all of a sudden it occurred to everybody that whatever happens on the Palestine question, Mr. Truman gets it in the political neck. And of a sudden, too, the southern Democratic revolt is finally recognized for what it is—something menacing to the President's re-election.

* * *

It is being asserted that the Bronx by-election shows that Mr. Truman can't forget about Palestine. He has got to follow through and furnish troops to support partition. If he doesn't provide the force needed to enforce the partition settlement, then Henry Wallace will gather the heavy vote in New York of all those who are advocates of partition. And in a close election that might mean that New York State would go to Mr. Truman's opponent.

On the other hand, partition, it is said, will not exist unless enforced. And if it is enforced, American boys will be on the receiving end of assorted ambushes, murders in the night, and murders at high noon from both Arab and Jewish extremists in Palestine. This will not make for popularity for the President who sends the troops there.

* * *

It is beside the point that most Republican aspirants for the Presidency are playing as hard for the New York vote as Mr. Truman. These boys are not yet President. None of them has the unhappy job of ordering the troops to move. Whoever is President, should the U. S. follow through with its backing of partition, will be the gentleman whom the country will hold responsible for the mess that will follow. Whatever partition of Palestine is as an international issue — whatever it may do to this country's position in relation to Russia — the killing of American troops will be a hot domestic issue. At least that is what everybody here is saying, with much shaking of the head over poor Harry's unhappy choice.

* * *

There is the same kind of "damned if you do, damned if you don't" outlook on the southern revolt.

* * *

One way Mr. Truman could end the southern revolt would be to climb completely off his "civil rights" program designed to catch the colored vote in the populous northern states. It would not be enough, however, for Mr. Truman to let the southerners know he had climbed off. The southerners would want it, as it were, on the dotted line. And they would want to quote the turn-about.

Nobody of reasonable sagacity has been found who expects Mr. Truman to drop the civil rights issue. If he dropped it, he would be sure to lose the colored vote. But if he doesn't drop it, the southerners are going ahead with their rebellion against the national Democratic leadership and against the re-election of Mr. Truman. So one way or another, Mr. Truman gets it in the political neck.

* * *

One gathers the impression that there is too much volatility to the Washington chatter about whose chances are all up and whose are all down. After all, the appraisal current only a couple of months ago was quite different. The boys who knew it all then were saying that Harry was a pretty smart boy. He proposed an overall anti-inflation program. It was beside the point that no Congress — Democratic or Republican—would dared to have gone for it. The Congress was Republican, and the Congress would reject the Truman program. So Truman really was pretty clever. He put the Republicans behind the 8-ball by plastering them with blame for the high cost of living. Then, too, the Republicans were just so dumb they probably never would catch on in time that the country was 85% behind Truman's foreign aid program.

* * *

Before counting Truman out, it is a good idea to realize it is a long time before November. Many things could happen. Many things will happen, before then. Let's suppose that Harry Truman decides to stall the Palestine settlement. This could be done if the British could be induced to hang around for another several months. Britishers here say, "never!" But after all, Mr. Attlee and the British pound are likely to take some buffeting but for Mr. Truman. Then Russia might decide that the confusion in the U. S. A. looked ripe for a good real estate grab. The military boys say it won't happen, that Russia can't and won't fight now. But it just might happen. Then Harry would have a considerable foreign-made emergency to play with.

* * *

What the southern revolt and the Bronx by-election and the commodity price fall—taken all together — indicate is that the politicos are going to have to hire some appraisers to make a fresh valuation of their political merchandise. It may be that the Palestine issue was not so important even in this particular Bronx constituency. It may be that foreign aid is not the hot stuff the Truman Administration thought it would be. In any case the HC of L had better slip off the shelves, even if the steel price rise did give a little fillip.

* * *

So the immediate period ahead must be one of re-appraisal. And unless the Truman Administration comes up with a fresh line, it is now time to say that what Congress does between now and adjournment on all but the big headline issues will be small. The headline issues are foreign aid, the tax cut, and the budget.

* * *

In Washington's "silly season" of pre-election politics, a number of proposals are getting a ride.

One of these provides 60 additional days of leave with pay to any "married female employee" of the Federal government for pregnancy and confinement. Government employees already have 26 days annual leave with pay. They also have 15 days sick leave with pay. Most of them use their sick leave. Government leave is figured on the basis of only five working days per week, excluding holidays. So with a total of 101 days of paid leave, a government woman, counting holidays, could draw a year's salary for seven months of work.

This privilege, under the bill, would be limited to one pregnancy leave per annum. At present the bill would provide this boon only for married female employees. A source close to the Senate Labor subcommittee indicated that the benefit may be extended to unmarried female employees. Their plight, it was testified, is worse from the economic standpoint than that of the married, pregnant employee.

* * *

Senator Langer of North Dakota is the author of this proposal which, within its sphere, would provide for a slightly longer range of social security than the "cradle to the grave" idea of the British.

* * *

Following the clever bookkeeping trick of earmarking $3 billion of the current year's Treasury surplus for next year's foreign aid expenditures, many of the boys got their hopes up for a larger tax reduction bill than the $4 billion generally agreed as the final target. This bookkeeping strategem may raise the amount of the prospective tax reduction from $4 billion to $4.5 or $4.750 billion — not more—and even by this little bit only if everything looks hunky-dory for a sure-fire surplus with tax reduction of over $2 billion. Don't count on much more. The strategem was designed almost entirely to guarantee enactment of the tax cut over the veto.

The nominal setting aside of this $3 billion of 1948 fiscal surplus in no way affects the credit control picture. The government will still use the large cash surplus of this year cautiously to reduce bank-held debt and to maintain pressure on the banking system.

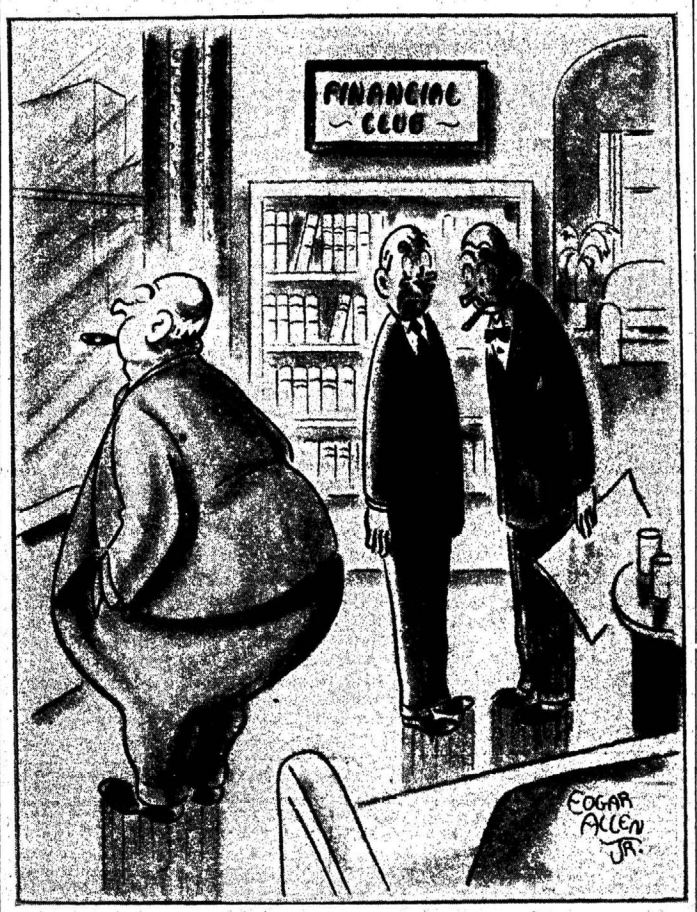
In case it is O.K. with Thomas B. McCabe, Chairman-designate of the Federal Reserve Board, the Board will come up with a new program next month before the Joint Economic Committee. In place of the abandoned secondary reserve, it will be proposed that legal reserves up to 25% be required for "country" banks (versus 14% at present), 30% at reserve cities (versus 20%) and 35% at central reserve cities (versus 26%).

This has to be OK'd by Mr. McCabe—also by the Treasury. This proposal would provide maximum required reserves. Within these maxima the Board could permit, and would permit, lower reserves. If granted, this authority would be used gradually, in steps of a couple of percent a time, if deemed advisable to combat inflation.

Should Marriner S. Eccles fail to get Administration backing for this proposal, and also for a bill granting the Reserve Board power to regulate bank holding companies, then Mr. Eccles will get mad and go home, it was predicted by his friends.

When the boosted legal reserve proposal is put forward, Congress at the same time will give the Reserve Board a thorough going over on the question of pegged interest rates, Congress is not yet ready to act to remove the pegs, but it wants to know from Treasury-FR Board, why rates should be pegged indefinitely.

BUSINESS BUZZ



"They say he has the biggest seat in the Exchange!"